



**CIVIL AVIATION AUTHORITY
OF NEW ZEALAND**
Te Mana Rererangi Tumanui o Aotearoa



Aviation Security Service

Kaiwhakamaru Rererangi

New Zealand Government

Statement of Intent

2010/13

*Civil Aviation Authority of New Zealand
and the
Aviation Security Service*



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FOREWORD FROM THE AUTHORITY

The aviation sector in New Zealand continues to face a number of challenges due to the volatility of the international economic situation. Accordingly, the Authority is strongly aware of its governance role in setting clear strategic direction and management priorities.

In setting this Statement of Intent, the Authority has established a common outcome and intermediate outcomes across both of its operating arms:

- the Authority's regulatory arm (CAA), under the Director of Civil Aviation; and
- the Aviation Security Service (Avsec), under the General Manager of the Service.

We considered that this improves the Authority's compliance with statutory obligations, New Zealand's international commitments and the expectations of government within the constraints of wider economic pressures.

For this Statement of Intent, the Authority has identified key priorities for each of its operating arms – the CAA and Avsec – which take account of changes and developments in the aviation sector.

For the CAA, this includes continuing to build the organisation's human resources and information technology to implement new regulatory approaches such as the introduction of the Safety Management System approach to regulation is a priority.

For Avsec the key work programme initiatives continue to focus principally on enhancing current aviation security, capability, support systems and processes. Avsec will also continue to be responsive in meeting the expectations of airlines and airports as they progress the implementation of their immediate and longer term development programmes.

The Authority operates in an international and domestic environment where significant technical responsibilities and obligations must be met, within the government's priority of achieving value for money. Accordingly, the Authority has continued its programme of organisational capability review to ensure efficiency and effectiveness in both organisations.

During the 2009/10 year the Authority initiated a review of many administrative functions to examine the potential for sharing, between the CAA and Avsec, support and administrative services such as financial management, human resources, information technology, legal services, planning and reporting, and communications. The Authority will continue these efforts into 2010/11 to ensure the delivery of cost effective services in a way that is consistent with the Minister's expectations.

However, mindful of the fact that many of the safety and security risks that it manages are accentuated during times of international and domestic economic malaise, the Authority will work to ensure that the focus on safety and security is not compromised.

Revenue from passenger security charges cannot be applied to safety, regulatory or other activities¹. For this reason the prospective financial statements shown in this Statement of Intent show a significant positive cash balance held by Avsec that also shows in the consolidated cash balance for the Authority. These funds will reduce over time as a result of recent changes to passenger security charges.

¹ Civil Aviation Act 1990, s72B (3B), and Civil Aviation Charges Regulations (2), 1991, s20A.

To ensure long-term financial stability, the Authority seeks to establish a sustainable and equitable funding regime for the CAA regulatory activity, and will continue the 2009/10 CAA Funding Review.

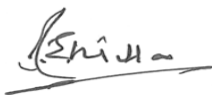
The Authority has again set tight and realistic budgets for 2010/11, and is committed to managing within these budgets. The Authority's 2010/11 total budgeted revenue is \$99.311M and budgeted operating expenditure is \$112.301M. Compared with the 2009/10 budget, this is a decrease of 4.8% and an increase of 4.6% respectively. The CAA is expected to register a deficit of \$2.646M, whereas Avsec will have a deficit of \$10.344M for 2010/11.

In order to ensure a clear distinction between the Authority's regulatory responsibilities and its mandated security service delivery, the Authority presents this Statement of Intent document in four parts:

- **Part A:** A strategic overview and statement of the Authority's operating environment, outcomes, and risks,
- **Part B:** Projected Service Performance Statement and operating intentions for the CAA, the regulatory arm of the Authority; and
- **Part C:** Projected Service Performance Statement and operating intentions for Avsec, the aviation security service delivery arm of the Authority; and
- **Part D:** Consolidated Projected Financial Statements for the Authority.



RICK BETTLE
Chairman



ERROL MILLAR
Deputy Chairman - CAA



DARRYLL PARK
Deputy Chairman - Avsec



SUSAN HUGHES
Member



ROSS CRAWFORD
Member

Date: 30 June 2010

Part A

THE AUTHORITY

Civil aviation environment

The Civil Aviation Authority (the Authority) serves the public interest in safety and security, and those who rely on aviation for business, commerce and leisure.

The public looks to Government to protect it from potential harm and expects the Government to act as rule-maker and enforcer, independent of the industry it regulates, accountable for its own actions and holding aviation participants to account for their safety and security performance.

Aviation regulation is based on the premise that the Government and its agencies need to intervene to:

- achieve better safety and security outcomes;
- establish clear standards; and
- ensure a common basis for trade and economic exchange.

The Authority's focus is predominantly social (saving lives/preventing accidents and security incidents), and the health and safety of participants and users, rather than economic (e.g. safe-guarding competition in the market place). However, it does support the health and growth of the aviation industry by facilitating technological uptake and supporting aviation commerce with its consequent economic benefit.

Civil aviation in New Zealand operates within a system established and primarily maintained in accordance with the Civil Aviation Act 1990 (the Act). The system sets boundaries which are the minimum safety and security standards to be met by system participants. The Act gives the Director of Civil Aviation certain powers to establish, administer, and improve the safety and security of the New Zealand regulatory aviation system.

The Authority bears a significant responsibility to ensure that the regulatory and safety oversight functions it undertakes manage safety risk in the civil aviation system effectively, and mitigate the chance of adverse and unintended safety outcomes and consequences. Also significant is the responsibility for preventing security incidents at certain airports. The intent of the Authority is to manage safety and security risks to high standards and to enforce these standards effectively.

It does this, in the first instance, through the existence of a transparent and unambiguous regulatory framework that establishes clear safety and security parameters under which the aviation industry can operate. Without such a 'regulatory umbrella' the government has little or no influence, over unintended safety and security outcomes and New Zealanders would be at significant risk.

The Authority discharges its regulatory responsibility by working with aviation community participants and the Government to achieve its safety and security objectives.

Aviation safety requires vigilance by both the regulator and the aviation community. The aim of Government is to reap the maximum safety and security benefit from the regulatory infrastructure. It also aims to encourage participants to exceed the minimum compliance through their implementation of systems that continually improve aviation safety and security.

International obligations

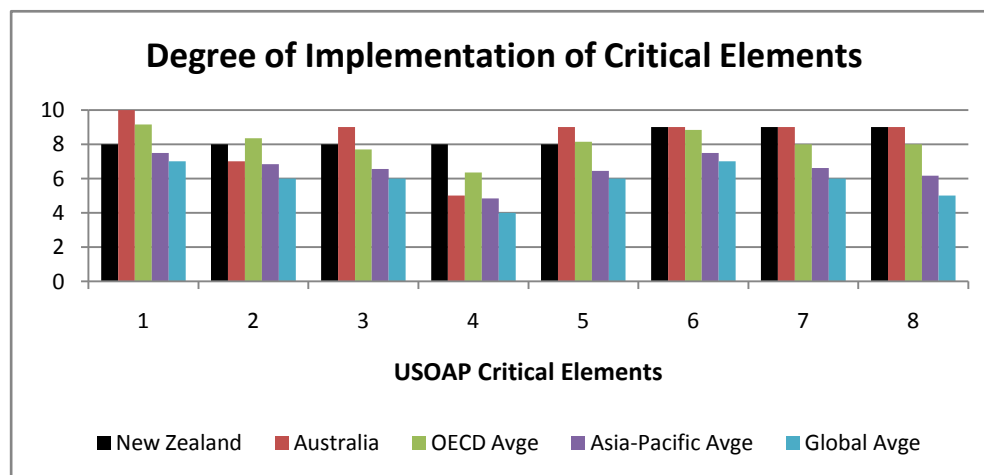
Global aviation changes are reflected in ICAO standards and recommended practices (SARPs), which support the promotion of uniformity in the regulation of international civil aviation. These SARPs are reflected in the New Zealand civil aviation rules and advisory circulars.

International regulatory framework

New Zealand is a signatory to the 1944 International Convention on Civil Aviation (Chicago Convention) which established the International Civil Aviation Organisation (ICAO). ICAO is a United Nations specialised agency with 190 member states, which plays a pivotal role in establishing standards and recommended practices (SARPs) for the industry. Staff members of the Authority participate in ICAO meetings to develop ICAO SARPs and associated guidance material, ensuring that the differing operational and regulatory perspectives of New Zealand, and the South Pacific, are heard.

Through the Chicago Convention, New Zealand has an obligation to comply with ICAO's SARPs (unless it can justify that it finds it impractical to do so). This adherence to international standards and a regulatory regime promotes safety through risk identification and mitigation and provides a strong basis for a safe and secure aviation sector. It also allows for international agreements to be negotiated.

The chart below shows New Zealand's level of implementation of the eight key elements used in ICAO audits of national aviation safety performance. This covers only the airline sector and major airports, and does not include the general aviation sector.



Data source: http://www.icao.int/fsix/auditRep1_csa.cfm (1 March 2010)

1. Level of implementation: 1=not implemented, 10=fully implemented

2. Critical elements:

1 primary aviation legislation (in New Zealand, it's the responsibility of the Ministry of Transport);

2 specific operating regulations;

3 state civil aviation system and safety oversight function;

4 technical personnel qualification and training;

5 technical guidance, tools and the provision of safety-critical information;

6 licensing, certification, authorization and approval obligations;

7 surveillance obligations; and

8 resolution of safety concerns.

3. OECD average comprises 20 countries of the total 30. Republic of Korea has a perfect score of 10; France: 9.5; USA and Canada: 9.38; Poland: 8.75; and New Zealand, Australia, and Czech Republic: 8.38.

New Zealand's initial ICAO Universal Security Audit Programme (USAP) audit was conducted in September 2006 with a follow up visit completed mid 2008. The second round audit for NZ is expected to take place during 2011. The initial audit did not raise any significant issues for Avsec. Those items that were identified as being within Avsec's responsibility were closed within the timeframes agreed between Avsec and the CAA.

International aviation stability and security

The industry is experiencing the impacts of terrorism - global instability and heightened security requirements - and this risk is ongoing.

This impact has been felt particularly in international passenger transport operations. While accepting that it has responsibility, along with other stakeholders, for ensuring the security of its customers, staff, and the community in general, the aviation industry has incurred considerable financial and resource impost through significant

additional security-related impositions. This has improved safety and security for travellers, both within New Zealand and internationally.

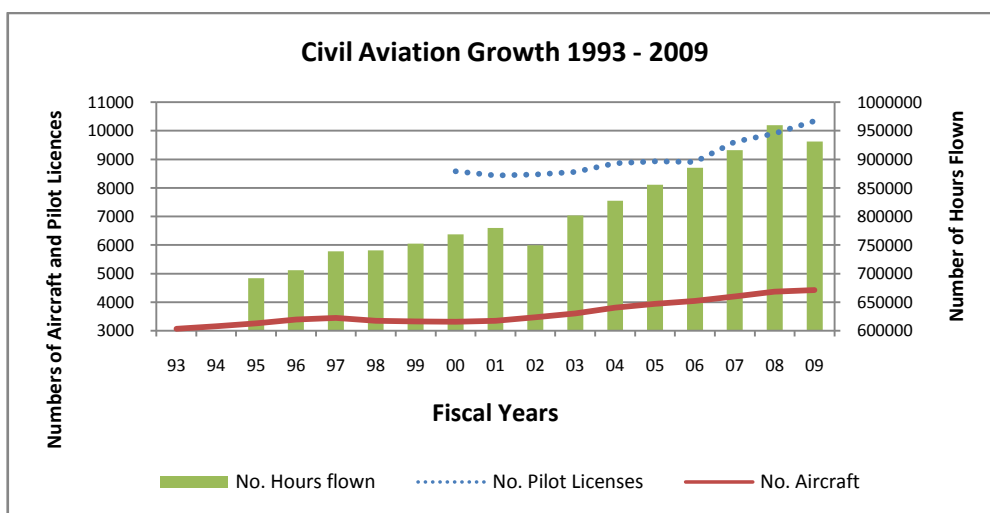
Size and shape of the New Zealand civil aviation sector

Aviation makes a sizeable contribution to the New Zealand economy. Each year, approximately nine million passengers travel on domestic routes and eight million passengers travel on international airlines to and from New Zealand. Close to one million hours are flown each year by New Zealand registered aircraft and over \$13B of air freight is transported. Inbound traveler numbers for tourism, business and visiting friends and relatives, totaled 2.204 million in CY2009, while international tourism contributed \$9.3Bn (16.4%) to New Zealand's exports of Goods and Services ².

New Zealanders travelling overseas in 2009 totaled 1.918 million. The majority of flights are by large aircraft ³, which account for around 96% of the total seat hours.

As at 31 March 2010, there were 4,428 aircraft on the New Zealand register and 10,386 active pilot licenses in New Zealand's aviation system. There are 25 certificated airports, including seven serving international commercial operations, ranging in size from a few thousand to 13.2 million passengers a year ⁴.

Growth in the aviation sector is shown in the chart following:



Source CAA, 2009. Note: The vertical axes in this chart do not start at zero

Following international practice, the Authority divides aircraft operations into two categories - Airlines and General Aviation. Airline operations are essentially the operation of all passenger and freight aircraft over 5,700kg with 10 or more passenger capacity. General aviation covers the remainder, including all private operations regardless of aircraft size, all agricultural operations, and other aerial operations (including adventure, sport and recreation) using aircraft under 5,700kg.

Avsec currently functions out of seven New Zealand security-designated airports (Auckland, Hamilton, Rotorua, Wellington, Christchurch, Dunedin and Queenstown) with a minor function at Palmerston North.

² Source: Statistics New Zealand, Mar 2010

³ More than 30 passenger seats or a payload capacity of more than 3,410 kgs

⁴ Source: Auckland International Airport 2009, Jan 2010

Aviation document holders in the New Zealand civil system

Aviation participants must be certificated to be an aviation document holder. Their entry, participation, and exit from the civil aviation system are overseen by the CAA. The chart below sets out the numbers of aviation document holders in New Zealand.

Active aviation document holders in the New Zealand civil aviation system	Jun 2008	Jun 2009	Mar 2010
Organisation certificates held*	637	714	738
Active pilot licenses	9,780	10,156	10,386
Part 66 aircraft maintenance engineer	2,276	2,378	2,445
Air traffic controller license with class 3 medical	332	345	366
Aircraft in the New Zealand fleet	4,301	4,406	4,428

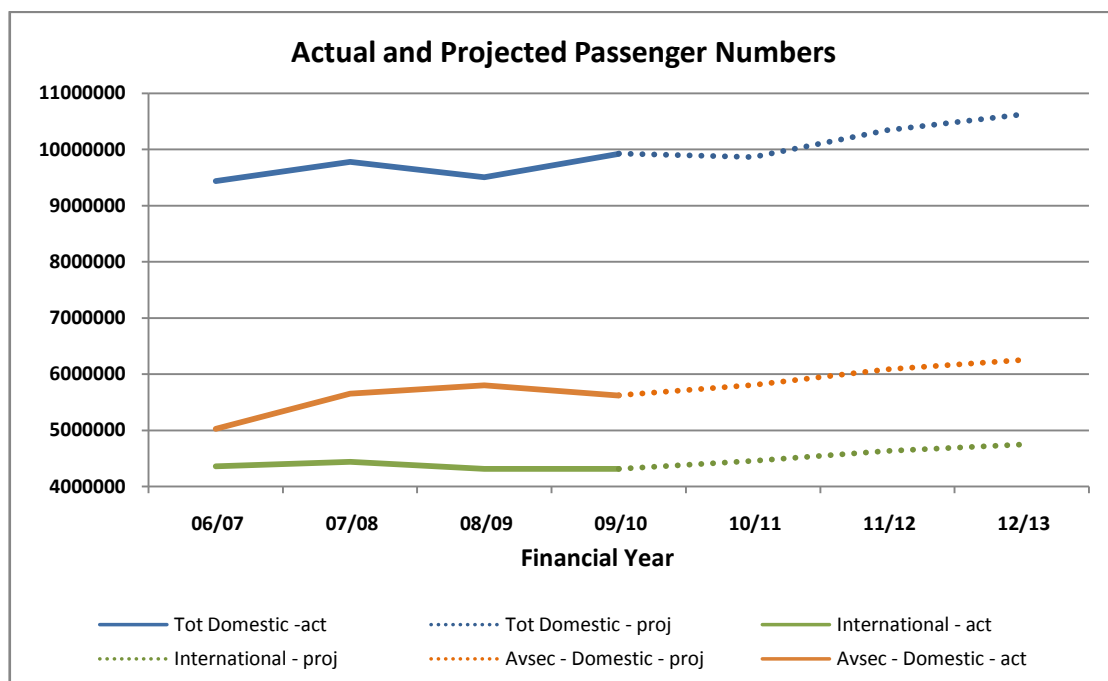
Notes:
 * The increase in certificated organisations is due in part to the increases in certificated air cargo agents under Rule Part 109, Regulated Air Cargo Agents, and dangerous goods packaging holders under Rule Part 92, Carriage of Dangerous Goods. Refer to www.caa.govt.nz for details.

Passenger numbers

Passenger numbers are volatile, and this has two impacts on the Authority:

- there is difficulty in predicting safety levy and passenger security charge revenue with a high degree of confidence; and
- the very short notice of cessation and/or recommencement of flights from regional airports can hamper the effective provision of aviation security staff at the right times.

The chart and table below show actual and projected passenger numbers for the three years until June 2013. Funding for the CAA and Avsec derives substantially for CAA, and almost completely for Avsec, from passenger based safety levies and security charges.



(Source CAA & Avsec, 2010) Note: The vertical axis in this chart does not start at zero.

The table below sets out the actual and projected domestic and international passenger numbers:

Passenger Numbers upon which Safety Levies and Passenger Security Charges are based:	Actual			Projected			
	06/07	07/08	08/09	09/10	10/11	11/12	12/13
Total - Domestic	9,438,527	9,777,968	9,507,548	9,921,777	9,861,391	10,339,667	10,622,980
Avsec - Domestic	5,024,706	5,654,619	5,260,650	5,631,116	5,800,818	6,082,159	6,248,812
International	4,359,184	4,435,664	4,312,407	4,393,947	4,455,083	4,631,059	4,746,835

(Source CAA & Avsec, 2010)

The CAA charges passenger safety levies on the basis of the number of sectors flown domestically and on all international departures. Avsec receives passenger security charges from airlines, based on all passengers departing on international flights from New Zealand and departing domestic passengers on aircraft with a capacity of more than 90 seats.

Sector size – safety

For the purpose of providing a comparison with a similar aviation system, the following table compares the size and regulatory responsibilities of the CAA's safety function with similar safety organisations in a number of ICAO member states.

Comparator	New Zealand	Australia	UK	Canada	Finland	Sweden	Switzerland
Population (millions)	4.4	22	61	33.8	5.3	9.5	7.5
Authority (safety) staff numbers	174	675	564	1430	135	289	255
Annual budget (\$NZM)	29	178	140	200	30	100	147
Registered aircraft	4,428	13,270	21,063	33,535	1,472	2,000	3800
Registered aircraft (per 000 pop)	1	0.6	0.3	0.9	0.3	0.2	0.5
Pilot licences	10,386	34,000	42,252	64,932	8,000	8,500	13,000
Pilot's licences (per 000 pop)	2.4	1.5	0.7	1.9	1.5	0.9	0.9
Annual passenger departures (per 000 pop)	29.0	22.0	15.5	14.0	13.5	10.0	13.0
Annual aircraft departures (per 000 pop)	270	390	936	292	130	233	284
Aerodromes /million people	29.3	22.6	7.4	40.2	28.2	27.7	8.6

Safety performance

Currently the safety performance of the NZ airline sector compares well with the leading aviation nations. Despite this, however, while parts of the general aviation sector have performed well in recent years, other parts of that sector have had fluctuating safety performance⁵.

For the year to 31 December 2009 there were 118 (2008:113) aircraft accidents, (of which only two (2008:1) involved large or medium aircraft⁶) ten (2008:11) and which resulted in 13 (2008:16) fatalities. None of these fatalities were in the Airline Operations – Aeroplanes or Helicopters sectors.

Refer to Appendix (p 87) for details of Safety Performance in New Zealand Civil Aviation.

⁵ Refer to the CAA website for detailed information on civil aviation safety performance in New Zealand –most particularly the Civil Aviation Authority Annual Report.

⁶ Between 10 -30 passenger seats and a payload capacity of less than 3,410kg.

Security performance

Avsec has a consistently high level of security performance. During the year ended 31 December 2009, Avsec screened 4.344 million international and 5.571 million domestic passengers and some 19.214 million pieces of cabin and hold baggage with no resultant in-flight security or airside security incidents. Avsec is also responsible for the issuance of approximately 67,500 temporary and permanent airport identity cards each year.

In addition Avsec is subject to an intensive annual recurrent audit regime, both internally and externally, including an annual surveillance audit against the International Standards Organisation (ISO) specifications. In 2011, ICAO is also scheduled to undertake round two of the Universal Security Audit Programme (USAP) audit of the New Zealand aviation security regime. Findings from all audits are acted on with urgency to ensure 100% of findings are cleared within specified timeframes

Avsec has also consistently implemented 100% of all international and other regulatory obligations that enhance aviation security (and which are mandated in New Zealand legislation) within required timeframes and consistently achieves its key output performance measures set out in its Statement of Service Performance.

Environmental change awareness and initiatives

Increased awareness of the potential effects of global warming is expected to have a significant impact upon the aviation industry. The Pacific region is more reliant on aviation for the movement of people and goods than most other parts of the world due to its geographical location and high dependence on tourism. Internationally, the aviation sector is responsible for around only two per cent of total greenhouse gases, and does not contribute to climate change as significantly as other areas of the economy. However, aviation-related emission contributions are growing due to the increasing demand for services and a lack of viable and more environmentally friendly fuel alternatives.

Fuel prices have increased significantly in recent years and continue to fluctuate widely. The requirement for better fuel efficiency will be motivated not just by financial pressures, but also by the need to comply with changing environmental regulations.

The global aviation industry presented the United Nations Framework Convention on Climate Change talks in Copenhagen in February 2010 with three targets shared by airlines, airports, air navigation service providers and manufacturers. These are improving fuel efficiency by an average of 1.5% per year to 2020, stabilizing emissions with carbon-neutral growth from 2020 and cutting aviation emissions in half by 2050 compared to 2005.

Bio-fuels have the potential to reduce aviation's carbon footprint by up to 80%, and ICAO expects certification within 2011 at the latest. Seven airlines, including Air New Zealand, have successfully tested bio-fuels.

Implementation of Safety Management Systems (SMS)

One of the challenges for the Authority and the aviation sector over the next few years will be the introduction of the Safety Management Systems (SMS) approach to aviation safety oversight. SMS involves the introduction of a risk management approach, drawing upon comprehensive safety data. This approach has been mandated through ICAO SARPs and is being adopted globally by all aviation regulators. The SMS approach is the next generation of regulatory oversight systems in aviation. For New Zealand, it will build upon the Quality Management System approach that is reflected throughout the current aviation regulatory system.

The introduction of the Safety Management Systems approach to regulation is reflected in virtually all elements of the CAA's strategic priorities. The CAA anticipates that implementation of the SMS approach will take several years to complete.

Airspace administration

New Zealand already has some of the most efficient airspace and air navigation procedures in the world. However, the Ministry of Transport and the CAA have identified that New Zealand's airspace and air navigation systems should evolve from their current state, where development is undertaken on an *ad-hoc* basis in a reactionary mode, to a system that is planned to produce a safe and efficient air transport system.

This approach is consistent with ICAO requirements under the Global Air Navigation Plan and international best practice. The CAA has established an Airspace and Environment Policy Unit which is responsible for the preparation of the Airspace and Air Navigation Policy and the resulting Plan.

A New Zealand Airspace and Air Navigation Policy is the framework and outline for the current and future administration of airspace and will bring together existing and planned initiatives to meet the demands of airspace users. One area that is derived from this work is Performance-Based Navigation (PBN) and the New Zealand implementation consistent with ICAO requirements. PBN is a term used to describe the broad range of technologies that are moving aviation away from a ground-based navigation system toward a system that relies more on the performance and capabilities of equipment on board the aircraft. This reduces fuel burn, airport and airspace congestion, and aircraft emissions. The CAA developed the New Zealand PBN Implementation plan and submitted it to ICAO in December 2009.

CAA Funding Review

In mid-2009 the Authority initiated a CAA Funding Review. The Review includes extensive review of the CAA's financial base, the assembly of informed financial models, and consultation with stakeholders.

Recommendations for change from the review, following consultation, are expected to be with the Minister in October 2010. Implementation of the proposed changes is expected to flow into the 2010/11 financial year and will enable the Authority to address pressure on the CAA's financial resources and enable it to invest in future capability.

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, levies, and charges have fallen well below the actual level of costs incurred in undertaking the CAA's regulatory functions, as well as below the levels considered necessary to build and maintain an appropriate level of organisational capability and capacity. The Authority is particularly conscious of the need to invest in the CAA's capability to ensure the future delivery of relevant, timely, efficient, and effective services that represent good value for money, and are both financially sustainable and responsive to changing economic, societal, technical and environmental demands. The financial risk to the CAA arising from the dependence on levy revenue compromises the ability of the CAA to achieve these goals.

Ongoing scrutiny of the CAA's operations, to ensure value for money, and identify potential for further efficiencies and cost savings, will be maintained by the Authority.

Avsec passenger security charges

Avsec's revenue is derived substantially from International and domestic passenger security charges paid by airlines directly to Avsec, and set for a three year period.

Since 2007 Avsec has recovered higher than forecast revenue due to increased passenger numbers and less operational expenditure than anticipated. Following consultation with industry in late 2009 the charges were reset at reduced levels from 1 April 2010.

Office accommodation

Between late 2010 and early 2011, the Authority will move its offices from their current, separate, locations into modern office premises in central Wellington. This will bring together the offices of the CAA and Avsec in one building for the first time.

Work is underway to identify opportunities for the two organisations to share administrative and other support services to reduce operating costs.

Assumptions

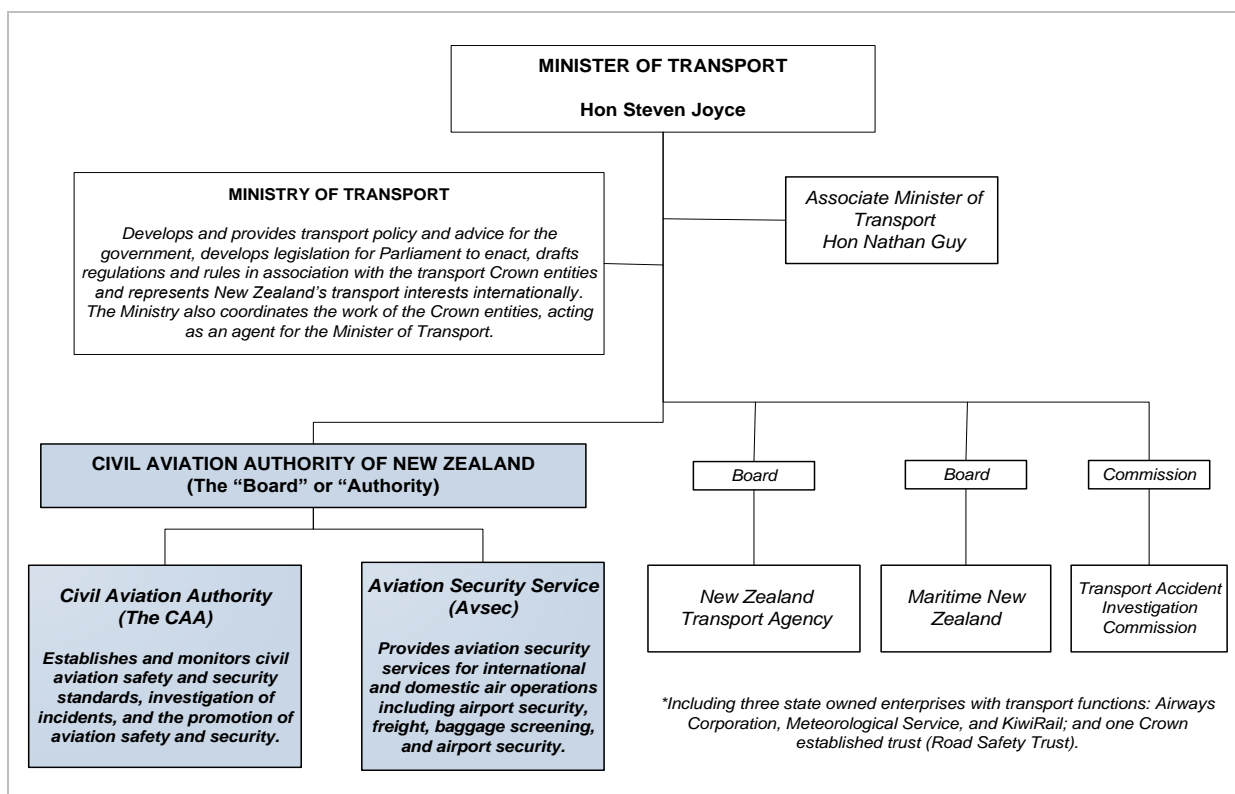
This SOI is based on a number of assumptions about the Authority's operational environment. The key assumptions are:

- Growth and competitive pressures in the aviation industry will continue in the medium-term with additional airline entrants and possible new airport start-ups. In the medium term it is anticipated that the continued introduction of new carriers in the passenger carrying sector will cause volatility in passenger numbers.
- Passenger numbers will continue to grow albeit with a high potential for short-to-medium term volatility.
- Current and possibly new carriers will make changes to existing operations, introducing new types of aviation activity and changing routes and service offerings.
- There will be increasing complexity through the introduction of new aircraft and both new and upgraded aviation technologies, with a corresponding increase in risk.
- The majority of the aviation industry will continue to behave responsibly in relation to aviation safety and security.
- The aviation industry will continue to support the Authority's strategic direction and the regulatory reform agenda.
- The Authority's functions and legislative framework will remain fundamentally unchanged.
- The international aviation security threat will continue, with new types of threat likely to be deployed against the aviation sector and the travelling public.
- Avsec will need to be in a state of preparedness to deploy new and emerging security technologies to assist in countering continuing threats to aviation security and greater screening point efficiencies.
- There will be a significant focus on environmental issues driven by concerns about global climate change, and this is likely to intensify.
- The travelling public will have increasing expectations regarding ease of travel, convenience, and system reliability, within a high safety environment.
- Government's intends to ensure 'value-for-money' and reducing regulatory impost on the aviation sector participants and the travelling public.
- There will be continuing expectations from industry and Government for greater efficiencies from CAA/Avsec in the way they run their business units with a focus on organisational value for money.

OVERVIEW OF THE AUTHORITY

The New Zealand transport sector structure

The New Zealand government transport sector comprises the Ministry of Transport, five Crown entities, three state-owned enterprises, and one Crown established trust.

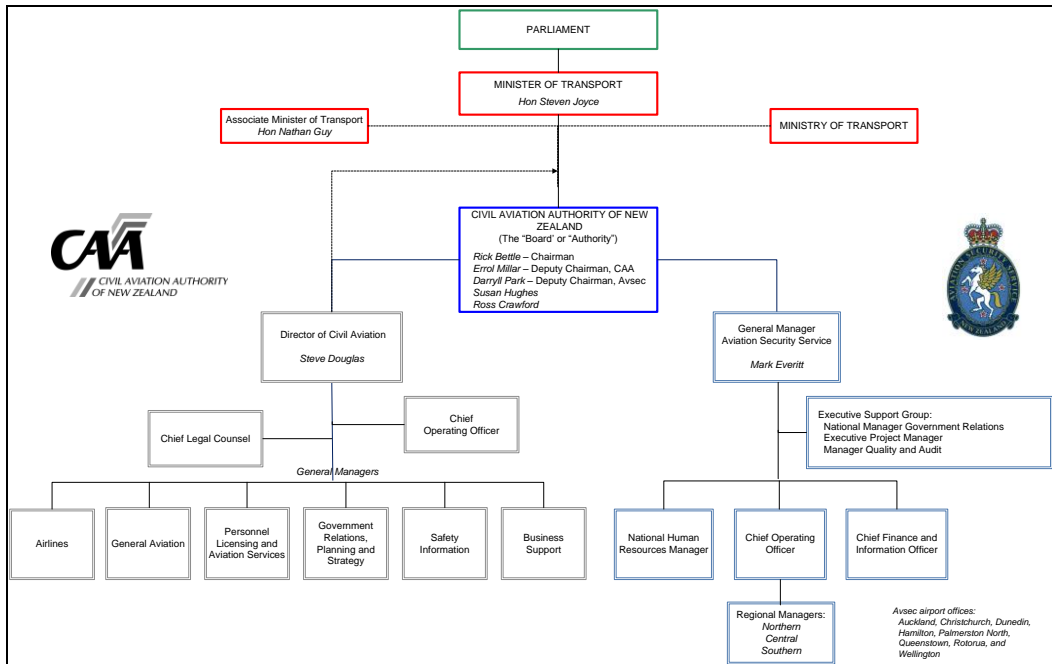


The Authority's structure

The Civil Aviation Authority is a Crown entity, for the purposes of section 7 of the Crown Entities Act 2004, established on 10 August 1992 under section 72A of the Civil Aviation Act 1990 (the Act). The Authority consists of a five-member board appointed for terms of up to three years by the Minister of Transport. They are persons that the Minister considers will represent the public interest in civil aviation. The board or the Authority reports to the Minister of Transport.

Under section 72AA of the Act, the objective of the Authority is to undertake New Zealand's civil aviation safety, security and other functions in a way that contributes to the aim of achieving an integrated, safe, responsive, and sustainable transport system. The functions (section 72B of the Act) of the Authority in safety and security regulation and service delivery of aviation security are achieved by the Authority through the work of two organisations, the CAA and the Avsec respectively:

- The Civil Aviation Authority (CAA) is New Zealand's regulatory agency for the establishment and monitoring of civil aviation safety and security standards; investigation of incidents; and the promotion of safety and security. The office of the Director of Civil Aviation is established by sections 72I of the Act.
- The Aviation Security Service (Avsec) is a service delivery component of the Authority that provides aviation security services (section 72B (ca) of the Act) for international and domestic air operations, including security of passengers, freight, baggage screening, and airport security. The office of the General Manager of Aviation Security Service is established by section 72L of the Act.



Our stakeholders

We work collaboratively with all aviation sector participants in New Zealand, industry organisations, interest groups and key users of aviation services. We also work extensively with other government agencies.

Our key stakeholder is the Minister of Transport.

Other stakeholders with whom the Authority works with in regulating aviation safety and security, and in providing aviation security services, include:

- the travelling public;
- the Ministry of Transport, and other government Ministries and Departments with whom we seek to align aviation safety and security strategies, including the Department of Labour (HSE), Customs, MAF, MFAT, Maritime New Zealand, etc;
- the International Civil Aviation Organisation (ICAO);
- other overseas aviation regulators (e.g. CASA, FAA, TSA);
- Air New Zealand, Qantas, Pacific Blue, Jetstar, and other operators;
- airports and aerodromes;
- representative bodies such as the Aviation Community Advisory Group (ACAG), the Airports Association, the Air Line Pilots Association, the Aviation Industry Association, Airways NZ, the Board of Airline Representatives in New Zealand, the Agricultural Aviation Association, and cargo forwarders;
- the Transport Accident Investigation Commission, the NZ Police, and the Chief Coroner;
- businesses that rely on safe movement of cargo;
- Pacific Island countries; and
- private businesses, other sector organisations, and other organisations with whom we identify research needs.

This year the Authority engaged with selected aviation sector stakeholders in the preparation of this Statement of Intent. This engagement will increase in subsequent years.

Ministerial expectations

The Enduring Letter of Expectation, from the Ministers of Finance and State Services, requires that Crown entities be managed on a Value-for-Money basis. The Authority will deliver its statutory mandate in a cost effective manner, and:

- ensure financial discipline and sound financial management practices;
- keep under review its expenditures; and
- identify particular expenditures or programmes that are not effective or providing good value-for-money and act on those findings.

The Authority recognises that, in line with the current fiscal context, and the Minister's expectations that were set out in his 2010 Letter of Expectations, the Authority must:

- have a clear and understandable strategy to improve performance and ensure value for money, that is direct, simple, and will be reported against;
- set financial sustainability as a critical part of this strategy;
- demonstrate a strong understanding of the Authority's business (for example services delivered, price, quality and standard of services, the cost drivers and how the Board will manage these in the face of variable demand);
- deliver better, smarter services for the same or fewer resources;
- keep fees and charges (including levies) sustainably low, including reducing these where possible; and
- have realistic pay and employment conditions.

To deliver value in the current economic climate, the Authority will work hard to ensure an effective regulatory regime that meets New Zealand's international commitments whilst avoiding unnecessary compliance costs to industry. This will require the Authority to drive value for money, including for fee payers, and performance improvement within both the CAA and Avsec.

The Authority will seek to ensure that it is resourced and funded appropriately to deliver an effective civil aviation safety and security regime. To achieve this, the Authority will give priority to:

- timely completion of a robust CAA Funding Review; and
- completing Avsec's work with the Ministry on the Avsec value for money initiatives project.

Scope of functions

Statutory mandate

The Authority's mandate is from the *Civil Aviation Act 1990*, in particular section 72B of the Act that outlines the safety and security regulation function of the Authority, and Section 80 that outlines the powers, functions and duties of Avsec.

It is not the role of the Authority to promote the economic development of the aviation sector; that responsibility lies with the Ministries of Transport and Economic Development.

CAA's role

The CAA⁷ is New Zealand's regulatory agency for the establishment and monitoring of civil aviation safety and security standards; investigation of incidents; and the promotion of safety and security.

⁷ Refer to www.caa.govt.nz for details on how the CAA regulates the New Zealand civil aviation system (entry, participation and exit).

In section 72I of the Act, the Authority appoints a chief executive of the Authority, known as the Director of Civil Aviation. The Authority may delegate functions and powers to the Director, in addition to those conferred by the Act to the Director. While exercising these statutory functions and powers, the Director acts independently and is not responsible to Parliament or the Authority for the performance or exercise of those functions and powers.

The CAA provides:

- certification and licensing of aviation participants;
- monitoring of compliance (surveillance) to civil aviation safety and security standards by participants;
- education and promotion of aviation rules, advisory circulars and other safety and security-related information;
- investigation of aviation incidents and analysis of safety trends;
- enforcement of civil aviation legislation and rules; and
- publication of aeronautical information.

International civil aviation obligations of the Crown delegated to the Authority in respect of the *International Civil Aviation Organization* (ICAO) and the *Convention on International Civil Aviation* signed in Chicago on 7 December 1944 are:

- Airspace Authority;
- Air Traffic Services Authority;
- Aviation Security Authority;
- Dangerous Goods Authority;
- Meteorological Authority; and
- Personnel Licensing Authority.

Some functions and powers of the Director of Civil Aviation are delegated, with the consent of the Minister of Transport, to individuals outside of the CAA under *section 23B of the Act*:

- the Director has undertaken, with the consent of the Minister of Transport, to delegate written and practical flight examinations; and
- the CAA has contracted out the provision of ICAO-defined aeronautical information publication (AIP), aeronautical charts, and meteorological services for international air navigation.

In addition,

- some aviation sector policy advice is provided under an output agreement with the Ministry of Transport;
- Civil Aviation rules development is carried out under a contract for service with the Ministry of Transport;
- the Civil Aviation Authority is designated to administer the provisions of the *Health and Safety in Employment Act 1992* in respect of the aviation sector, specifically for aircraft while in operation; and
- the Director carries out certain responsibilities under the *Hazardous Substances and New Organisms Act 1996* in the aviation sector.

Avsec's role

Avsec⁸ carries out the Authority's obligations to provide an aviation security service pursuant to the Civil Aviation Act 1990. Avsec is required to perform its functions separate from the CAA organisation, through its own

⁸ Refer to www.avsec.govt.nz for details on how Avsec provides aviation security services in New Zealand

General Manager, including the maintenance of separate accounts, records and reports. Avsec holds a Part 140 document issued by the Director of Civil Aviation.

Avsec provides:

- Screening of passengers and their carry-on baggage;
- Screening of hold baggage;
- Airport access controls;
- Non passenger screening;
- Issuance of Airport Identity Cards and the conduct of security background checks where these are required by Civil Aviation Rules, under delegation and approvals from the Director; and
- Other aviation security related services.

The Maritime Security Act (MSA 2004) resulted in the Minister of Transport designating Avsec as one of three Maritime Security Organisations (MSOs)⁹, along with NZ Customs and Ministry of Agriculture and Forestry (MAF). MSOs would only be deployed in a high threat situation. Day-to-day security is conducted by the ports and ships.

Resource base

Overall the Authority has an established staff component of 987 full time equivalents (FTEs).

CAA's forecast staff component at 1 July 2010 is 198 (204; 2009/10) FTEs. The organisation is structured to reflect the makeup of the aviation industry with an Assistant Director of Civil Aviation, six General Managers and a Chief Legal Counsel supporting the Director of Civil Aviation. The General Managers' responsibilities cover Airlines, General Aviation, Personnel Licensing and Aviation Services, Government Relations Planning and Strategy, Safety Information, and Business Support.

Avsec's forecast staff component at 1 July 2010 is 789 (761; 2009/10) FTEs. The organisation is structured with an Executive Management Team of seven senior managers reporting to the General Manager. Business operations are structured with a National Operations Manager and three Regional Managers reporting to the Chief Operating Officer. Avsec has a uniformed and ranked culture at the operational level.

Value for money initiatives

Both CAA and Avsec are engaged in a number of value for money initiatives.

A review of CAA and Avsec support services was commenced in late 2009/10 into the way in which support services are provided to both entities and to identify any opportunities to do things differently and more effectively across the two organisations¹⁰.

In setting its financial budget, the CAA has continued its approach of carefully reviewing its expenditure and taken a number of initiatives to ensure value for money over the 2010/11 financial year. The steps taken to date include reviewing and reducing staff numbers, and reviewing and reducing travel costs.

CAA will continue to focus on mitigating key safety risks, and fund capability projects, where possible, through the re-allocation of existing resources and increased revenue. Future VfM changes in the CAA will be made on

⁹ Avsec has a standby and readiness role in case of a high threat situation in the maritime arena, particularly the Port of Auckland where staffs 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 and accordingly has not been given prominence in this SOI.

¹⁰ Limited costs associated with the CAA/Avsec support services have been budgeted in 2010/11 as the outcome of the review is unknown.

the basis of clear risk assessment. There have been no decisions taken yet on the priority of VfM changes in the CAA.

As part of the decisions around the recent Avsec review of Domestic and International Passenger Security Charges the Cabinet decided that Transport (Ministry) officials should “seek independent advice to thoroughly and robustly review Avsec’s planned cost structure going forward and seek independent advice to identify robust monitoring measures and appropriate performance indicators to achieve better transparency, and to assure reasonableness and efficiency around Avsec’s projected costs”.

Cabinet also asked that Officials identify and implement measures to monitor Avsec’s progress against the new performance indicators and that a review be done of the overall charges process to identify a way the charges could be amended more quickly when appropriate. The Ministry elected to deal with this suite of recommendations by setting up a joint Ministry/Avsec Value for Money Project. Avsec is committed to working with the Ministry of Transport on the Value for Money project as it is rolled out.

High level financial overview

CAA

The CAA is projecting a deficit of \$2.646M in 2010/11 compared with a forecast year-end deficit of \$0.441M for 2009/10. The latter reflects an improved result from the budget position, as a result of higher revenues due to a recovery in flight passenger volumes following the global financial crisis, together with closely managed expenditure.

The \$2.646M deficit budgeted in 2010/11 has been set with expected firmer revenues and with increased costs primarily arising from the relocation of the Petone offices to Wellington (including one-off costs), increases to the Aeronautical Information Services (AIS) contract, and an increased capability investment. The latter capability investment targets improvements to operational areas such as the implementation of a safety management system (SMS), improvements to the safety information IT application, the surveillance business process and improving the capability for the management of projects and change within the CAA.

The 2010/11 budget excludes any financial implications that may arise from the completion of the CAA’s Funding Review.

CAA’s out-year results for 2011/12 and 2012/13 are being held at relatively constant levels. However, operating financial deficits are not considered sustainable and this has necessitated the CAA Funding Review.

Avsec

Avsec is projecting an operating deficit of \$10.344m in 2010/11 increasing to a deficit of \$15.126m in 2012/13. The projected operating deficit in 2010/11 compares to a forecast year-end surplus of \$12.457m for 2009/10.

The projected operating deficit in 2010/11 and out-years, is a direct result of reducing the Passenger Security Charges to \$10.00 for international passengers (down from \$15.00), and \$4.35 for domestic passengers (down from \$4.66) both GST Inclusive.

The Passenger Security Charges were set in April 2010 and in normal circumstances, these charges would be reviewed 3 yearly. Any future review has not been included in these projections, as it is a regulated charge.

The Operating deficits over the period 2010/11 to 2012/13 will be managed by utilising previous surpluses recorded in the Memorandum of Accounts.

Avsec is reasonably confident of its revenue projections at the time of compilation, due principally to the assumption that competitive pressures in the NZ Aviation market will continue in the medium term. Current carriers and potential new carriers will continue to make changes to operations, including new types of aviation activity and routes, and new service offerings.

The 2010/11 budget was prepared from a zero base with every expenditure line having been reviewed, justified and challenged. The 2011/12 and 2012/13 projections have been compiled based on the 2010/11 budget with all known contractual commitments, planned and anticipated project expenditure and staff changes having been applied.

Consolidated key financial indicators

The table below sets out key financial performance indicators for each of the CAA and Avsec and consolidated for the Authority overall.

	2009/10 Budget \$000	2009/10 Forecast \$000	2010/11 Budget \$000	2011/12 Forecast \$000	2012/13 Forecast \$000
Civil Aviation Authority (CAA)					
Revenue	24,732	28,465	30,189	31,134	31,699
Output expenses	29,231	28,906	32,835	33,707	34,332
Net surplus (deficit)	(4,499)	(441)	(2,646)	(2,573)	(2,633)
Cash and bank balances	326	6,146	4,418	1,660	(932)
Net assets	4,785	8,602	5,956	3,382	748
Capital expenditure	750	613	2,316	905	905
Aviation Security Service (Avsec)					
Revenue	79,588	84,404	69,137	71,277	72,494
Output expenses	78,174	71,947	79,481	84,386	87,620
Net surplus (deficit)	1,414	12,457	(10,344)	(13,109)	(15,126)
Cash and bank balances	56,442	71,925	61,175	50,905	38,160
Net assets	61,971	77,217	67,156	54,351	39,225
Capital expenditure	11,845	9,790	8,183	2,961	1,886
Consolidated¹					
Revenue	104,320	112,854	99,311	102,396	104,178
Output expenses	107,405	100,838	112,301	118,078	121,937
Net surplus (deficit)	(3,085)	12,016	(12,990)	(15,682)	(17,759)
Cash and bank balances	56,768	78,071	65,593	52,565	37,228
Net assets	66,756	85,819	73,112	57,733	39,973
Capital expenditure	12,595	10,403	10,499	3,866	2,791

Note 1: net of elimination related to CAA compliance audit of Avsec under part 140 of Civil Aviation Act 1990

THE AUTHORITY'S KEY STRATEGIC RISKS

The everyday business of both the CAA and Avsec focuses on managing risk to, and minimizing risk for members of the public using the civil aviation system in and from New Zealand. The Authority operates a risk management framework, based on the principles of ISO 9000 and ISO 31000, for the purpose of dealing with system, provider, and participant risk, and for mitigating strategic risks faced by the Authority in its operations.

The risk management framework is also applied across the Authority in areas other than aviation system risk, and is currently being enhanced. The system provides for the Authority's Audit and Risk Management Committees (one each for the CAA and Avsec) to undertake a regular review of all Authority-wide strategic risks, with risks being reviewed regularly by management.

High level risks are managed directly by a member of the executive team in both the CAA and Avsec, with lower levels of risks being managed at various levels of management in the organisations with oversight from relevant executive team members. Risk registers are maintained and they are an integral part of business planning, and record likelihood, impact and mitigation strategies for identified risks in different business units. The Authority has in place emergency management plans and business continuity plans in the event of a building, local, regional or national emergency.

The table below shows the high level strategic risk areas to which the Authority is exposed. These are being addressed through specific mitigation strategies and through capability development and organisational change programmes.

RISK	MITIGATION INTERVENTION
<p>Economic driver of safety and security risk</p> <p>The current global economic situation may diminish (or compromise) the safety and security efforts of both aviation participants and the regulator. 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"> • monitor developments and deploy regulatory interventions to mitigate the risk. • implement or require specific remedial action as necessary where non-compliance is observed or reported. • continue to ensure the Authority has the capacity to fund and carry out its obligations to a high standard.
<p>Rapid changes in aviation and security technology</p> <p>Rapid changes in aviation and security technologies requires 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"> • collaborative engagement with aviation participants, aircraft manufacturers and other external stakeholders to better address issues that arise from technological changes. • regular interaction with overseas regulators and industry representatives. • train CAA technical staff to update their knowledge on new aircraft, and aerospace and aviation security technology intended for the New Zealand civil aviation system.
<p>Loss of confidence by key stakeholders</p> <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 (e.g. a screening failure leading to a security incident).</p>	<ul style="list-style-type: none"> • ensure that operating strategies and investment are aligned to Government's and other key stakeholders' priorities and that the value created from our activities is demonstrable. • active engagement with stakeholders to inform, and be informed, of issues and risks as they arise. • testing standards set at a high level. • internal quality systems place emphasis on compliance and continual improvement. • improvements in staff capability. • use of proven modern technology.
<p>Increasing demand to address environmental issues and emissions</p> <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"> • work with aircraft operators and Airways Corporation on the implementation of Performance Based Navigations systems (PBN) and other similar efficiency initiatives. • monitor developments in the technical and safety aspects of the environmental impact of aviation.

RISK	MITIGATION INTERVENTION
<p>Changes in aviation regulatory approach 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; and regulatory costs could rise as New Zealand would not be able to rely on overseas regulatory systems.</p>	<ul style="list-style-type: none"> • work to ensure New Zealand meets its obligations to international civil aviation agreements, including the Chicago Convention. • Implementation of SMS approach to regulation, a State Safety Plan, and other corrective actions following ICAO’s USOAP (safety) and USAP (security) audits of New Zealand.
<p>Ongoing security threats against the aviation industry (and other modes of transportation) Changing and evolving aviation (and other) security risks. Instability and under-resourcing, in areas of interest to New Zealand, increases the aviation security risk in the South Pacific.</p>	<ul style="list-style-type: none"> • the Authority remains connected to other regulators to ensure early awareness of any pending/potential security requirements and responses. • maintain awareness of research, development, and procurement of new and emerging aviation security technology. • ensure security requirements do not unduly impede maintenance of efficient passenger and cargo flows. • capability development, training equipment, and strategic advice to the South Pacific aviation authorities. • planning for the implementation of new and enhanced security measures. • enhanced intelligence.
<p>A significant aviation incident 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"> • intelligence gathering and analysis. • contingency plans for various scenarios.
<p>Civil aviation revenue flows Volatility in passenger numbers (caused by global recession, natural disaster, pandemic fears, changes in preferred passenger destination (or airline schedule changes) or disinclination to travel due to security threats or environmental policies) complicates accurate revenue forecasting. 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"> • complete the aviation safety Funding Review (in collaboration with the Ministry of Transport and the Treasury) with clear recommendations on how to resolve the funding issue. • balance levy income against revenue from other sources. • manage better the recovery of fees and charges. • maintain efficiency measures (e.g. review travel, training, recruitment, etc.). • examine alternative means of financing short-term capital requirements. • <i>close liaison with carriers regarding</i> scheduling changes, to ensure effective deployment of Avsec resources.

RISK	MITIGATION INTERVENTION
<p>Organisational capability and resilience</p> <p>The Authority may be constrained in its ability to implement internal change within the CAA as quickly as needed in the increasingly dynamic aviation and regulatory environment, and static revenue streams.</p>	<ul style="list-style-type: none"> • implement human resources strategies to ensure the most appropriate and capable staff. • ensure long-term plans reflect expected changes in the aviation environment. • optimise relationships with stakeholders. • tight financial management including ongoing review of remuneration strategies, and other significant expenditure. • continue rigorous review of costs against the budgets. • continual review and update of the contingency or business continuity plans.
<p>Staffing instability and attrition</p> <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"> • succession planning. • preparedness to recruit internationally for necessary technical/professional skills. • capability development, in particular implementation of the leadership development program. • ongoing review of employee recognition and rewards and remuneration benchmarking. • collective bargaining negotiations with Combined Unions. • enhanced staff communication strategies.

THE AUTHORITY'S PLANNING FRAMEWORK

The diagram on the page facing shows the relationships between the various parts of the Authority's planning framework.

It is based around the requirements of the Crown Entities Act 2004, and the guidance issued by the Ministry of Transport, the Office of the Auditor General and Audit New Zealand.

STRATEGIC DIRECTION

This section sets out the way in which the Authority will contribute to the Government's outcomes for transport.

Government outcomes

The Government's overall goal is to grow the New Zealand economy to deliver greater prosperity, security and opportunities for all New Zealanders. The Government has identified six main policy drivers that will assist in achieve this goal. They are: a growth-enhancing tax system; better public services; support for science, innovation and trade; better regulation, including regulations around natural resources; investment in infrastructure; and improved education and skills.

Government's long-term transport outcomes

To meet the Government's overall goal, the Minister of Transport has identified the following long-term transport outcomes:

- A. An efficient transport system that supports high levels of economic productivity, provides strong international connectivity for freight, business and tourism, and meets international obligations;
- B. A sustainable funding basis for transport infrastructure investments and use;
- C. A high quality transport system for Auckland, the nation's largest economic hub; and
- D. An accessible and safe transport system that contributes positively to the nation's economic, social and environmental welfare.

Authority outcome

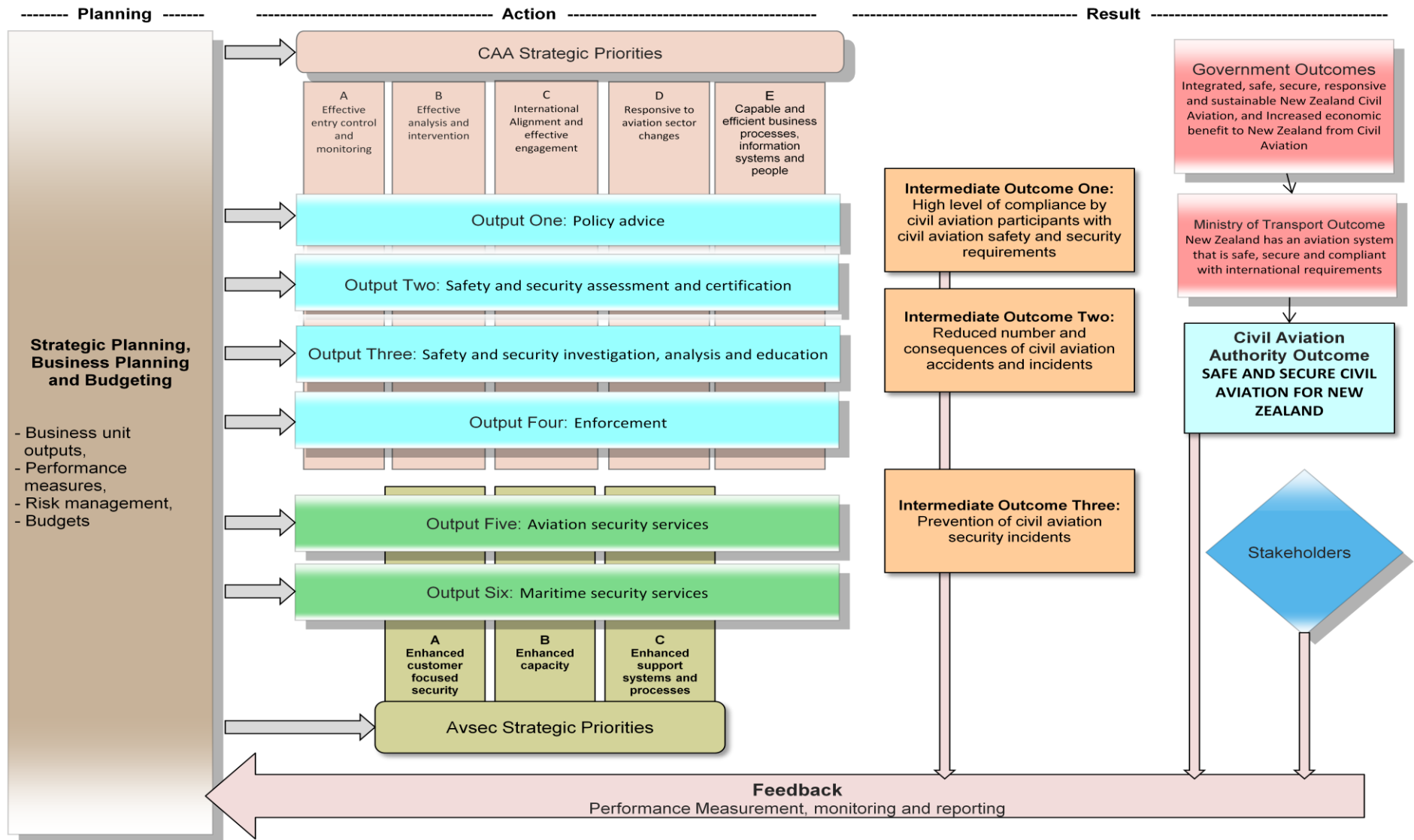
To achieve the Government's long-term outcomes for transport, the Authority has established its contributing outcome to be:

SAFE AND SECURE CIVIL AVIATION FOR NEW ZEALAND

Contributing to the outcome

An efficient and effective supervisory regime, whose focus is on the safety and security of participants and users, is key to maintaining confidence in the aviation sector in New Zealand. This is achieved by ensuring that aviation sector participants comply with applicable rules and maintain adequate management and control of their business and of risks inherent in the sector.

The complexity of the aviation system is reflected in the involvement of multiple players (airlines, aerodromes, air traffic control, general aviation operators, and individual participants). That complexity requires the regulatory and supervisory system to be clear about State compliance with international obligations, the need for, and requirements of, internationally consistent standards, and a clear allocation of responsibilities.



The Authority's Planning Model (2010)

Despite the significant improvements in modern technology and the high levels of reliability in the aviation sector in New Zealand, the nature of an aircraft accident normally results in a highly concentrated and visible serious injury or loss of life. It is the nature of the consequences of such an accident, rather than the likelihood of an accident happening in the first place, that drives public demand for governments to put in place regulatory controls. In addition, the public's tolerance for failure in the aviation sector which results in injury or death, or significant breach of aviation security, is substantially less than for other modes (such as road transport).

The extent to which members of the New Zealand, and international, travelling public have confidence in the safety and security of civil aviation in New Zealand is driven mainly by public awareness of system failures. Aviation accidents and security breaches in New Zealand are rare. However, they achieve national, and sometimes international, news status, perhaps because of their comparative rarity, but also because of the:

- impact of death and injury to the families and connections of those involved;
- social costs of the death and injury;
- economic cost of machinery/equipment that is damaged or lost;
- environmental damage that might be caused;
- cost of investigating incidents and accidents potentially leading to death or injury; and
- high public curiosity and interest around major aviation safety and security events (e.g. Mt Erebus, Air France Flt447, Blenheim hijack attempt, Christmas Day 2009 Detroit attempted bombing, etc).

While it is not the role of the Authority to promote the economic development of the aviation sector, the Authority must be cognizant of the economic impact of the regulatory framework and Civil Aviation rules, and seek to minimise that impact without compromising the safety or security of civil aviation in New Zealand.

The Authority is seeking to increase the effectiveness of civil aviation administration in New Zealand, and build upon the improving safety and security record of New Zealand civil aviation. To achieve this the CAA must ensure that the concept of the social costs of aviation incidents and accidents is more widely understood. The Authority will strive to demonstrate the benefits of improving civil aviation administration, using social cost, reputational assessment and other measures. The Authority will also seek feedback from the community on its perceptions of safety and security in the sector.

Outcome measures that will be used are set out in the table below.

Outcome	Measures or Indicators	Data Used (summarised)
Safe and secure civil aviation for New Zealand	1. Public perception of the safety and security of the civil aviation system	<ul style="list-style-type: none"> • Biennial survey to establish perception and confidence levels in the safety of civil aviation.
	2. Social cost by safety outcome target group	<ul style="list-style-type: none"> • Number of deaths and serious injuries • Property damage and loss • Value of Statistical life
	3. Aggregate social cost	<ul style="list-style-type: none"> • Number of deaths and serious injuries • Property damage and loss • Value of Statistical life
	4. In-flight and airside security incidents/ breaches	<ul style="list-style-type: none"> • Number of in-flight security incidents • Number of airside security incidents • Number of dangerous goods introduced into aircraft

Safety outcome targets for 2015

In 2004 the CAA began the process of deciding safety targets for New Zealand aviation for the year 2010, considering: how should we measure safety; and what levels of safety should we aim to achieve.

These safety targets are formed based on the CAA's knowledge of accident and incident rates both within New Zealand, and in other jurisdictions overseas. They set meaningful targets for New Zealand's aviation safety, taking into account New Zealand's unique geography, weather, and aviation usage patterns. Aviation sector consultation was vital to this project. The CAA used a commercial survey organisation to help gather views of passengers, people who use aircraft for personal use, and members of the wider New Zealand community who may be affected by aviation risk. The CAA also sought comment from other organisations believed likely to wish to express their views on the subject. The result was the 2010 Safety Targets.

Work will commence shortly on establishing 2015 Safety Outcome Targets. The 2010 Safety Outcome Targets have all New Zealand aviation classified under three broad group headings: Public Air Transport, Other Commercial Operations, and Non-Commercial Operations. Thirteen further sub-groups enable differentiation between aeroplanes, helicopters, and sport aircraft, and also allow for different weight groups. Social cost is the cost of fatal, serious and minor injuries, and aircraft destroyed, expressed in 2009 dollars. The measures at the intermediate outcome level are the most compelling performance indicators for the Authority, as they demonstrate the change in outcome attributable to the specific interventions of the CAA and Avsec in the aviation sector in New Zealand.

Further information on the 2010 Safety Outcome Targets is shown in the Appendices, along with historical trend information for each sub-group (where available).

Areas of specific safety concern

A social cost that is greater than its target is unacceptable and therefore aviation safety risk initiatives are necessary to bring an aviation target group within the acceptable 2010 target. Of particular concern to the CAA is the safety performance of some parts of non-public air transport: other commercial operations, that are not classified as public air transport, using aeroplanes and helicopters; aeroplanes used in agricultural operations; and private operations using sport aircraft.

In 2009, the three groups with the highest *rate of accidents per 100,000 flight hours* were helicopters used in private operations, aeroplanes used in agricultural operations, and aeroplanes used in private operations. Refer to the Appendices for tables setting out the social cost of accidents over time.

In addition, the CAA has concerns around:

- an aging aircraft fleet and the availability of capital to New Zealand operators to upgrade to new or more recent aircraft
- the ability of New Zealand operators to recruit and/or train pilots, engineers and other sector participants for new or more recent aircraft, or aviation technology; and
- the introduction of unmanned aerial vehicles (UAV) to New Zealand airspace

The CAA is engaging with the aviation sector on these, among other issues to ensure that appropriate responses to help mitigate present, or emerging risks that may arise.

Intermediate outcomes

Intermediate outcomes are the contribution made to the Authority's outcome by a specified mix of interventions. The Authority's three intermediate outcomes describe the results that are directly attributable to the interventions of both the CAA and Avsec.

Intermediate outcome one:

HIGH LEVEL OF COMPLIANCE BY CIVIL AVIATION PARTICIPANTS WITH CIVIL AVIATION SAFETY AND SECURITY STANDARDS

Why is this intermediate outcome a priority?

- It is responsibility of operators to operate aviation services in a safe and secure manner, in accordance with Civil Aviation rules.
- Improved compliance helps change behaviour to decrease the numbers and severity of accidents and incidents and the numbers of deaths and injuries arising in the sector.
- A higher level of compliance will increase public confidence in the safety and security of New Zealand aviation and the international carriers that fly in New Zealand airspace.
- Better safety behaviour facilitates a shift from establishing compliance to a focus on proactive management of safety and security risks.

What will we do to achieve this intermediate outcome?

The Authority will continue to establish and evolve the New Zealand civil aviation regulatory framework. This will be achieved by ensuring that New Zealand civil aviation safety and security rules and standards are aligned with international standards and best practice, and that technical changes in aviation are recognised, enabled and authorised appropriately. Active engagement and information sharing with other Governments and their civil aviation authorities, and with ICAO, in regard to the setting of international rules and agreements regarding civil aviation will be required. This will enhance the Authority's ability to contribute to the development of Government policy in regard to the safety and security of civil aviation in New Zealand.

Improvement of the CAA surveillance and monitoring function will ensure that the Authority is better able to identify system risk or non-compliance, and to encourage or enforce compliance by ensuring participants are aware of the costs of non-compliance, and by applying appropriate sanctions to persistently non-compliant aviation operators.

Monitoring the attitude and behaviour of participants in the civil aviation system will also enable the Authority to focus on the development and use of proactive forward-looking safety systems for aviation operations

As part of its outreach programme, the Authority will provide information to aviation participants and the public that demonstrates the safety performance of the civil aviation system. This outreach programme also seeks to ensure that aviation operators in New Zealand and New Zealand aviation operators overseas are aware of rules and rule changes that affect them.

How will we demonstrate our contribution to this intermediate outcome

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

Intermediate outcome two:

REDUCED NUMBERS AND CONSEQUENCES OF CIVIL AVIATION ACCIDENTS AND INCIDENTS

Why is this intermediate outcome a priority?

- Changes in the number and severity of civil aviation accidents and incidents reflects the effectiveness of standards for aviation safety, and the extent to which pilots, operators and other participants exercise 'good judgement' in making decisions which affect aviation safety.
- The cost of fatalities and injuries is a function the severity of accidents and incidents, both in terms of the direct costs, the economic loss incurred, and the cost of investigation and resolution.
- Reducing the number and severity of accidents and incidents, and consequential injuries and deaths, and loss of property, will reduce the social cost to New Zealand, the impact on families of victims, the cost to the aviation industry, and the regulatory/oversight cost.
- Reduction in accidents and incidents, and consequential injuries and deaths, will demonstrate the efficacy of the regulatory framework and CAA interventions. The system is getting safer because the consequences of the incidents and accidents are decreasing over time. The system becomes more tolerant of failure, and gets safer.

What will we do to achieve this intermediate outcome?

CAA will monitor the attitude and behaviour of the participants in the civil aviation system and inspect, audit and investigate sector participant's aviation activities to ensure compliance with Civil Aviation rules. This is the Authority's predominant method for reducing the number of accidents and incidents, and consequential injuries and deaths.

CAA will improve the surveillance and monitoring function to ensure the Authority is better able to identify non-compliance and risk, and move to encourage or enforce compliance by applying appropriate sanctions to non-compliant aviation operators and participants. Improvements in the identification and assessment of risks to participants, and ensuring that licence holders are 'fit and proper' persons to hold aviation documents will encourage compliance with Civil Aviation Rules.

Progressive implementation of the Safety Management System will increase the focus on risk identification and management by operators and participants. This will include improving safety provisions in aircraft so that that the severity of injuries to passengers and participants in the event of an accident are reduced significantly.

Because of the higher risk evidenced in the General Aviation sector (particularly recreational and rotary wing aviation) surveillance and monitoring of this sector is critical. Adopting a risk based approach will clarify the linkages between CAA actions and the outcomes achieved, and enable CAA to improve the targeting of its interventions to enhance the effectiveness of the civil aviation system.

The Authority's outreach programme will:

- Provide information regarding the safety and security of the New Zealand civil aviation industry/sector and the social and economic impact of system failure or deviation from standards; and
- Increase industry, participant and public knowledge regarding aviation safety and security.

How will we demonstrate our contribution to this intermediate outcome

- A reduction in the number of aircraft accidents per 100,000 flying hours.
- A reduction in the social cost of aircraft accidents per 100,000 flying hours.
- A reduction in the number of fatalities and serious injuries per 100,000 flying hours.
- A reduction in the social cost of fatalities and serious injuries.

Intermediate outcome three:

PREVENTION OF AVIATION SECURITY INCIDENTS

Why is this intermediate outcome a priority?

- A decrease in the numbers of security incidents will demonstrate the efficacy of the regulatory framework and of both CAA and Avsec interventions.
- No incidents (no in-flight or airside incidents, under the Air Crimes Act, and no dangerous goods introduced into aircraft) will demonstrate the efficacy of the regulatory framework, and the success of the CAA and Avsec interventions and increase awareness that civil aviation in New Zealand increasingly safe and secure.

What will we do to achieve this intermediate outcome?

The Authority will establish and maintain the New Zealand civil aviation regulatory framework and contribute to the international regulatory framework, which will ensure that Government policy is appropriate and that New Zealand civil aviation rules and security standards are aligned with international standards and best practice. Further the Authority will ensure that technical changes in aviation security are recognised, enabled and authorised appropriately.

Security incidents are often driven by factors beyond the control of aviation participants and operators, but can be minimised or discouraged through the application of good regulation, appropriate security measures and interventions, and the exercise of good judgement by aviation operators and participants. The Authority will ensure that New Zealand civil aviation operators in New Zealand and overseas are aware of security related rules and rule changes that affect them.

Through Avsec, the Authority will deliver effective, efficient, aviation security services at security designated airports in New Zealand. This will include implementing international and other regulatory obligations that enhance aviation security, and which are mandated in New Zealand legislation.

The Authority's outreach programme will provide information to increase industry, participant and public knowledge regarding aviation safety and security.

How will we demonstrate our contribution to this intermediate outcome

- No in-flight security incidents.
- No airside security incidents.
- No dangerous goods introduced into aircraft.

Part B

CAA

THE FOLLOWING STATEMENT OF FORECAST SERVICE PERFORMANCE AND FORECAST OUTPUT COSTS FORM PART OF THE AUTHORITY'S STATEMENT OF INTENT FOR THE YEAR ENDED 30 JUNE 2011 AND SHOULD BE READ IN CONJUNCTION WITH PART D OF THIS DOCUMENT.

Pursuant to the Crown Entities Act 2004, the Civil Aviation Authority accepts responsibility for the preparation of the Civil Aviation Authority's forecast financial statements and the judgments made in the process of producing these statements; and establishment and maintenance of a system of internal controls designed to provide reasonable assurance to the integrity and reliability of financial and non-financial reporting.

The forecast service performance and financial statements to be achieved by the CAA for the year ending 30 June 2011, specified in this Statement of Intent, is agreed with the Members of the Authority and the Director of Civil Aviation.

We certify that the information contained in this Statement of Intent reflects the operations and financial position of the Civil Aviation Authority.

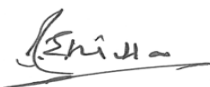
Signed:



RICK BETTLE

Chairman

Date: 30 June 2010



ERROL MILLAR

Deputy Chairman

Date: 30 June 2010



STEVE DOUGLAS

Director of Civil Aviation

Date: 30 June 2010

The CAA regulates safety and security in the civil aviation system. To carry out this role the CAA issues licences and approvals to individuals and organisations entering the civil aviation system, monitors their activities and supports participants with safety information and advice. To support and facilitate this regulatory role, CAA carries out both a rule making and information gathering role.

The CAA focuses predominantly on the first two of the Authority's three intermediate outcomes. Under the legislation the CAA has a range of regulatory tools which it can use to monitor and improve the safety of the system. A risk management approach is being progressively adopted to target those interventions towards achieving the safety outcomes. Ultimately the quality of the relationships the CAA develops with the industry participants determines how effective those interventions will be in ensuring the safety of the travelling public and users of the civil aviation system.

The CAA is undertaking extensive work reviewing and developing its business processes. The link between these processes and the CAA's intermediate safety outcomes is being strengthened in our work on the quality management system, and the business planning and budgeting process. These changes are part of a programme to direct better the use of resources in the certification and monitoring of aviation participants, and in our activities to promote safety and security in the system. Improved organisational performance is being sought through the achievement of greater accountability at the Group and individual levels for the actions that contribute to these outcomes.

The CAA is currently undertaking a Funding Review that is examining all of CAA's activities and the basis upon which safety levies and other revenues are generated. This review is timely given that it is some 18 years since fees and charges were last comprehensively reviewed. The Review will address the degree of cross-subsidisation of the costs of regulating the general aviation sector that arise from the present scheme, as well as charging for services that presently are not cost-recovered. The level of funding required will reflect the results of a review of present and future capability as a regulator, and the application of Value for Money processes and efficiency initiatives.

The effectiveness of the CAA will depend on its future capability to respond to new developments in technology and new approaches to regulation and oversight. To do so the CAA must keep the regulatory framework and requirements up to date. In the planned adoption of safety management systems across the rules framework, new requirements for the identification and management of operating risks will build on the current management systems adopted in the Civil Aviation Rules. As much as each of these changes will be challenging to participants in the civil aviation sector, they also pose challenges for the CAA.

For the 2010/11 financial year, the CAA is forecasting a deficit of \$2.646m (2009/10: \$4.449m). Budget revenue is \$30.189m (2009/10: \$24.732m) reflecting recent volatility in levy revenue, while budgeted expenditure has been held to \$32.835m (2009/10: \$29.231m) following a stringent review of all expenditure lines. Although better than expected revenue has reduced the forecast deficit for 2009/10 to \$0.441m, careful cost controls will continue to be applied to all areas of CAA business.

This Statement of Intent describes a number of initiatives which are designed to ensure that the CAA becomes more effective and efficient as a safety and security regulator. We are also actively examining the potential for natural synergies between CAA and Avsec. A joint CAA/Avsec review of support services is underway to investigate potential savings and efficiencies in these common areas of the Authority's activities. The Statement

of Intent also addresses concerns raised by the Controller and Auditor General regarding the way in which the CAA measures and reports on its activities. Section A contains a new set of key intermediate outcome performance indicators, while Section B provides an amended set of key output performance indicators.

Inevitably, one of the consequences of an economic downturn is pressure on the safety resources within the aviation sector. In preparing this year's Budget, the CAA has been mindful of the need to maintain and indeed step up its safety oversight activities to maintain New Zealand's overall good safety outcomes.

The CAA's focus remains on improving safety and security outcomes and on the importance of its core regulatory functions of entry certification and safety monitoring. The CAA will continue its efforts to maintain and improve safety and security in the civil aviation system, and to reduce further the number and cost of accidents and incidents in the sector



Steve Douglas
Director of Civil Aviation

STATEMENT OF SERVICE PERFORMANCE – CAA

Outputs are those final goods and services that are produced by one organisation for use by another organisation or individual. The CAA’s outputs define the major products or services it delivers to the Minister and the aviation community as the regulatory component of the Authority.

Output classes

To achieve its statutory mandate and the intermediate outcomes shown in Part A, the Authority has six output classes. This section focuses on the four output classes predominantly delivered by the CAA.

CAA and Avsec outputs contribute to the achievement of the Authority’s desired overall outcome:	CAA output classes	Funding sources for each output class
<p><i>Safe and secure aviation for New Zealand</i></p> <p>through achievement of the Intermediate Outcomes</p>	1. Policy advice	Crown funding for policy advice and international relationships; and Ministry of Transport contract for Rules Development.
	2. Safety and security assessment and certification	Aviation safety levies; fees and charges; and Crown funding for health and safety administration in the aviation sector.
	3. Safety and security investigation, analysis and education	Aviation safety levies.
	4. Enforcement	Aviation safety levies.

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
- rules development services under contract to the Ministry of Transport.

CONTRIBUTION (AND CONSEQUENCES) THESE OUTPUTS WILL HAVE ON A SAFE AND SECURE CIVIL AVIATION¹¹

The impact of advice provided by the Authority to the government is 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 to 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 and effective manner;
- international requirements relating to civil aviation safety and security are reflected in the New Zealand legislative 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 Authority undertakes the development of Civil Aviation Rules, under contract to the Ministry of Transport. Civil Aviation Rules are aligned with international civil aviation standards and the achievement of the Authority's overall objectives as stipulated in the Civil Aviation Act 1990.

¹¹ Section 72F, Civil Aviation Act 1990

Output class 1 outputs

Performance Standards 2010/11			
<small>Performance standards shown do not relate to measures used in previous years, so comparative data is not shown.</small>			
Output Class 1: Policy Advice Outputs	Quantity Number of reports representations or projects provided, or completed as required.	Timeliness On-time submission of reports, submissions or projects by due dates.	Quality Meets the recipient's objectives requirements, or expectations
1.1 POLICY ADVICE			
Reports to Parliament and the Minister: <ul style="list-style-type: none"> • Responses to Ministerial correspondence. • Reports and briefings to the Minister. • Responses to Parliamentary Questions. • Responses to Select Committees. • SOI, Annual and Quarterly Reports. • Comment on Government initiatives. 	Measure Demand-driven. Provided as required <ul style="list-style-type: none"> • Est 20-50 (08/09 act, 44) • Est 50-80 (08/09 act, 60) • Est 15-50 (08/09 act, 16) • Est 4-8 (08/09 act, 0) • 6 (08/09 act, 6) 	Measure: Responses, reports or briefings are responded to by the CAA within agreed due dates as required. Target: 100%	Measure: Briefings responses, or reports, are acceptable to, and viewed as robust by the recipient. Measured by <ul style="list-style-type: none"> • Twice annual survey of the Minister of Transport and the Associate Minister of Transport • Assessment by Ministers of individual papers, reports and briefings Target: 100% (all)
International relations and obligations. <p>a) Engaging with ICAO including</p> <ul style="list-style-type: none"> • responses to ICAO proposals. • representation of New Zealand interests with ICAO. <p>b) Fulfilling ICAO requirements</p> <ul style="list-style-type: none"> • monitoring of ICAO guidance. • advice of compliance with, or filing a difference from, ICAO standards. • reviews of compliance with ICAO SARPs . • implementation of the ICAO Corrective Action Plan. 	Measure Engagement in those proposals and issues that are determined to be of significance to New Zealand ¹² . Target: 100%. Measure Demand-driven. Percentage provided as required. Target: 100%.	Measure: Percentage meeting agreed deadlines for input and participation. Target: 100% Measure Percentage completed within the required timeframe. Target: 100%	Measure Apply guidance or standards, or provide clear justification as to why NZ differs. Target: 100%.
International safety and security agreements with other countries <p>a) Maintain and operate existing agreements, and develop new specific projects in accordance with the CAA Business Plan.</p> <p>b) Liaison and coordination with other civil aviation authorities.</p>	Measure: Demand-driven, and provided as required . Target: Five agreements.	Measure CAA input provided within the agreed timeframe Target: 100%.	
Policy development activities and programme Develop and review policy projects as required.	Measure: Number of projects completed as required. Target: 100%.	Measure: Completed within the agreed or required timeframe. Target: 100%.	Measure: Advice provided meets policy-making requirements. ¹³ Target: 100%.

¹² Significance is determined by CAA, the Minister of Transport and the Ministry of Transport, and on occasion the Ministry of Foreign Affairs and Trade.

¹³ Policy-making requirements are: 1) Comprehensive analysis of information from relevant sources; 2) Relevant to the priorities and goals of the Government and CAA; 3) Clear, robust, accurate, and well presented options and recommendations; and d) Appropriate consultation with interested parties.

Performance Standards 2010/11			
Performance standards shown do not relate to measures used in previous years, so comparative data is not shown.			
Output Class 1: Policy Advice Outputs	Quantity Number of reports representations or projects provided, or completed as required.	Timeliness On-time submission of reports, submissions or projects by due dates.	Quality Meets the recipient's objectives requirements, or expectations
South Pacific obligations <ul style="list-style-type: none"> New Zealand representation on the council of the Pacific Aviation Safety Office (PASO). Administration of safety (and security) support agreements with PASO and Pacific Island Countries. 	Measure: Demand-driven. Provided as required. Target: 100% attendance at PASO Council meetings (2 per year). Target: Five agreements	Measure: Completed within agreed or required period. Target: 100%. Target: 100%.	Measure: Participation is consistent with the priorities and goals of the government and the CAA. Target: <ul style="list-style-type: none"> 100%, and Delivery of safety and security is closer to standards defined by ICAO SARPS.
1.2 RULES DEVELOPMENT			
Rules development The Authority undertakes the development of, and changes to, Civil Aviation Rules, under contract to the Ministry of Transport.	Measure: Provided as agreed in the 2010/11 Agreement for Rules Development Services. Target: 100%.	Measure: Rule documents meet the timeliness requirements in the 2010/11 Agreement for Rules Development Services with the Ministry of Transport Target: 100%.	Measure: Rule documentation meets the quality requirements in the 2010/11 Agreement for Rules Development Services with the Ministry of Transport. Target: 100%.

Cost to deliver output class 1: Policy advice

Output Class 1 will be delivered within the following budgets and forecasts exclusive of GST.

OUTPUT 1: POLICY ADVICE		2009/10 Budget \$000	2009/10 Forecast \$000	2010/11 Budget \$000	2011/12 Forecast \$000	2012/13 Forecast \$000
1.1 Policy Advice	Crown Funding (Vote Transport)	1,821	1,821	1,821	1,821	1,821
	Revenue: Policy advice	1,821	1,821	1,821	1,821	1,821
1.2 Rules Development	Fees and Charges (Ministry of Transport contract)	1,418	1,568	1,418	1,418	1,418
	Revenue Rules Development	1,418	1,568	1,418	1,418	1,418
Total output revenue		3,239	3,389	3,239	3,239	3,239
1.1 Policy Advice - Advice to Government		(1,893)	(1,983)	(2,330)	(2,388)	(2,426)
1.2 Rules Development - Legislation and Standards Development		(1,758)	(1,565)	(1,717)	(1,760)	(1,789)
Total output expenses		(3,651)	(3,548)	(4,047)	(4,148)	(4,215)
Output surplus / (deficit)		(412)	(159)	(808)	(909)	(976)

Output class 2: Safety and security 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 (refer to 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 the carrying out of inspections and audits;
- updating of entry, exit and monitoring information in the CAA's database, including maintenance of the New Zealand Register of Aircraft;
- development and review of New Zealand airworthiness directives;
- assessment and approval of alternative means of compliance with airworthiness directives;
- assessment of petitions for and the granting of exemptions from requirements prescribed in the Civil Aviation Rules pursuant to the Civil Aviation Act and rule making procedures;
- issuance and monitoring of Part 140 assessment and monitoring document to Avsec; 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 Health and Safety in Employment (HSE) regulations.

CONTRIBUTION (AND CONSEQUENCES) THESE OUTPUTS WILL HAVE ON A SAFE AND SECURE CIVIL AVIATION¹⁴

The identification of targets for audit, inspection and spot check will be based on an assessment of the risk to aviation safety posed by the aviation participant, participant history, and the impact of any incident or potential breach of Civil Aviation Rules, SARPs or Health and Safety regulations. Those participants demonstrating the highest levels of risk attract greater attention in respect of CAA surveillance and safety monitoring activity.

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

To ensure that there is consistency across the CAA's audit and inspection activities, new performance measures have been established for those activities. A panel of suitably qualified, independent, persons will review a random sample of audit and inspection activities to provide assurance that the quality measures are being achieved.

¹⁴ Section 72F, Civil Aviation Act 1990

Output class 2 outputs

Output Class 2 Safety and security assessment and certification Outputs	Performance Standards 2010/11 Performance standards shown do not relate to measures used in previous years, so comparative data is not shown.		
	Quantity	Timeliness	Quality
2.1 AIRLINE SECTOR			
Airline sector monitoring and surveillance , including <ul style="list-style-type: none"> Audits and inspections ¹⁵ 	Measure: Number of units, based on an estimate of the safety risk of participants. Target: Demand driven (Est: 200-250).	Measure Audit/inspection reports are issued to the subject within 30 working days of the entry meeting. Target: 90%.	Measure: CAA policy and procedure are followed. A review of a random sample (5%) of events, by suitably qualified, independent, persons, finds only minor issues (unimportant) for rectification. Target: 100%.
<ul style="list-style-type: none"> Organisation certification 	Target: Demand driven.	Measure Timeframes for completion of certification depend upon the complexity and completeness of documentation submitted by the applicant. Target: From acceptance of fully compliant documentation ¹⁶ , certification will occur within: <ul style="list-style-type: none"> 60 working days for renewals of existing certification, 90 working days for new certifications. 	
<ul style="list-style-type: none"> Aircraft certification 	Target: Demand driven (Est: 180-250).		
2.2 GENERAL AVIATION SECTOR			
General aviation sector monitoring and surveillance , including <ul style="list-style-type: none"> Audits and inspections ¹³ 	Measure: Number of units, based on an estimate of the safety risk of participants. Target: Demand driven (Est: 200-250).	Measure Audit/inspection reports are issued to the subject within 30 working days of the entry meeting. Target: 90%.	Measure: CAA policy and procedure are followed. A review of a random sample (5%) of events, by suitably qualified, independent, persons, finds only minor issues (unimportant) for rectification. Target: 100%.

¹⁵ The quantity measures for audits and investigations are estimates based on CAA's assessment of the likely number of audits and inspections to mitigate the safety risks identified, given the level of resourcing available to be deployed on these activities

¹⁶ Fully compliant documentation provides all information required by CAA to make the decision regarding certification. Compliance is determined by CAA.

Output Class 2 Safety and security assessment and certification Outputs	Performance Standards 2010/11 <small>Performance standards shown do not relate to measures used in previous years, so comparative data is not shown.</small>		
	Quantity	Timeliness	Quality
2.2 GENERAL AVIATION SECTOR (cont'd)			
<ul style="list-style-type: none"> Airworthiness directives (ADs) 	Target: Demand driven (Est: 200-350).	Target: <ul style="list-style-type: none"> 100% of emergency ADs issued prior to State of Design effective date or within 24 hours. 100% of routine ADs issued before the State of Design effective date or within 30 business days. 	Measure: CAA policy and procedure are followed. A review of a random sample (5%) of events, by suitably qualified, independent, persons, finds only minor issues (unimportant) for rectification. Target: 100%.
<ul style="list-style-type: none"> Organisation certification 	Target: Demand driven.	Measure Timeframes for completion of certification depend upon the complexity and completeness of documentation submitted by the applicant.	Measure: CAA policy and procedure are followed. A review of a random sample (5%) of events, by suitably qualified, independent, persons, finds only minor issues (unimportant) for rectification. Target: 100%.
<ul style="list-style-type: none"> Aircraft certification 	Target: Demand driven (Est: 750-920).	Target: From acceptance of fully compliant documentation ¹⁷ , certification will occur within: <ul style="list-style-type: none"> 60 working days for renewals of existing certification, 90 working days for new certifications. 	Target: 100%.
2.3 PERSONNEL LICENCING AND AVIATION SERVICES			
General aviation sector monitoring and surveillance , including <ul style="list-style-type: none"> Audits and inspections (relating to aeronautical services and aviation security)¹⁸ 	Measure: Number of units, based on an estimate of the safety risk of participants. Target: Demand driven (est: 200-250).	Measure Audit/inspection reports are issued to the subject within 30 working days of the entry meeting. Target: 90%.	Measure: CAA policy and procedure are followed. A review of a random sample (5%) of events, by suitably qualified, independent, persons, finds only minor issues (unimportant) for rectification. Target: 100%.
<ul style="list-style-type: none"> Personnel licensing 	Target: Demand driven: (est: 5000-7000 personnel license changes completed).	Measure: Completion of licensing and certification. Target: 95 % within 10 working days (where the applicant has supplied fully compliant documentation ¹³).	Measure: CAA policy and procedure are followed. A review of a random sample (2%) of events, by suitably qualified, independent, persons, finds only minor issues (unimportant) for rectification. Target: 100%.

¹⁷ Fully compliant documentation provides all information required by CAA to make the decision regarding certification. Compliance is determined by CAA.

¹⁸ The quantity measures for audits and investigations are estimates based on CAA's assessment of the likely number of audits and inspections to mitigate the safety risks identified, given the level of resourcing available to be deployed on these activities

Output Class 2 Safety and security assessment and certification Outputs	Performance Standards 2010/11 <small>Performance standards shown do not relate to measures used in previous years, so comparative data is not shown.</small>		
	Quantity	Timeliness	Quality
<ul style="list-style-type: none"> Service-provider certification. 	<p>Target: Demand driven (est: 35-45).</p>	<p>Target: Timeframes for completion of certification depend upon the complexity and completeness of documentation submitted by the applicant. From acceptance of fully compliant documentation, certification will occur within:</p> <ul style="list-style-type: none"> 60 working days for renewals of existing certification. 90 working days for new certifications. 	<p>Measure: CAA policy and procedure are followed. A review of a random sample (5%) of events, by suitably qualified, independent, persons, finds only minor issues (unimportant) for rectification.</p> <p>Target: 100%.</p>
2.4 AVIATION COMMUNITY HEALTH AND SAFETY IN EMPLOYMENT			
<p>Health and safety in the aviation sector:</p> <ul style="list-style-type: none"> HSE investigations ¹⁹ 	<p>Measure: Number of units, based on an estimate of the safety risk of participants.</p> <p>Target: 30-35 estimated number (08/09 act: 33).</p>	<p>Measure: Investigations, audits and inspections completed within agreed timeframes.</p> <p>Target: Completion of investigations: 75% within 12 months, and 100% within 24 months.</p>	<p>Measure: CAA policy and procedure are followed. A review of a random sample (5%) of events, by suitably qualified, independent, persons, finds only minor issues (unimportant) for rectification.</p> <p>Target: 100%.</p>
<ul style="list-style-type: none"> HSE audits and inspection 	<p>Measure: Number of activities based on an estimate of risk.</p> <p>Target: 20-30 estimated number (08/09 act: 23).</p>	<p>Measure: Reports issued within 30 working days of entry meeting.</p> <p>Target: 90%.</p>	

¹⁹ The quantity measures for HSE investigations are estimates based on CAA's assessment of the likely number of inspections to mitigate the HSE risks identified, given the level of resourcing available to be deployed on these activities

Cost to deliver output class 2: Safety and security assessment and certification

Output Class 2 will be delivered within the following budgets and forecasts exclusive of GST.

		2009/10 Budget \$000	2009/10 Forecast \$000	2010/11 Budget \$000	2011/12 Forecast \$000	2012/13 Forecast \$000
2.1 Airline sector	Fees and Charges, and Other Income	2,091	2,205	2,460	2,453	2,444
	Levies	3,290	3,765	3,773	3,941	4,042
	Revenue Airlines	5,381	5,970	6,233	6,394	6,486
2.2 General Aviation sector	Fees and Charges, and Other Income	938	970	1,093	1,086	1,083
	Levies	4,270	4,663	4,750	4,962	5,090
	Revenue General Aviation	5,208	5,633	5,843	6,048	6,173
2.3 Personnel Licensing and Aviation Services (PLAS)	Fees and Charges, and Other Income	1,133	914	788	784	781
	Levies	4,808	6,416	7,759	8,079	8,272
	Revenue PLAS	5,941	7,331	8,547	8,864	9,053
2.4 Health and Safety in Aviation (HSE)	Crown Funding (Vote Transport)	440	440	440	440	440
	Revenue HSE	440	440	440	440	440
Total output revenue		16,970	19,374	21,063	21,746	22,152
2.1 Airlines	Total Operating Costs	(6,156)	(5,953)	(6,772)	(6,938)	(7,050)
2.2 General Aviation	Total Operating Costs	(5,790)	(5,811)	(6,699)	(6,868)	(6,979)
2.3 Personnel Licensing and Aviation Services	Total Operating Costs	(7,331)	(7,346)	(8,211)	(8,476)	(8,693)
2.4 Health and Safety in Aviation (HSE)	Total Operating Costs	(436)	(412)	(481)	(492)	(500)
Total output expenses		(19,713)	(19,522)	(22,163)	(22,773)	(23,222)
Output surplus / (deficit)		(2,743)	(149)	(1,100)	(1,027)	(1,069)

Output class 3: Safety and security investigation, analysis and education

DESCRIPTION

Output Class 3 covers the following outputs and activities:

- investigation and identification of causes to a civil aviation safety and security occurrences, received by way of occurrence information and complaints;
- publishing of feedback information to the industry in the form of accident briefs, defect summaries, and accident and incident trends;
- investigation and review of civil aviation incidents in accordance with the Authority's capacity as the responsible aviation safety and security authority (subject to the limitations stipulated in section 14, paragraph 3 of the Transport Accident Investigation Commission Act);
- assessment and solution to any problems that may arise regarding overseas information, aircraft reliability data and flight operations information;
- monitoring and assessment of intelligence and information concerning short and long term security threats and risks to the New Zealand aviation system and developments in the international aviation security environment;
- establishment of safety and security planning to clearly describe the CAA's intended safety and security actions and priorities;
- promotion of safety and security by providing education information and advice, and fostering safety and security programmes, including public awareness on transport of dangerous goods by air; and
- provision of information for the New Zealand Aeronautical Information Service.

CONTRIBUTION (AND CONSEQUENCES) THESE OUTPUTS WILL HAVE ON A SAFE AND SECURE CIVIL AVIATION²⁰

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

Work on the analysis of safety and security data and information relating to the domestic and international aviation safety and security environment intends to minimise the future risk of accidents or incidents and maximise compliance with civil aviation rules and legislation. Those participants demonstrating the highest levels of risk attract greater attention in respect of CAA surveillance and safety monitoring activity.

The impacts of the information services and educational programmes provided are to reduce the risk of accidents and incidents and increase compliance with the Civil Aviation Rules and legislation.

²⁰ Section 72F, Civil Aviation Act 1990

Output class 3 outputs

Output Class 3: Safety and security investigation, analysis and education Outputs	Performance Standards 2010/11		
	Performance standards shown do not relate to measures used in previous years, so comparative data is not shown.		
	Quantity	Timeliness	Quality
3.1 SAFETY AND SECURITY INVESTIGATION AND ANALYSIS			
Safety and security investigations, including:	Measure: Number of units Target: a) Demand driven, (Est 25 pa). b) Demand driven.	Measure: Completion of investigation and report: Target: a) 75% within 12 months, 100% within 24 months. b) Completed to the Lead Investigators timeframe.	Target: a) A sample of accident investigation reports are independently peer reviewed and found to require no rework or alteration b) Support provided to satisfaction of Lead Investigator.
Aviation and safety summary reports	Measure: Number of aviation and safety summary reports released. Target: a. 4 safety summary reports per year - 1 per quarter. b. 2 aviation summary reports per year.	Measure: On-time publication of report. Target: a) Published within 40 working days at the end of the quarter. b) Published within 6 months of the period to which it relates.	Measure: Accuracy of information, as determined by the number of errata that are published. Target: 100% accurate.
3.2 SAFETY AND SECURITY EDUCATION AND INFORMATION			
Outreach programme comprising: a) Publications. b) Seminars, workshops, courses. c) Media management. d) External communications.	Measure: Number of units Target: a) Est: 12-20 publications. b) Est: 20-30 programmes. c) Demand driven. d) Demand driven.	Measure: On-time delivery Target: 95% on time.	Measure: 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. Target: a) 100% accuracy. b) 100% positive impact.

Cost to deliver output class 3: and security investigation, analysis and education

Output Class 3 will be delivered within the following budgets and forecasts exclusive of GST.

		2009/10 Budget \$000	2009/10 Forecast \$000	2010/11 Budget \$000	2011/12 Forecast \$000	2012/13 Forecast \$000
3.1 Safety and Security Investigation	Levies	2,707	3,353	3,907	4,082	4,187
3.2 Safety and Security Education and Information	Levies	1,077	1,345	977	1,020	1,046
Total output revenue		3,784	4,698	4,884	5,102	5,233
3.1 Safety and Security Investigation	Total Operating Costs	(3,103)	(3,091)	(3,642)	(3,734)	(3,795)
3.2 Safety and Security Education and Information	Total Operating Costs	(1,729)	(1,680)	(1,860)	(1,902)	(1,932)
Total output expenses		(4,832)	(4,771)	(5,502)	(5,636)	(5,727)
Output surplus / (deficit)		(1,048)	(73)	(618)	(535)	(494)

Output class 4: Enforcement

DESCRIPTION

Output Class 4 covers the appropriate follow-ups of actions in the interest of the public, including:

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

CONTRIBUTION (AND CONSEQUENCES) THESE OUTPUTS WILL HAVE ON A SAFE AND SECURE CIVIL AVIATION²¹

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

- attempt to modify aviation participants' behaviour, and/or generate an improvement of 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.

The Authority's primary concern is not to secure prosecution but to promote a high standard of aviation safety. However, if voluntary compliance is not achieved the Authority will instigate enforcement action when required.

Output class 4 outputs

Output Class 4 Enforcement Outputs	Performance Standards 2010/11		
	Performance standards shown do not relate to measures used in previous years, so comparative data is not shown.		
	Quantity	Timeliness	Quality
Detailed enforcement investigation.	Measure: Number of detailed enforcement investigations undertaken. Target: Demand Driven. Est 50-80 (08/09 act, 58).	Measure: Percentage of detailed investigations completed from commencement date. Target: 100% of detailed investigations completed within 12 months of the date of the event.	Measure: a) A 5% sample of investigations is independently reviewed, and found to meet CAA quality expectations. ²² b) Success rate of prosecutions ²³ taken. Target: a) 100% of decisions are reasonable in the context of the CAA enforcement policy. b) 90% of prosecutions result in a finding of guilt.

²¹ Section 72F, Civil Aviation Act 1990

²² An independent reviewer could be one from a sister agency, MNZ, CASA, an aviation lawyer, or from Crown Law

²³ Prosecution is only one possible outcome from an enforcement investigation.

Cost to deliver output class 4: Enforcement

Output Class 4 will be delivered within the following budget and forecasts exclusive of GST.

		2009/10 Budget \$000	2009/10 Forecast \$000	2010/11 Budget \$000	2011/12 Forecast \$000	2012/13 Forecast \$000
4.1 Enforcement	Levies	739	1,005	1,003	1,048	1,075
4.1 Enforcement	Total Operating Costs	(1,035)	(1,065)	(1,123)	(1,150)	(1,168)
Output surplus / (deficit)		(296)	(60)	(120)	(102)	(94)

Cost of CAA outputs overall

The four Outputs for the CAA will be delivered within the following budget and forecasts exclusive of GST.

	2009/10 Budget \$000	2009/10 Forecast \$000	2010/11 Budget \$000	2011/12 Forecast \$000	2012/13 Forecast \$000
Crown Funding and Contracts	3,679	3,829	3,679	3,679	3,679
Fees and Charges and Other Income	4,162	4,089	4,341	4,323	4,308
Levies	16,891	20,547	22,169	23,132	23,712
TOTAL REVENUE	24,732	28,465	30,189	31,134	31,699
TOTAL EXPENDITURE	(29,231)	(28,906)	(32,835)	(33,707)	(34,332)
TOTAL SURPLUS/(DEFICIT)	(4,499)	(441)	(2,646)	(2,573)	(2,633)

OPERATING INTENTIONS - CAA

In planning for its strategic directions for 2010/13, the CAA considered the needs of its stakeholders, domestic and international operating environments, output performance, and desired outcomes for New Zealand civil aviation.

Aviation stakeholders continue to require efficiency and effectiveness from the CAA:

- the New Zealand public wants confidence in New Zealand civil aviation;
- the government requires value-for-money, high quality advice, support, and contribution to achieving its priorities;
- aviation participants want appropriate and equitable regulation at reasonable cost;
- businesses depend on air transport to bring people to businesses, products to markets, and tourists to holiday destinations; and
- international civil aviation organisations and other State aviation authorities want responsible technical and regulatory interaction and assistance.

The CAA's intention is to continue the implementation of the strategic regulatory priorities outlined in the 2009/12 Statement of Intent. The first four priorities reflect the Authority's strategic regulatory obligations, while the fifth reflects the CAA's intentions for building its organisational capability:

- A. effective entry control and monitoring;
- B. effective analysis and intervention;
- C. international alignment and effective engagement;
- D. responsive to aviation sector changes; and
- E. capable and efficient business processes, information systems, and people.

The activities identified in the strategic regulatory priorities and organisational capability building tables reflect the results of a GAP analysis and careful consideration of a number of internal review reports and assessment by external parties including AuditNZ and the CAA's Internal Audit contractors. In addition, the Minister of Transport's letter of expectations has influenced the content and timing of the activities shown.

These strategic regulatory priorities will contribute to (or influence) the delivery of the Authority's desired overall outcome. The following tables provide information on how the CAA intends to deliver on its strategic regulatory priorities, and reflect:

- what the strategic regulatory priority means to the CAA;
- what the CAA intends to do (activities, initiatives, projects to be carried out) over the next three financial years to achieve each strategic priority; and
- when the CAA intends to commence and complete the work.

Monitoring and assessment will be conducted on a case-by-case basis to determine the efficiency and effectiveness of the CAA's operating intentions.

A: EFFECTIVE ENTRY CONTROL AND MONITORING.				
What the strategic regulatory priority means to the CAA:				
1. A surveillance (monitoring) methodology that produces clear safety benefits or outcomes; 2. Robust CAA knowledge and intelligence of participant risks (assurance and wisdom); 3. Active observation and engagement with aviation community in identifying non-compliance and risk; 4. Interventions linked specifically with assessed risk (considered and targeted); and 5. Transparency and integrity (in applying surveillance methodology.)				
What the CAA intends to do to achieve the strategic regulatory priority:	2010/11	2011/12	2012/13	> 3 yrs
1. Improve surveillance system effectiveness.				
a. Enhance surveillance system tools, method and business processes.	→			
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 corrective actions.	≡			
3. Strengthen entry controls.	≡			
4. <i>Scope and document parameters of regulatory tools available to the CAA.</i>	≡			
<i>Note: Those in italics are initiatives related to the implementation of Safety Management Systems (see p 9).</i>	<i>Legend: ≡ Work to commence during the financial year. → Work to continue during the financial year ≡ Work to be completed during the financial year.</i>			

B. EFFECTIVE ANALYSIS AND INTERVENTION				
What the strategic regulatory priority means to the CAA:				
1. Good understanding of intervention process drivers; 2. Clear understanding of intended interventions; 3. Aviation community behaves positively and measurably influenced; 4. Calibrated use of regulatory tools in interventions; and 5. Use of demonstrably effective regulatory / intervention tools to effect behavioural change				
What the CAA intends to do to achieve the strategic regulatory priority:	2010/11	2011/12	2012/13	> 3 yrs
1. <i>Develop measures of the macro-level effectiveness of intervention tools.</i>				
a. <i>Define aviation community safety and security behaviours, interconnection, and cause and effect.</i>	→	≡		
b. <i>Evaluate various models for deploying regulatory interventions. (The objective is to ascertain the effectiveness of the current practice; and have a future practice that is reflective of the nature and changes in the civil aviation system.)</i>	→	≡		
2. <i>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.</i>	→	→	≡	
3. <i>Review and improve performance measures at outcomes level.</i>				
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>	→	≡		
b. <i>Develop better measures of safety and security performance, review safety targets, and redefine as necessary.</i>	→	≡		
<i>Note: Those in italics are initiatives related to the implementation of Safety Management Systems (see p 9).</i>	<i>Legend: ≡ Work to commence during the financial year. → Work continue during the financial year ≡ Work to be completed during the financial year.</i>			

C. INTERNATIONAL ALIGNMENT AND EFFECTIVE ENGAGEMENT				
What the strategic regulatory priority means to the CAA:				
1. The government is confident in the CAA 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				
2. New Zealand's civil aviation safety and security rules and standards are aligned with international standards and best practice.				
What the CAA intends to do to achieve the strategic regulatory priority:	2010/11	2011/12	2012/13	> 3 yrs
1. <i>Build capacity and capability to maintain appropriate alignment with ICAO Standards.</i>	→	⏏		
2. Review and address backlog of differences to ICAO Standards (that are within the CAA's control.)	→	→	⏏	
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.	→	⏏		
4. Develop multi-lateral technical or policy arrangements with priority countries.	→	→	→	→
<i>Note:</i> Those in italics are initiatives related to the implementation of Safety Management Systems (see p 9).	<i>Legend:</i> ⏏ Work to commence during the financial year. → Work to continue during the financial year ⏏ Work to be completed during the financial year.			

D. RESPONSIVE TO AVIATION SECTOR CHANGES				
What the strategic regulatory priority means to the CAA:				
The CAA responds well to technical changes in aviation, through recognising, enabling, and authorising changes needed. In doing this, the CAA must ensure that:				
1. technological risk is assessed and understood;				
2. economic impact of CAA's change management is understood;				
3. it is flexible and open in the application of technology within the industry; and				
4. it is organisationally nimble, agile, and timely in approach.				
What the CAA intends to do to achieve the strategic regulatory priority:	2010/11	2011/12	2012/13	> 3 yrs
1. Review alternative methods for the development and delivery of rules.	→	⏏		
2. Support initiatives to increase sustainability and reduce environmental impacts of aviation.	→	→	→	→
3. <i>Align and build skills, capacity, and capability reflecting the future civil aviation environment. (contingent on resourcing).</i>	⏏	→	→	→
4. Develop and monitor stakeholder relationship initiatives that reflect the stakeholders' roles in civil aviation.	→	→	→	→
<i>Note:</i> Those in italics are initiatives related to the implementation of Safety Management Systems (see p 9).	<i>Legend:</i> ⏏ Work to commence or continue during the financial year. → Work to continue during the financial year ⏏ Work to be completed during the financial year.			

Organisational capability and health

The CAA's four strategic regulatory priorities are supported by strategic priority E: Capable and Efficient People, Processes and Systems.

To achieve its outcomes the CAA needs to have high performing staff and the right structures, tools and processes in place to support them. For the CAA, there are four key priorities:

- Completion of the Shared Services Review, and implementation of any agreed changes arising as part of the Authority's value for money initiatives;
- Starting to implement actions to address the recommendations of the Report of the Office of the Auditor General on improving systems for surveillance, certification and sector risk identification;

- Completion of the CAA Funding Review; and
- Establishing new outcome measures for the Authority for 2015 and beyond (see Strategic Priority B: Effective Analysis and Intervention, ref 3a).

In planning and undertaking this work the CAA is balancing a number of factors. It must free resources to undertake improvement projects while maintaining its safety regulatory functions. A corollary of this balancing act is the need to invest in improvement projects whilst constraining the organisation's overall expenditure.

The activity provided for to meet this strategic priority is set out below:

E. CAPABLE AND EFFICIENT PEOPLE, PROCESSES, AND SYSTEMS				
What the strategic priority means to the CAA:				
Business operations, training, and systems that build a results-oriented CAA.				
What the CAA intends to do to achieve the strategic priority:	2010/11	2011/12	2012/13	> 3 yrs
1. <i>Implement enhanced business planning, monitoring and reporting measures and frameworks.</i>	→	∥		
2. Implement, on a priority basis:				
a) Improve the linkage between organisational outcomes and individual performance and development;	→	∥		
b) Ensure information management systems development focus on supporting CAA outcomes and regulatory responsibilities; and	→	→	∥	
c) Establish better project management and change management systems and processes.	∥			
3. <i>Enhance and integrate better the corporate risk management system.</i>	→	∥		
4. Develop increased flexibility and seek to increase funds for the rules programme.	∥			
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.	∥			
6. Implement the conclusions of the Support Services Review (which could influence #2 above).	→	∥		
<i>Note: Those in italics are initiatives related to the implementation of Safety Management Systems (see p 9).</i>	<i>Legend: ∥ Work to commence during the financial year. → Work to continue during the financial year ∥ Work to be completed during the financial year.</i>			

Business planning

All expenditure and staffing levels are determined through a focused business planning process, derived from the Authority's strategic outcomes and intermediate outcomes. While the planning process involves Board members, it is key managers, who are then held responsible for individual cost centre business plans and budgets with appropriate control processes. All significant expenditure is subject to approved business cases prior to commitment.

People capability

The staff at the CAA are highly skilled. A high proportion of them are tertiary qualified; many are considered national experts, and some are international experts, in their fields. In some of these areas there is a national shortage of skills and in some cases these shortages are world-wide. This is especially true of some of the technical skills required by the CAA.

The CAA recognises that high employee engagement leads to increased individual and organisational performance. In 2009/10, Investors in People NZ[®] carried out an assessment leading to the development of a programme of work to enhance people capability within the CAA. This programme will continue in 2010-11 and

beyond. The CAA is developing a performance framework that will provide common criteria by which performance at organisational and, business unit levels can be linked with individual performance expectations.

The needs, expectations and motivations of the New Zealand workforce are changing and it is necessary for the CAA to position itself well to both attract and retain staff. This necessitates an emphasis on both internal capability (growing and retaining our own) while at the same time being seen as an employer of choice in the labour market. The CAA is committed to the principles of EEO and the Treaty of Waitangi. The CAA will foster a diverse workplace, inclusive culture, and appointment on merit, ensuring we meet the needs of our diverse workforce. All staff members are expected to reflect this commitment when carrying out their individual duties.

Review of support services

In early 2010, the Authority initiated a review on many support functions to examine the potential for sharing some functions between the CAA and Avsec. Support services under review include financial management, human resources, information technology, legal services, procurement, planning and reporting, and communications. This project was initiated to improve the effectiveness of those support services and to draw together like functions between the CAA and Avsec, where appropriate.

The CAA will continue with these efforts into 2010-11 to ensure the delivery of cost effective services in a way that is consistent with the Government's value-for-money expectations.

Contribution of strategic regulatory priorities to outputs

The operating intentions, discussed in the preceding sections, to achieve the CAA's strategic regulatory priorities significantly influence the efficient delivery of the CAA's outputs.

CAA's strategic priorities 2009/12 significantly influence the delivery of its output classes	Output class 1: Policy advice	Output class 2: Safety and security assessment and certification	Output class 3: Safety and security investigation, analysis and education	Output Class 4: Enforcement
A. Effective entry control and monitoring		→	→	→
B. Effective analysis and intervention		→	→	→
C. International alignment and effective engagement	→	→	→	
D. Responsive to aviation sector changes	→	→	→	
E. Capable and efficient business processes, information systems and people.	→	→	→	→
Significant effect →		Less-significant effect →		

CAA capital and asset management intentions

The CAA's capital expenditure programme budget and forecast for the three year period to 2010/13 is as follows:

CAA Capital expenditure \$000	2009/10 Forecast	2010/11 Budget	2011/12 Forecast	2012/13 Forecast
Computer hardware	188.0	387.5	265.0	265.0
Computer software	364.5	210.0	560.0	560.0
Plant and equipment	20.0	550.0	-	-
Furniture and fittings		1,089.0	-	-
Motor Vehicles	40.0	80.0	80.0	80.0
Total	612.5	2,316.5	905.0	905.0

Limitations in the CAA's revenue have constrained the extent to which adequate capital investment has occurred, particularly in the area of IT hardware and effective systems, to support the CAA's role and regulatory functions. The increased level of capital expenditure on 2010/11, for plant and equipment and furniture and fittings, is occasioned by the Authority's move to new office accommodation at 55 Featherston Street, Wellington.

Part C

AVSEC

THE FOLLOWING STATEMENT OF FORECAST SERVICE PERFORMANCE AND FORECAST OUTPUT COSTS FORM PART OF THE AUTHORITY'S STATEMENT OF INTENT FOR THE YEAR ENDED 30 JUNE 2011 AND SHOULD BE READ IN CONJUNCTION WITH PART D OF THIS DOCUMENT.

Pursuant to the Crown Entities Act 2004, the Authority accepts responsibility for the preparation of Aviation Security Services forecast financial statements and the judgments made in the process of producing these statements; and establishment and maintenance of a system of internal controls designed to provide reasonable assurance to the integrity and reliability of financial and non-financial reporting.

The forecast service performance and financial statements to be achieved by Avsec for the year ending 30 June 2011, specified in this Statement of Intent, is agreed with the Members of the Authority and the General Manager Aviation Security Service.

We certify that the information contained in this Statement of Intent reflects the operations and financial position of the Civil Aviation Authority.

Signed:



RICK BETTLE

Chairman

Date: 30 June 2010



DARRYLL PARK

Deputy Chairman, Aviation Security Service

Date: 30 June 2010



MARK EVERITT

General Manager, Aviation Security Service

Date: 30 June 2010

Avsec is a separate service of the Civil Aviation Authority. Avsec provides specialised aviation security services at eight²⁴ New Zealand security designated airports, including international and domestic operations.

Avsec focuses on the third of the Authority's three intermediate outcomes, *Prevention of Civil Aviation Security Incidents*, and has identified a number of short and longer term initiatives that it will pursue to improve its organisational capability. These initiatives are outlined in pages 65 to 67 of this SOI.

For the past eighteen months Avsec has been operating within a volatile international aviation environment that has been driven by the global downturn in financial markets. However, over recent months the growth in international and domestic passenger numbers indicates that a slow economic recovery has commenced. Increased competition between airlines, especially on trans-Tasman routes, and the entry of new domestic airlines is also creating new market growth.

Avsec continues to be responsive to international standards, airlines and the travelling public. It is proactive and responsive to the recent short notice of cessation / recommencement of flights from regional airports and has the resources and capability to meet this changing environment. This however requires a balancing act as Avsec must keep operational staffing levels to the minimum level, whilst at the same time being able to meet shift-work rosters, ensure on-time performance of departing aircraft and also ensure proficient staff are available.

The Avsec operational Efficiency Review was completed in the latter half of 2009. Its primary objective was to review our deployment of resources to ensure that we were managing the operational side of our business in an effective and efficient manner. To this end we committed to establishing optimum staffing levels at each station, and improving staff productivity and efficiencies, while, at the same time, improving passenger processing, and reducing queues and standard processing times.

Several key projects have been identified in the Efficiency Review and work has commenced towards their implementation. The projects include: training integration, development of efficiency performance measures, measuring throughput through screening points, research on behavioural analysis, ensuring screening points provide the most efficient means of processing passengers, and ensuring identified efficiencies are reflected in the new national rostering system. All of the key projects are expected to be implemented by 30 June 2011. Avsec also sought and received useful feedback from its operational industry partners on the recommendations and their implementation.

During March 2010, Avsec further developed its relationship with its Canadian counterpart, the Canadian Air Transport Security Authority (CATSA) and this has culminated in a Memorandum of Understanding on the sharing of information on matters of common interest. In addition, CATSA and Avsec have agreed to develop specific benchmarking performance measures, focused around four specific criteria related to efficiency, effectiveness, consistency and in the public interest. Avsec will enhance its information capturing systems to ensure appropriate data is available for the development of the benchmarking measures.

The Christmas Day 2009 terrorist event in the US, involving a passenger with explosives on a Delta Airlines aircraft has, again, reinforced the ever prevalent threats to global aviation and the importance, in particular, of reliable intelligence gathering and dissemination to counter those threats.

²⁴ Includes current limited services at Palmerston North.

As a result the US Regulator (TSA) mandated a more intensive screening of all international passengers on flights into the US. Avsec has managed, within existing resources, to facilitate the new requirement.

Avsec and the Ministry of Transport recently reviewed the international and domestic aviation security passenger charges on airlines after consultation with the industry. The charges were last set in 2007 but since that time Avsec recovered higher than anticipated surpluses, arising principally from higher than forecast passenger numbers and less than forecast operational expenditure. As a result of the review the international passenger charge was reduced by five dollars and the domestic charge by twenty three cents from 1 April 2010. The current charges are expected to prevail for three years.

For the 2010/11 financial year, Avsec is forecasting an operating deficit of \$10.344m (2009/10: surplus \$12.457m). Budgeted revenue is \$69.137m (2009/10: \$84.404m) and budgeted expenditure is \$79.481m (2009/10: \$71.947). Cash and short term funds are expected to reduce from \$71.925m at 30 June 2010 to \$61.175m at 30 June 2011.

Avsec is committed to working with its key stakeholders and security partners in fulfilling its mandated role of providing security in the international and domestic air transport system.



Mark Everitt
General Manager

STATEMENT OF SERVICE PERFORMANCE - AVSEC

Outputs are those final goods and services that are produced by one organisation for use by another organisation or individual. Avsec’s outputs define the major products or services it delivers to the Minister and the aviation community as the security provider component of the Authority.

Output classes

To achieve its statutory mandate and the intermediate outcomes shown above, Authority has six output classes. This section focuses on the two output classes predominantly delivered by Avsec.

CAA and Avsec outputs contribute to the achievement of the Authority’s desired overall outcome:	Avsec output classes	Funding sources for each output class
<p><i>Safe and secure aviation for New Zealand</i></p> <p>through achievement of the Intermediate Outcomes</p>	5. Aviation security services	<p>Regulated aviation passenger security charges on airlines based on passenger numbers; and</p> <p>Charges for additional aviation security activities that are outside the core function.</p>
	6. Maritime security services	Crown appropriation – Vote Transport (Non-departmental Output Class “Maritime Security”)

Output class 5: Aviation security services

DESCRIPTION

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

- screening of all passengers and their carry-on baggage at eight security designated airports²⁵;
- 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 by Civil Aviation; and
- 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.

CONTRIBUTION (AND CONSEQUENCES) THESE OUTPUTS WILL HAVE ON SAFE AND SECURE CIVIL AVIATION²⁶

The impacts of the activities under this output class are the minimization of the risks of aviation security incidents, and ensuring compliance with international and other regulatory requirements.

The impacts will also ensure that the travelling public and other stakeholders have increasing confidence in the security of commercial aircraft departing from and flying within New Zealand.

Output class 5 outputs

Performance measures and targets selected for each output for the 2010/11 financial year are:

Output Class 5: Outputs	Performance Standards 2010/11		
	Quantity	Timeliness	Quality
PREVENTION OF IN-FLIGHT SECURITY INCIDENTS (INCLUDING DANGEROUS GOODS SCREENING)			
Screening of hold baggage These performance measures reflect Avsec's capability to process a significant number of passengers ²⁷ and their baggage; detect prohibited items while ensuring Avsec is not responsible for delays to aircraft departures.	Measure: Percentage of international hold baggage screened. Target: 100% .Actual 08/09: 100%. Forecast 09/10: 100%.	Measure: a. Number of flight delays attributable to screening activities (due to an Avsec system failure). b. Number of flight delays attributable to aircraft search activities. Target: a. Nil Actual 08/09: Nil. Forecast 09/10: Nil. b. Nil Actual 08/09: Nil. Forecast 09/10: Nil.	

²⁵ 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.

²⁶ Section 72F, Civil Aviation Act 1990

²⁷ Refer page 7 for forecast numbers of screened international and domestic passengers.

Output Class 5: Outputs	Performance Standards 2010/11		
	Quantity	Timeliness	Quality
<p>Waiting time performance measures</p> <p>These performance measures are a test of Avsec's efficiency in processing passengers at international and domestic screening points within prescribed international standards.</p>		<p>Measures:</p> <ul style="list-style-type: none"> a. Average passenger wait times at international departure screening points (benchmark tested six-monthly²⁸ at Auckland & Christchurch international airports; also note that airport infrastructure can have a direct impact on wait times). b. 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). <p>Targets:</p> <ul style="list-style-type: none"> a. No more than three minutes. Actual 08/09 Auck: 78 secs. Actual 08/09 ChCh: 135 secs. Forecast 09/10 Auck: 81 secs. Forecast 09/10 ChCh :72 secs. b. No more than three minutes Actual 08/09 Auck: 92 secs.. Actual 08/09 ChCh: 86 secs. Forecast 09/10 Auck: 50 secs. Forecast 09/10 ChCh :46 secs. 	

²⁸ 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.

Output Class 5: Outputs	Performance Standards 2010/11		
	Quantity	Timeliness	Quality
<p>Screening performance measures</p> <p>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.</p>	<p>Measure: Percentage of all Aviation Security Officers involved in the screening function covertly tested within a 150 working day cycle against key aviation security functions (includes searching, wandng, and x-ray proficiency).</p> <p>Target: 100%. Actual 08/09: 100%. Forecast 09/10: 100%.</p>		<p>Measure:</p> <ul style="list-style-type: none"> a. Number of verified unauthorised or prohibited items discovered post screening points (due to an Avsec system failure). b. Number of verified unauthorised dangerous goods discovered post screening points (due to an Avsec system failure). <p>Target:</p> <ul style="list-style-type: none"> a. Nil Actual 08/09: 7. Forecast 09/10: 11. b. Nil Actual 08/09: Nil. Forecast 09/10: 2.

Output Class 5: Outputs	Performance Standards 2010/11		
	Quantity	Timeliness	Quality
<p>Complaints and audit performance measures</p> <p>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.</p>		<p>Measure</p> <p>Percentage of any audit findings cleared within the specified timeframes.</p> <p>Target: 100%. Actual 08/09: 100%. Forecast 09/10: 96%.</p>	<p>Measure:</p> <p>a. Number of corrective action requests issued pertaining to the aircraft search function issued by external auditors during any programmed audit.</p> <p>b. Number of corrective action requests issued pertaining to screening functions issued by external auditors during any programmed audit.</p> <p>c. Number of substantiated complaints against Aviation Security Officers involved in the screening function (includes 'free riders')²⁹</p> <p>d. Number of substantiated airline complaints against Aviation Security Officers pertaining to aircraft search</p> <p>Target:</p> <p>a. Nil. Actual 08/09: Nil. Forecast 09/10: Nil.</p> <p>b. Nil Actual 08/09: Nil. Forecast 09/10: Nil.</p> <p>c. No more than one formal complaint per 250,000 passengers. Actual 08/09: One formal complaint per 462,635 passengers screened. Forecast 09/10: One formal complaint per 407,325 passengers screened.</p> <p>d. No more than five airline complaints per annum. Actual 08/09: Nil. Forecast 09/10: Nil.</p>
PREVENTION OF AIRSIDE SECURITY INCIDENTS			
<p>Access control management and response to security related emergencies</p> <p>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.</p>		<p>Measure:</p> <p>Percentage of responses to any security-related emergency within five minutes of being requested.</p> <p>Target: 100%. Actual 08/09: 100%. Forecast 09/10: 100%.</p>	<p>Measure:</p> <p>Number of corrective action requests pertaining to access control issued by external auditors.</p> <p>Target: Nil. Actual 08/09: Nil. Forecast 09/10: Nil.</p>

²⁹ "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.

Output Class 5: Outputs	Performance Standards 2010/11		
	Quantity	Timeliness	Quality
Management of Airport Identity Card (AIC) process These performance measures reflect Avsec's capability to manage the AIC System according to the standards and requirements set out in Civil Aviation Rules ³⁰ .			Measure: Percentage compliance ³¹ by Airport Identity Cardholders per Civil Aviation Rule 19.357. Target: 100%. Actual 08/09: 99.34%. Forecast 09/10: 99.68. Measure: Number of corrective action requests issued pertaining to Avsec management of the Airport Identity Card process. Target: Nil. Actual 08/09: Measure was not in place 08/09. Forecast 09/10: Measure was not in place 09/10.

OUTPUT (5A): PREVENTION OF IN-FLIGHT SECURITY INCIDENTS					
	2009/10 Budget \$000	2009/10 Forecast \$000	2010/11 Budget \$000	2011/12 Forecast \$000	2012/13 Forecast \$000
Contracted services	764	1,541	1,077	1,146	1,155
Passenger security charges	73,510	77,302	62,055	64,708	66,382
Other income	1,638	2,356	2,704	2,222	1,834
Total output revenue	75,912	81,199	65,836	68,076	69,371
Total output expenses	(60,505)	(55,514)	(62,796)	(67,386)	(70,310)
Output surplus / (deficit)	15,407	25,685	3,040	690	(939)

OUTPUT (5B): PREVENTION OF AIR SIDE SECURITY INCIDENTS					
	2009/10 Budget \$000	2009/10 Forecast \$000	2010/11 Budget \$000	2011/12 Forecast \$000	2012/13 Forecast \$000
Contracted Services	3,018	2,502	2,492	2,558	2,585
Passenger security charges	-	-	-	-	-
Other income	513	558	664	498	393
Total output revenue	3,531	3,060	3,156	3,056	2,978
Total output expenses	(17,524)	(16,288)	(16,540)	(16,855)	(17,165)

³⁰ 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.

³¹ 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 they 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.

Output surplus / (deficit)	(13,993)	(13,228)	(13,384)	(13,799)	(14,187)
OUTPUT CLASS 5: AVIATION SECURITY SERVICES					
	2009/10 Budget \$000	2009/10 Forecast \$000	2010/11 Budget \$000	2011/12 Forecast \$000	2012/13 Forecast \$000
Contracted Services	3,782	4,043	3,569	3,703	3,740
Passenger security charges	73,510	77,302	62,055	64,708	66,382
Other income	2,151	2,914	3,368	2,721	2,227
Total output revenue	79,443	84,259	68,992	71,132	72,349
Total output expenses	(78,029)	(71,802)	(79,336)	(84,241)	(87,475)
Output surplus / (deficit)	1,414	12,457	(10,344)	(13,109)	(15,126)

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 passengers³².

CONTRIBUTION (AND CONSEQUENCES) THESE OUTPUTS WILL HAVE ON A SAFE AND SECURE CIVIL AVIATION

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

Output class 6 outputs

Output Class 6 Outputs	Performance Standards 2010/11		
	Quantity	Timeliness	Quality
Avsec responds to any request 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	Measure: Demand driven	Measure: Response within four (4) hours Target: 100%	Measure: Requestors' satisfaction with performance Target: 100%

³² Avsec is not actively involved in 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 staffs 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 and accordingly has not been given prominence in this SOI.

Cost to deliver output class 6: Maritime security services

Output Class 6 will be delivered within the following budget and forecasts exclusive of GST.

	2009/10 Budget \$000	2009/10 Forecast \$000	2010/11 Budget \$000	2011/12 Forecast \$000	2012/13 Forecast \$000
Crown Funding	145	145	145	145	145
Total output revenue	145	145	145	145	145
Total output expenses	(145)	(145)	(145)	(145)	(145)
Output surplus / (deficit)	0	0	0	0	0

Cost of Avsec outputs overall

The two Outputs for Avsec will be delivered within the following budget and forecasts exclusive of GST.

	2009/10 Budget \$000	2009/10 Forecast \$000	2010/11 Budget \$000	2011/12 Forecast \$000	2012/13 Forecast \$000
Contracted services	3,782	4,043	3,569	3,703	3,740
Crown Funding/Passenger Security Charges	73,655	77,447	62,200	64,853	66,527
Other Income	2,151	2,914	3,368	2,721	2,227
TOTAL OUTPUT REVENUE	79,588	84,404	69,137	71,277	72,494
TOTAL OUTPUT EXPENSES	(78,174)	(71,947)	(79,481)	(84,386)	(87,620)
OUTPUT SURPLUS / (DEFICIT)	1,414	12,457	(10,344)	(13,109)	(15,126)

OPERATING INTENTIONS - AVSEC

Avsec's strategic directions for 2010/13 identified specific short and longer term initiatives that will be focused on and programmed into our business planning cycles. These initiatives are shown under the following three strategic priorities and they seek to improve Avsec's organisational capability:

- d) Enhanced customer focused security;
- a) Enhanced capacity; and
- b) Enhanced support systems and processes.

These strategic priorities will influence (or contribute to) the delivery of the Authority's desired overall outcome of **safe and secure civil aviation for New Zealand**

The following tables provide information on how Avsec intends to deliver on its strategic priorities, and reflect:

- what the strategic priority means to Avsec;
- what Avsec intends to do (activities, initiatives, projects to be carried out) over the next three financial years to achieve each strategic priority; and
- when Avsec intends to commence and complete the work.

The initiatives outlined below are those that are certain and will be embraced by Avsec in the normal course of business. There is however a possibility that a potential aviation security event could have a significant impact on Avsec, but because of the uncertainty and unquantifiable nature of the impact Avsec has not allowed for this potential expenditure in its financial projections. Avsec will however monitor and update contingency plans for potential events. Where an event occurs and where the implementation of that event requires special funding or a further review of the passenger security charges Avsec will engage with the Ministry of Transport and the Minister on the appropriate approach to implementing and funding the activity³³.

Monitoring and assessment will be conducted on a case-by-case basis to determine the efficiency and effectiveness of Avsec's operating intentions.

Contribution of strategic priorities to outputs

The operating intentions to achieve the Avsec's strategic priorities influence the efficient delivery of the Avsec outputs, as shown below,

Avsec's strategic priorities for 2010/13 influence the delivery of its output classes	Output Class 5: <i>Aviation security services</i>	Output Class 6: <i>Maritime security services</i>
Enhanced customer focused security	→	n/a
Enhanced capacity	→	n/a
Enhanced support systems and processes	→	n/a
Significant effect →	Less-significant effect →	

³³ Expenditure of this nature could arise from the requirement to introduce new generation screening technology, or the lowering of the aircraft threshold for screening passengers within New Zealand which would require Avsec's presence at additional airports and funding requirements to implement any requirement on Avsec to undertake domestic Hold Baggage Screening (HBS).

Enhanced Customer Focused Security				
What the strategic, enhanced, customer-focused security priority means to Avsec:				
Avsec has the people, processes, equipment and expertise to ensure that its approach to its business and security screening programmes is at a very high standard and remains customer focused, and that Avsec's intervention is perceived as effective and valuable to the travelling public and other stakeholders.				
What Avsec intends to do to achieve the strategic priority:	2010/11	2011/12	2012/13	> 3 yrs
1. Ensure security technology development meets aviation security needs and regulatory requirements through ongoing research and awareness of emerging technology.	→	→	→	→
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.	→	→	→	→
3. Enhance Avsec's preparedness to respond to major security events.	→	→	→	→
4. Integrate Avsec's intelligence system into the operations business unit and further development of appropriate intelligence products and communication processes.	→	→	→	→
5. Complete development of Auckland Operations Base and National Office and ensuring all Avsec's building and facility needs are appropriate and optimal for operational requirements.	→	→	→	→
6. Ensure aviation security capability is maintained to respond to a maritime incident.	→	→	→	→
7. Ensure Avsec's Explosive Detector Dog Unit (EDDU) keeps pace with changing international trends in training requirements and explosive manufacture.	→	→	→	→
8. Sponsor South Pacific project activity that contributes to New Zealand's aviation security objectives and assists South Pacific aviation security development.	→	→	→	→
9. Contribute to New Zealand's national approach to counter-terrorism capability.	→	→	→	→
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.	≡			
11. Work resulting from Cabinet decisions on the passenger security charges review, early 2010.	≡			
<i>Legend:</i> ≡ Work to commence during the financial year. → Work to continue during the financial year ≡ Work to be completed during the financial year.				

Enhanced Capacity				
What the strategic, enhanced capacity priority means to Avsec:				
Avsec builds and maintains a talented, engaged and flexible workforce to meet the needs of a changing aviation security environment, and ensures that its people, processes and programs contribute to strengthening its operational aviation security and corporate capacity.				
What Avsec intends to do to achieve the strategic priority:	2010/11	2011/12	2012/13	> 3 yrs
1. Review and enhance Avsec's current recruitment strategy and practices to maximise the return on the investment in Avsec people.	≡			
2. Review and develop enhanced performance management policies and processes.	≡			
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.	→	→	→	
4. Foster and encourage positive and enduring relationships with stakeholders and customers.	→	→	→	→
5. Identify high potential individuals and implement a frame-work to develop staff into more senior positions and ensure effective succession planning.	≡			
6. Maximise return on training investment with targeted training and follow-up processes to ensure maximum benefit from the training.	→	→	→	

Enhanced Capacity				
What the strategic, enhanced capacity priority means to Avsec:				
Avsec builds and maintains a talented, engaged and flexible workforce to meet the needs of a changing aviation security environment, and ensures that its people, processes and programs contribute to strengthening its operational aviation security and corporate capacity.				
What Avsec intends to do to achieve the strategic priority:	2010/11	2011/12	2012/13	> 3 yrs
7. Ensure a safe and healthy environment for all employees, representatives and visitors of Avsec: through specific Health and safety initiatives.	→	→	→	→
8. Enhance Avsec's employment relations strategy, including timely and relevant communication with staff and encouragement of relationships that are positive and constructive.	→	→	→	
<i>Legend:</i> Work to commence during the financial year. → Work to continue during the financial year Work to be completed during the financial year.				

Enhanced Support Systems and Processes				
What the strategic, enhanced, support systems and processes priority means to Avsec:				
Avsec needs to be recognised as an expert in its mandated activity – aviation security. In order to do so Avsec must ensure it has sound business support systems and processes , forecasting and reporting capacity and robust performance measuring and benchmarking processes in place				
What Avsec intends to do to achieve the strategic priority:	2010/11	2011/12	2012/13	> 3 yrs
1. Improve financial information gathering, data analysis and reporting for effective decision making.				
2. Improve financial forecasting and monitoring process to enhance forecasting in accountability documents and passenger security charges reviews.				
3. Review and enhance business processes, internal control and efficiencies.				
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.				
5. Improve deployment, efficiency and security of the Information Technology infrastructure, including the development of an ISS Strategic Plan.				
6. Integrate Knowledge Management (IP Management).				
7. Improve information reporting and relationships with key stakeholders.				
<i>Legend:</i> Work to commence during the financial year. → Work to continue during the financial year Work to be completed during the financial year.				

Avsec capital and asset management intentions

Over the immediate future Avsec's capital capability enhancement will focus on the following key initiatives:

Key initiatives	Focus
Research and development	Research into emerging technology and equipment that will enhance aviation security screening and provide greater efficiencies.
Capital asset replacement.	Ongoing programmed replacement of security equipment to ensure Avsec is at the leading edge of technology and mitigating risk to the travelling public.

Avsec's capital expenditure programme for the three year period 2010/13 is budgeted (forecasted) as follows:

Proposed capital expenditure \$000	Budget 2009/10	Forecast 2009/10	Forecast 2010/11	Forecast 2011/12	Forecast 2012/13
Refurbishment of Hold Baggage Screening (HBS) equipment (finance leased)	6,000	5,231	-	-	-
Other finance leases	976	-	-	-	-
Computer hardware	283	156	164	49	80
Computer software	333	391	1,919	48	30
Office Equipment	34	40	143	29	-
Leasehold Improvements	1,605	98	2,956	22	-
Plant and equipment	1,627	2,613	2,160	2,155	720
Furniture and fittings	291	-	591	-	-
Motor vehicles	696	1,261	250	658	1,056
Total	11,845	9,790	8,183	2,961	1,886

Approval is held from the Minister of Finance to enter into finance leases for the purchase of specialised screening equipment for which the aggregate is not to exceed \$30 million by 2010 (of which \$5.231 million is included in the above table).

Part D

FINANCIAL STATEMENTS

The projected Financial Statements in this Statement of Intent are presented differently from those in previous years. This year the statements are consolidated in a way that enables comparisons of the finances of CAA and Avsec to be made alongside the consolidated position of the Authority.

STATEMENTS OF PROJECTED SERVICE PERFORMANCE

Statements of Projected Service Performance are provided in Part B for CAA, and Part C for Avsec, respectively.

CONSOLIDATED PROJECTED FINANCIAL STATEMENTS

Consolidated Financial Statements³⁴ provided in this section are:

- Statement of Projected Financial Performance
- Statement of Projected Comprehensive Income
- Statement of Projected Financial Position
- Statement of Projected Changes in Equity
- Statement of Projected Cash Flows
- Avsec Passenger Security Charges Prospective Memorandum Accounts
- Notes to the Financial Statements

³⁴ These consolidated financial statements may not add perfectly due to rounding errors.

**Civil Aviation Authority Consolidated
Statement of Projected Financial Performance
For the Year Ended 30 June**

	Civil Aviation Authority					Aviation Security Service					Consolidated ¹				
	2009/10 Budget \$000	2009/10 Forecast \$000	2010/11 Budget \$000	2011/12 Forecast \$000	2012/13 Forecast \$000	2009/10 Budget \$000	2009/10 Forecast \$000	2010/11 Budget \$000	2011/12 Forecast \$000	2012/13 Forecast \$000	2009/10 Budget \$000	2009/10 Forecast \$000	2010/11 Budget \$000	2011/12 Forecast \$000	2012/13 Forecast \$000
Income															
Levies revenue	16,891	20,547	22,169	23,132	23,712	-	-	-	-	-	16,891	20,547	22,169	23,132	23,712
Revenue from passenger security charges and other services ¹	3,774	3,541	3,925	4,004	4,084	76,833	81,347	65,623	68,411	70,123	80,607	84,873	69,533	72,400	74,192
Crown funding revenue	2,261	2,261	2,261	2,261	2,261	145	145	145	145	145	2,406	2,406	2,406	2,406	2,406
Ministry contract revenue	1,418	1,568	1,418	1,418	1,418	457	413	265	265	265	1,875	1,981	1,683	1,683	1,683
Interest and other income	388	548	416	320	224	1,933	2,275	2,923	2,403	1,792	2,321	2,823	3,339	2,723	2,016
Gain/(loss) on assets	-	-	-	-	-	220	224	181	53	169	220	224	181	53	169
Total income	24,732	28,465	30,189	31,134	31,699	79,588	84,404	69,137	71,277	72,494	104,320	112,854	99,311	102,396	104,178
Expense															
Personnel costs	19,494	19,291	20,593	20,492	20,881	58,550	55,850	60,237	65,204	68,266	78,044	75,141	80,830	85,696	89,147
Other costs of services ¹	8,307	8,517	11,048	11,921	12,049	11,099	8,938	11,050	10,935	11,335	19,406	17,440	22,083	22,841	23,369
Audit fees for financial statements audit	40	40	50	50	50	52	63	50	50	50	92	103	100	100	100
Finance costs	0	0	0	0	0	113	156	288	198	104	113	156	288	198	104
Depreciation and amortisation expense	721	664	750	850	959	6,762	5,113	5,559	5,676	5,528	7,483	5,777	6,309	6,526	6,487
Capital charge	565	290	290	290	290	1,546	1,778	2,243	2,265	2,278	2,111	2,068	2,533	2,555	2,568
Authority member costs	104	104	104	104	104	52	49	54	58	59	156	153	158	162	163
Total expenses	29,231	28,906	32,835	33,707	34,332	78,174	71,947	79,481	84,386	87,620	107,405	100,838	112,301	118,078	121,937
NET SURPLUS / (DEFICIT)	(4,499)	(441)	(2,646)	(2,573)	(2,633)	1,414	12,457	(10,344)	(13,109)	(15,126)	(3,085)	12,016	(12,990)	(15,682)	(17,759)

Note 1: net of elimination related to CAA compliance audit of Avsec under part 140 of Civil Aviation Act 1990
The accompanying statement of accounting policies forms part of these prospective financial statements.

**Civil Aviation Authority Consolidated
Statement of Projected Comprehensive Income
For the Year Ended 30 June**

	Civil Aviation Authority					Aviation Security Service					Consolidated				
	2009/10 Budget \$000	2009/10 Forecast \$000	2010/11 Budget \$000	2011/12 Forecast \$000	2012/13 Forecast \$000	2009/10 Budget \$000	2009/10 Forecast \$000	2010/11 Budget \$000	2011/12 Forecast \$000	2012/13 Forecast \$000	2009/10 Budget \$000	2009/10 Forecast \$000	2010/11 Budget \$000	2011/12 Forecast \$000	2012/13 Forecast \$000
Net surplus/deficit for the year	(4,499)	(441)	(2,646)	(2,573)	(2,633)	1,414	12,457	(10,344)	(13,109)	(15,126)	(3,085)	12,016	(12,990)	(15,682)	(17,759)
Other comprehensive income															
Revaluation of land and buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	(4,499)	(441)	(2,646)	(2,573)	(2,633)	1,414	12,457	(10,344)	(13,109)	(15,126)	(3,085)	12,016	(12,990)	(15,682)	(17,759)
Total comprehensive income attributable to:															
Total equity	(4,499)	(441)	(2,646)	(2,573)	(2,633)	1,414	12,457	(10,344)	(13,109)	(15,126)	(3,085)	12,016	(12,990)	(15,682)	(17,759)

The accompanying statement of accounting policies forms part of these prospective financial statements.

**Civil Aviation Authority Consolidated
Statement of Projected Financial Position
As at 30 June**

	Civil Aviation Authority					Aviation Security Service					Consolidated				
	2009/10 Budget \$000	2009/10 Forecast \$000	2010/11 Budget \$000	2011/12 Forecast \$000	2012/13 Forecast \$000	2009/10 Budget \$000	2009/10 Forecast \$000	2010/11 Budget \$000	2011/12 Forecast \$000	2012/13 Forecast \$000	2009/10 Budget \$000	2009/10 Forecast \$000	2010/11 Budget \$000	2011/12 Forecast \$000	2012/13 Forecast \$000
CURRENT ASSETS															
Cash and cash equivalents	326	6,146	4,418	1,660	(932)	56,442	71,925	61,175	50,905	38,160	56,768	78,071	65,593	52,565	37,228
Debtors and other receivables	3,500	2,271	1,753	1,791	1,823	7,967	8,780	6,567	6,318	6,904	11,467	11,051	8,320	8,109	8,727
Inventories including services work in progress	300	294	294	294	294	44	69	68	69	70	344	363	362	363	364
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL CURRENT ASSETS	4,126	8,711	6,465	3,745	1,185	64,453	80,774	67,810	57,292	45,134	68,579	89,485	74,275	61,037	46,319
NON-CURRENT ASSETS															
Property, plant and equipment	2,646	2,262	2,215	1,916	1,546	15,366	16,014	15,499	13,278	10,085	18,012	18,276	17,714	15,194	11,631
Intangible assets	1,448	1,289	1,322	1,676	1,992	615	418	1,790	1,287	784	2,063	1,707	3,112	2,963	2,776
TOTAL NON-CURRENT ASSETS	4,094	3,551	3,537	3,592	3,538	15,981	16,432	17,289	14,565	10,869	20,075	19,983	20,826	18,157	14,407
TOTAL ASSETS	8,220	12,261	10,002	7,337	4,723	80,434	97,206	85,099	71,857	56,003	88,654	109,467	95,101	79,194	60,726
CURRENT LIABILITIES															
Creditors and other payables	1,635	1,706	2,092	2,001	2,021	2,270	3,581	2,261	2,403	2,224	3,905	5,287	4,353	4,404	4,245
Employee entitlements	1,350	1,524	1,524	1,524	1,524	6,303	7,056	7,601	7,971	8,320	7,653	8,580	9,125	9,495	9,844
Provisions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Borrowings	-	-	-	-	-	1,678	1,446	1,535	1,585	716	1,678	1,446	1,535	1,585	716
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL CURRENT LIABILITIES	2,985	3,230	3,616	3,525	3,545	10,251	12,083	11,397	11,959	11,260	13,236	15,313	15,013	15,484	14,805
NON-CURRENT LIABILITIES															
Employee entitlements	450	430	430	430	430	3,960	3,711	3,884	4,470	5,157	4,410	4,141	4,314	4,900	5,587
Provisions	-	-	-	-	-	-	361	361	361	361	-	361	361	361	361
Borrowings	-	-	-	-	-	4,252	3,834	2,301	716	-	4,252	3,834	2,301	716	-
TOTAL NON-CURRENT LIABILITIES	450	430	430	430	430	8,212	7,906	6,546	5,547	5,518	8,662	8,336	6,976	5,977	5,948
TOTAL LIABILITIES	3,435	3,660	4,046	3,955	3,975	18,463	19,989	17,943	17,506	16,778	21,898	23,649	21,989	21,461	20,753
NET ASSETS	4,785	8,602	5,956	3,382	748	61,971	77,217	67,156	54,351	39,225	66,756	85,819	73,112	57,733	39,973
EQUITY															
General funds	4,785	8,602	5,956	3,382	748	28,464	28,525	28,488	28,525	28,236	33,249	37,127	34,444	31,907	28,984
Property, plant and equipment revaluation reserve	-	-	-	-	-	640	640	640	640	640	640	640	640	640	640
Passenger security charges reserves	-	-	-	-	-	32,867	48,052	38,028	25,186	10,349	32,867	48,052	38,028	25,186	10,349
TOTAL EQUITY	4,785	8,602	5,956	3,382	748	61,971	77,217	67,156	54,351	39,225	66,756	85,819	73,112	57,733	39,973

The accompanying statement of accounting policies forms part of these prospective financial statements.

**Civil Aviation Authority Consolidated
Statement of Projected Changes in Equity
For the Year Ended 30 June**

	Civil Aviation Authority					Aviation Security Service ¹					Consolidated ¹				
	2009/10	2009/10	2010/11	2011/12	2012/13	2009/10	2009/10	2010/11	2011/12	2012/13	2009/10	2009/10	2010/11	2011/12	2012/13
	Budget	Forecast	Budget	Forecast	Forecast	Budget	Forecast	Budget	Forecast	Forecast	Budget	Forecast	Budget	Forecast	Forecast
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
EQUITY															
<i>Opening balance of equity at 1 July</i>															
General funds	9,284	9,042	8,602	5,956	3,382	21,558	21,702	28,525	28,488	28,525	30,842	30,744	37,127	34,444	31,907
Property, plant and equipment revaluation reserve	-	-	-	-	-	640	640	640	640	640	640	640	640	640	640
Passenger security charges reserves	-	-	-	-	-	31,304	35,363	48,052	38,028	25,186	31,304	35,363	48,052	38,028	25,186
Total opening balance of equity at 1 July	9,284	9,042	8,602	5,956	3,382	53,502	57,705	77,217	67,156	54,351	62,786	66,747	85,819	73,112	57,733
Total comprehensive income for the year	(4,499)	(441)	(2,646)	(2,573)	(2,633)	1,414	12,457	(10,344)	(13,109)	(15,126)	(3,085)	12,016	(12,990)	(15,682)	(17,759)
Capital contributions	-	-	-	-	-	7,055	7,055	283	304	0	7,055	7,055	283	304	-
Repayment of capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to general funds (Note 1)	-	-	-	-	-	-	489	-	-	-	-	489	-	-	-
Transfer from passenger security charges reserves (Note 1)	-	-	-	-	-	-	(489)	-	-	-	-	(489)	-	-	-
Transfers to passenger security reserves	-	-	-	-	-	1,563	12,689	(10,024)	(12,842)	(14,837)	1,563	12,689	(10,024)	(12,842)	(14,837)
Transfers from passenger security reserves	-	-	-	-	-	(1,563)	(12,689)	10,024	12,842	14,837	(1,563)	(12,689)	10,024	12,842	14,837
Total changes in equity during the year	(4,499)	(441)	(2,646)	(2,573)	(2,633)	8,469	19,512	(10,061)	(12,805)	(15,126)	3,970	19,071	(12,707)	(15,378)	(17,759)
<i>Closing balance of equity at 30 June</i>															
General funds	4,785	8,602	5,956	3,382	748	28,464	28,525	28,488	28,525	28,236	33,249	37,127	34,444	31,907	28,984
Property, plant and equipment revaluation reserve	-	-	-	-	-	640	640	640	640	640	640	640	640	640	640
Passenger security charges reserves	-	-	-	-	-	32,867	48,052	38,028	25,186	10,349	32,867	48,052	38,028	25,186	10,349
Total closing balance of equity at 30 June¹	4,785	8,602	5,956	3,382	748	61,971	77,217	67,156	54,351	39,225	66,756	85,819	73,112	57,733	39,973

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 Avsec surplus funds are subject to a similar requirement.

Note 1: As of 30 June 2009 there was a misstatement in the opening balances of General Funds and Passenger Security Charges reserves. General Funds was understated by \$0.489m and Passenger security charges reserve was overstated by \$0.489m. This will be restated in the 2009/10 Annual Report.

The accompanying statement of accounting policies forms part of these prospective financial statements.

**Civil Aviation Authority Consolidated
Statement of Projected Cash Flows
For the Year Ended 30 June**

	Civil Aviation Authority					Aviation Security Service					Consolidated				
	2009/10 Budget \$000	2009/10 Forecast \$000	2010/11 Budget \$000	2011/12 Forecast \$000	2012/13 Forecast \$000	2009/10 Budget \$000	2009/10 Forecast \$000	2010/11 Budget \$000	2011/12 Forecast \$000	2012/13 Forecast \$000	2009/10 Budget \$000	2009/10 Forecast \$000	2010/11 Budget \$000	2011/12 Forecast \$000	2012/13 Forecast \$000
CASH FLOWS FROM OPERATING ACTIVITIES															
Cash was provided from:															
Receipts from levies	16,891	20,043	22,565	23,115	23,702	-	-	-	-	-	16,891	20,043	22,565	23,115	23,702
Receipts from passenger security charges and other services	3,867	4,175	4,047	3,982	4,061	76,831	79,828	67,712	68,625	69,553	80,698	84,003	71,759	72,607	73,614
Receipts from Crown funding and Ministry contracts	3,679	3,810	3,679	3,679	3,679	602	558	410	410	410	4,281	4,368	4,089	4,089	4,089
Interest and other income	90	554	416	320	224	1,992	2,283	2,915	2,441	1,834	2,082	2,837	3,331	2,761	2,058
Total	24,527	28,581	30,708	31,095	31,667	79,425	82,669	71,037	71,476	71,797	103,952	111,250	101,745	102,571	103,464
Cash was applied to:															
Payments to employees	(18,926)	(17,329)	(18,172)	(18,368)	(18,731)	(54,257)	(52,651)	(56,996)	(64,669)	(66,979)	(73,183)	(69,980)	(75,168)	(83,037)	(85,710)
Payments to suppliers	(9,553)	(10,535)	(13,343)	(14,580)	(14,623)	(16,041)	(11,556)	(13,250)	(10,537)	(11,848)	(25,594)	(22,091)	(26,593)	(25,117)	(26,471)
Interest paid	0	0	0	0	0	(113)	(156)	(288)	(198)	(104)	(113)	(156)	(288)	(198)	(104)
Payments of capital charge to the Crown	(565)	(290)	(290)	(290)	(290)	(1,546)	(1,778)	(2,243)	(2,265)	(2,278)	(2,111)	(2,068)	(2,533)	(2,555)	(2,568)
Goods and Services Tax (net)	(140)	93	0	0	0	(192)	(162)	110	52	(84)	(332)	(69)	110	52	(84)
Total	(29,184)	(28,061)	(31,805)	(33,238)	(33,644)	(72,149)	(66,303)	(72,667)	(77,617)	(81,293)	(101,333)	(94,364)	(104,472)	(110,855)	(114,937)
Net Cash Flows from Operating Activities	(4,657)	520	(1,097)	(2,143)	(1,977)	7,276	16,366	(1,630)	(6,141)	(9,496)	2,619	16,886	(2,727)	(8,284)	(11,473)
CASH FLOWS FROM INVESTING ACTIVITIES															
Cash was provided from:															
Maturity of investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale of property, plant and equipment	-	35	4,443	-	-	220	226	226	63	222	220	261	4,669	63	222
Total	-	35	4,443	-	-	220	226	226	63	222	220	261	4,669	63	222
Cash was applied to:															
Placement of investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of property, plant and equipment	(1,124)	(1,187)	(5,074)	(345)	(345)	(11,454)	(9,399)	(6,264)	(2,913)	(1,856)	(12,578)	(10,586)	(11,338)	(3,258)	(2,201)
Purchase of intangible assets	(275)	(25)	0	(270)	(270)	(391)	(391)	(1,919)	(48)	(30)	(666)	(416)	(1,919)	(318)	(300)
Total	(1,399)	(1,212)	(5,074)	(615)	(615)	(11,845)	(9,790)	(8,183)	(2,961)	(1,886)	(13,244)	(11,002)	(13,257)	(3,576)	(2,501)
Net Cash Flows from Investing Activities	(1,399)	(1,177)	(631)	(615)	(615)	(11,625)	(9,564)	(7,957)	(2,898)	(1,664)	(13,024)	(10,741)	(8,588)	(3,513)	(2,279)

Continued on next page

**Civil Aviation Authority Consolidated
Statement of Projected Cash Flows (cont'd)
For the Year Ended 30 June**

	Civil Aviation Authority					Aviation Security Service					Consolidated				
	2009/10 Budget \$000	2009/10 Forecast \$000	2010/11 Budget \$000	2011/12 Forecast \$000	2012/13 Forecast \$000	2009/10 Budget \$000	2009/10 Forecast \$000	2010/11 Budget \$000	2011/12 Forecast \$000	2012/13 Forecast \$000	2009/10 Budget \$000	2009/10 Forecast \$000	2010/11 Budget \$000	2011/12 Forecast \$000	2012/13 Forecast \$000
CASH FLOWS FROM FINANCING ACTIVITIES															
Cash was provided from:															
Capital contributions from the Crown	-	-	-	-	-	7,055	7,055	283	304	-	7,055	7,055	283	304	-
Proceeds from external borrowings	-	-	-	-	-	6,916	3,128	-	-	-	6,916	3,128	-	-	-
Total	-	-	-	-	-	13,971	10,183	283	304	-	13,971	10,183	283	304	-
Cash was applied to:															
Repayment of capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Repayment of external borrowings	-	-	-	-	-	(2,403)	(165)	(1,446)	(1,535)	(1,585)	(2,403)	(165)	(1,446)	(1,535)	(1,585)
Total	-	-	-	-	-	(2,403)	(165)	(1,446)	(1,535)	(1,585)	(2,403)	(165)	(1,446)	(1,535)	(1,585)
Net Cash Flows from Financing Activities	-	-	-	-	-	11,568	10,018	(1,163)	(1,231)	(1,585)	11,568	10,018	(1,163)	(1,231)	(1,585)
Net increase/(decrease) in cash and cash equivalents	(6,056)	(657)	(1,728)	(2,758)	(2,592)	7,219	16,820	(10,750)	(10,270)	(12,745)	1,163	16,163	(12,478)	(13,028)	(15,337)
Opening cash and cash equivalents at 1 July	6,382	6,803	6,146	4,418	1,660	49,223	55,105	71,925	61,175	50,905	55,605	61,908	78,071	65,593	52,565
Closing cash and cash equivalents at 30 June	326	6,146	4,418	1,660	(932)	56,442	71,925	61,175	50,905	38,160	56,768	78,071	65,593	52,565	37,228

The GST (net) component of net cash flows from operating activities comprises the net GST paid and received on investing activities. 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 statement of accounting policies forms part of these prospective financial statements.

Civil Aviation Authority
Avsec Passenger Security Charges Prospective Memorandum Accounts
For the year ended 30 June

Memorandum Account International Passenger Security Charge GST Exclusive	2009/10 Budget \$000	2009/10 Forecast \$000	2010/11 Budget \$000	2011/12 Forecast \$000	2012/13 Forecast \$000
Aviation Security:					
Revenue	52,336	54,256	39,606	41,170	42,199
Expenditure	(48,660)	(43,245)	(49,643)	(53,493)	(55,610)
Net surplus / (deficit)	3,676	11,011	(10,037)	(12,323)	(13,411)
Opening balance at 1 July	24,409	27,443	38,454	28,417	16,094
Closing balance at 30 June	28,085	38,454	28,417	16,094	2,683

Memorandum Account Domestic Passenger Security Charge GST Exclusive	2009/10 Budget \$000	2009/10 Forecast \$000	2010/11 Budget \$000	2011/12 Forecast \$000	2012/13 Forecast \$000
Aviation Security:					
Revenue	21,174	23,046	22,449	23,538	24,183
Expenditure	(23,287)	(20,879)	(22,436)	(24,057)	(25,609)
Net surplus / (deficit)	(2,113)	2,167	13	(519)	(1,426)
Opening balance at 1 July	6,895	7,431	9,598	9,611	9,092
Closing balance at 30 June	4,782	9,598	9,611	9,092	7,666

Memorandum Account Other Fees and Charges GST Exclusive	2009/10 Budget \$000	2009/10 Forecast \$000	2010/11 Budget \$000	2011/12 Forecast \$000	2012/13 Forecast \$000
Aviation Security:					
Revenue	3,925	4,601	3,979	4,114	4,151
Expenditure	(4,074)	(5,322)	(4,299)	(4,381)	(4,440)
Net surplus / (deficit)	(149)	(721)	(320)	(267)	(289)
Opening balance at 1 July	(1,222)	(1,215)	(1,936)	(2,256)	(2,523)
Closing balance at 30 June	(1,371)	(1,936)	(2,256)	(2,523)	(2,812)

Memorandum Account Total Memorandum Accounts GST Exclusive	2009/10 Budget \$000	2009/10 Forecast \$000	2010/11 Budget \$000	2011/12 Forecast \$000	2012/13 Forecast \$000
Aviation Security:					
Revenue	77,435	81,903	66,034	68,822	70,533
Expenditure	(76,021)	(69,446)	(76,378)	(81,931)	(85,659)
Net surplus / (deficit)	1,414	12,457	(10,344)	(13,109)	(15,126)
Opening balance at 1 July	30,082	33,659	46,116	35,772	22,663
Closing balance at 30 June	31,496	46,116	35,772	22,663	7,537

The accompanying statement of accounting policies forms part of these prospective financial statements.

Critical accounting estimates and assumptions

The following significant assumptions (or specific financial comments) relating to the preparation of the forecast financial statements are:

CAA

Levy revenue

Estimating domestic and international passenger volumes subject to the passenger security charge is inherently difficult due to the competitiveness and confidentiality surrounding airlines planned activity.

Revenue arising from domestic and international passenger safety levies has been estimated on the basis that there will be 3.0% and 1.39% increases in passenger numbers respectively over 2009/10. It is not expected that any new large airlines will enter or exit the New Zealand market after 1 July 2011.

The 2010/11 budget and out-year budgets have been set using the current regulated international and domestic passenger safety levy charges (\$1.00 and \$2.00 respectively, GST inclusive). The passenger safety levy is currently undergoing a review. However, for the purpose of this Statement of Intent the current regulated passenger safety levies have been used for budgeting purposes.

Fees and Charges Revenue

The revenue for fees and charges reflects the current industry size and personnel capacity. Fees and charges revenue is currently undergoing a review. However, for the purpose of this Statement of Intent, the current fees and charges have been used for budgeting purposes.

Personnel costs

The 2010/11 budget and out years have been prepared on the basis of a reduction of 5.5 full-time equivalent staff positions. Remuneration increases are expected to be minimal. An estimated vacancy rate of 5% for full-time equivalent positions has been applied.

Operating Surpluses/Deficits

It is intended that the projected deficit for 2010/11 will be funded from accumulated reserves.

Opening Equity

Estimated Opening Equity assumes a 2009/10 year deficit of \$0.441 million. This impacts on estimated amounts of cash on hand and net assets.

Avsec

Passenger Security Charges

Estimating domestic and international passenger volumes subject to the passenger security charge is inherently difficult due to the competitiveness and confidentiality surrounding airlines planned activity. Domestic passenger volumes are forecast to increase 3.0% over 2009/10 forecast to 5.801 million in 2010/11. International passenger volumes are forecast to increase 1.39% over 2009/10 forecast to 4.455 million in 2010/11. (Refer table on page 8). It is not expected that any dominant airline will enter or exist in the New Zealand market or that there will be any additional airports requiring the introduction of passenger screening services over this SOI period.

2010/11 budget, and out-years budgets have been set using the current regulated passenger security charges which became effective 1 April 2010 at \$10.00 (GST inclusive) for international and \$4.35 (GST inclusive) per sector travelled for domestic passengers reducing from the previous charge of \$15.00 and \$4.66 (GST inclusive) respectively. The forecast financial statements assume no further change in the passenger security charges over the 2010/13 period.

Contracted Services Revenue

The decrease in revenue for the 2010/11 forecast accounts reflects a contraction in contracted services provided to airlines and third parties. Current contracted recovery rates have been utilised in the setting of revenue.

Personnel Costs

An allowance has been made in 2010/11 personnel costs for the expected increases in remuneration resulting from Avsec's incremental pay structure and collective contract negotiations undertaken in 2008.

The 2010/11 budget forecasts an establishment of 789 FTE (830 staff) increasing to 841 FTE (881 staff) by 2012/13, principal increases are 17 FTE (23 staff) for Last Port of Departure to US (LPD) screening, 15 FTE for an additional Auckland domestic departures lane and 29 FTE for an additional Auckland International departures lane; both to occur during 2011/12, coupled with a net 9 FTE reductions in operational positions.

Staff turnover is expected to gradually increase from the current 4.49% to 10% over the 2010/13 period as economic conditions continue to improve.

Operating Surpluses / Deficits

The 2010/11 and out-year forecast statements have been set using the current regulated international and domestic passenger security charges operating deficits are reflected in the international, domestic and other contracted services Statement of Prospective Memorandum Accounts. The Projected Operating deficit for the financial ending 30 June 2011 is expected to be \$10.344m increasing to \$15.126m in 2012/13.

- This is a direct result of reducing the Passenger Security charges, to \$10 for International passengers (down from \$15), and \$4.35 for domestic passengers (down from \$4.66) both GST inclusive .
- The operating deficits over the period 2011/11 to 2012/13 will be managed by utilising the accumulated surpluses contained in the Memorandum of Accounts.

It is expected that over the next three financial years, 2010/11 – 2012/13, much of the passenger security charges surplus built up over the past two years will be utilised and the surplus deficit will be taken into account when setting passenger security charges and recovery rates.

Equity

Avsec established a \$7.50m (International - \$4.50m and Domestic \$3.00m) reserve, agreed with industry in 2007. This reserve is designed to provide financial surety to Avsec enabling it to immediately to any security threat, situation or adverse event for an initial 6 – 8 week period while a more considered medium to long term assessment would be conducted without any financial concerns.

- The projected closing balances of the 2010/11 Memorandum Accounts include the following contingency reserves:
- International Passenger Security Charge – Closing balance - \$28.417m – Contingency Reserve \$4.500m;
- Domestic Passenger Security Charge – Closing balance - \$9.611m – Contingency Reserve \$3.000m

The operating deficits over the period 2010/11 to 2012/13 will be managed by utilising surpluses contained in the Memorandum Accounts.

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. As a Crown entity, the Authority is also subject to the provisions of the *Crown Entities Act 2004*. The Authority has a responsibility to work to the development and delivery of achieving an integrated, safe, responsive, and sustainable transport system.

To fulfill 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).

Basis of preparation

Prospective 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

Prospective financial statements have been prepared on an historical cost basis, except where modified by the revaluation of certain items of property, plant and equipment, and the 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 prospective 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.

The Authority adopted NZIAS 1 *Presentation of Financial Statements (Revised 2007)* for the 2009/10 financial year. The revised standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a Statement of

Comprehensive Income. The Statement of Comprehensive Income will enable readers to analyse changes in equity resulting from non-owner changes separately from transactions with the Crown in its capacity as "owner". The Authority has adopted this standard for the year ending 30 June 2010, and has decided it will prepare a separate Income Statement followed by a Statement of Comprehensive Income.

Significant accounting policies

The following significant accounting 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 Authority's provision of regulatory, and aviation safety, services is recognised in the Statement of Projected Financial Performance 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 contracts is recognised in the Statement of Projected Financial Performance in the period in which the Authority provides the funded programmes.

Section 72 of the Civil Aviation Act, prevents the Authority from applying revenue from fees, levies and charges made by one part of the Authority to the activities of the other part of its operations.

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 prospective 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 Projected 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 Projected 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 Avsec surplus funds are subject to a similar requirement by the Minister of Finance

Derivative financial instruments and foreign currency transactions

- **Financial instruments 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 Projected Financial Position at their fair value. Realised and un-realised gains and losses arising from changes in fair value or upon settlement are recognised in the Statement of Projected Financial Performance in the period in which they arise.

- **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 translation at year-end exchange rates of foreign currency monetary assets and liabilities, are recognised in the Statement of Projected Financial Performance.

Other financial assets

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. 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 Projected Financial Performance 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 Projected Financial Performance 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.

Inventories

- **Services work in progress**

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 Projected Financial Performance when the write-down occurs.

Property, plant and equipment

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

- **Revaluations**

A building (Avsec Operational base) at Auckland International Airport is stated at fair value as determined by an Independent Registered Valuer (Seagar & Partners) as at 30 June 2008. The building is re-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 Projected Financial Performance. Any subsequent increase in the revaluation that offsets a previous decrease in value recognised in the Statement of Projected Financial Performance will be recognised first in the Statement of Projected Financial Performance up to the amount previously expensed, and then credited to the revaluation reserve for 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 classified 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 Projected Financial Performance. 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 Projected Financial Performance 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 of 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 licenses 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.

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 fulfillment 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 Projected Financial Performance.

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 Projected Financial Performance.

For re-valued 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 Projected Financial Performance. Subsequent reversals of impairment losses are recognised firstly, in the Statement of Projected Financial Performance, to the extent the impairment loss was originally recognised there and then in the associated revaluation reserve.

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 Mutual Provident Fund are accounted for as contributions to a defined-contribution superannuation scheme and are recognised as an expense in the Statement of Projected Financial Performance.

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.

Budget and forecast figures

The budget and forecast 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 prospective 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 budgeted staff hours attributable to an output. Depreciation and capital charges are charged on the basis of asset utilization.

- **Cost drivers for allocation of indirect costs:**

Indirect costs are charged on the basis of full time equivalent staff members attributable to an output. Depreciation and capital charges are charged on the basis of asset utilisation.

Lease classification

Determining whether a lease agreement is a finance or an operating lease requires judgment as to whether the agreement transfers substantially all the risks and rewards of ownership to the Authority. Judgment 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 Projected Financial Position as property, plant and equipment, whereas for an operating lease, no such asset is recognised.

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

Critical accounting estimates, assumptions and judgements

Preparing prospective financial statements to conform with NZ IFRS requires management to make judgments, 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 has made the following judgments, 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 for 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 judgment 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 asset's estimated useful life. Annual impairment testing of the development project is no longer required and the completed intangible asset is, instead, annually reviewed for indicators of impairment.

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

APPENDICES

Appendix one: Consultation and reporting obligations

Consultation obligations

The Authority and the Minister will operate on a “no surprises” manner, including:

- raising significant performance issues and risks promptly and clearly with the other party;
- keeping the other party informed of significant decisions that have an impact on policy; and
- keeping the other party informed of the progress of key projects and matters in which the other party has more than a minor interest.

Reporting obligations

The Authority is required to provide the Minister of Transport with information on activities set out in *sections 72B, 72I of the Civil Aviation Act 1990* and in supporting the rule making power of the Minister as set out in Part three, *sections 28 to 30 of the Act*.

Output agreement

An output agreement is prepared for each of CAA and Avsec on the prerogative of the Minister in accordance with *section 170 of the Crown Entities Act 2004*. Under *section 143(1)(a) of the Act* it states that the Minister may require (in reference to the Letter of Expectation for 2009/10) a Crown entity to have in place an output agreement for any or all outputs that the Crown entity intends to provide that do not qualify for an exemption.

Quarterly reports

The Authority will provide Quarterly Reports for both CAA and Avsec to the Minister of Transport within 25 working days at the end of each quarter (with the exception of the fourth quarter report that will be provided within 40 working days at the end of the financial year).

The format of quarterly reports will reflect both financial and non-financial information. Non-financial information will contain the actual output and outcome performance measures against targets as set out in the Statement of Intent. The report will be concise with a qualitative commentary about the overall issues and achievements during the quarter.

Annual report

The obligation to prepare, present, and publish an annual report is set out in section 150 of the Crown Entities Act 2004. It states that a Crown entity must, at the end of each financial year, prepare a report on the affairs of the Crown entity; and provide the report to its responsible Minister no later than 15 working days after receiving the audit report provided under section 156.

The responsible Minister for the Crown entity must present the entity’s annual report to the House of Representatives within 5 working days after receiving the annual report or, if Parliament is not in session, as soon as possible after the commencement of the next session of Parliament.

A Crown entity must publish its annual report as soon as practicable after it has been presented to the House of Representatives, but in any case not later than 10 working days after the annual report is received by the Minister, in a manner consistent with any instructions given under section 174 of the Crown Entities Act 2004.

Appendix two: Intermediate outcome measures, comparative trends

Social cost of accidents per unit of passenger exposure

Aviation safety target groups (Source: Safety Analysis Unit, CAA)		Social cost per unit of passenger exposure (\$)						2010/11 Targets
		3 Years-30 June			3 Years-31 December			
		2007	2008	2009	2007	2008	2009	
PUBLIC AIR TRANSPORT								
1.	Airline operations – large aeroplanes	0.00	0.00	0.00	0.00	0.00	0.00	0.10
2.	Airline operations – medium aeroplanes	4.63	0.28	0.00	4.38	0.27	0.02	0.10
3.	Airline operations – small aeroplanes	43.89	0.03	0.38	21.70	0.37	1.92	6.50
4.	Airline operations - helicopters	2.74	0.00	5.10	0.00	5.24	8.21	6.50
5.	Sport aviation transport operations	20.04	14.26	65.35	16.63	12.45	59.37	13.00
OTHER COMMERCIAL OPERATIONS								
6.	Other commercial operations – aeroplane	34.82	44.11	25.75	41.63	40.27	30.54	6.50
7.	Other commercial operations – helicopter	30.31	69.93	64.91	41.35	66.36	52.83	6.50
8.	Agricultural operations – aeroplane	106.94	112.64	74.04	108.55	97.53	80.99	14.00
9.	Agricultural operations – helicopter	18.03	19.88	21.53	16.79	21.30	8.34	14.00
10.	Agricultural operations – sport aircraft	Data not available						28.0
NON-COMMERCIAL OPERATIONS								
11.	Private operations – aeroplane	82.42	80.29	48.67	81.81	51.12	30.00	10.00
12.	Private operations – helicopter	181.90	161.08	34.10	172.92	88.23	31.45	10.00
13.	Private operations – sport aircraft	91.60	96.54	96.40	84.42	92.55	100.91	20.00

Notes:

1. Social cost per unit of passenger exposure is defined as an economic measure of the cost of accidents to the nation. It assigns a value of statistical life (VOSL) to any deaths, rehabilitation costs from injuries, cost of property damaged or lost in the accident, and other specific external costs. The gross social cost calculated from accidents is pro-rated over the volume of aviation activity in any specified sector of the aviation community. The volume of aviation activity, the unit of passenger exposure, is per seat flying hour. For target groups that are not predominantly passenger carrying, a surrogate of 500 kg of aircraft weight is assessed as being the equivalent of an occupied seat. For sport groups, calculation of social cost is based on CAA estimates of aviation activity.
2. The results for all groups are derived using 3 year averages.
3. The CAA commissioned the New Zealand Institute of Economic Research (NZIER) to review the social cost target setting process and its usage in strategy development. The review was completed in December 2007, subsequent complementary approaches and implementation of improvements commenced in 2009/10.

Numbers of accidents, fatalities and injuries

All accidents. All aircraft statistics categories. Includes hang gliders and parachutes.	Year-end June			Year-end December			% change from 2008 to 2009
	2007	2008	2009	2007	2008	2009	
Accidents	91	87	114	83	113	118	+ 4.4
Fatal accidents	5	10	8	4	11	10	- 9.1
Fatalities	8	14	11	4	16	13	- 18.8
Serious injuries	16	8	24	14	15	16	+ 6.7
Minor injuries	20	11	16	16	14	24	+ 71.4

Source: CAA, 2010

Rate of accidents per 100,000 flight hours

Aviation safety target groups (ASTG) (Source: Safety Analysis Unit, CAA)	Rate of accident per 100,000 flight hours						
	3 Years-30 June			3 Years-31 December			
	2007	2008	2009	2007	2008	2009	% change from 2008 to 2009
PUBLIC AIR TRANSPORT							
1. Airline operations – large aeroplanes	0.00	0.00	0.11	0.00	0.00	0.10	-
2. Airline operations – medium aeroplanes	1.50	1.02	0.52	1.51	1.02	1.04	+ 1.9
3. Airline operations – small aeroplanes	3.70	2.83	3.73	3.09	2.65	5.70	+ 115.0
4. Airline operations - helicopters	1.47	1.46	2.51	1.00	2.00	3.58	+ 79.1
5. Sport aviation transport operations*	Data not available*						
OTHER COMMERCIAL OPERATIONS							
6. Other commercial operations – aeroplane	4.79	5.86	5.28	5.11	5.90	5.02	- 15.0
7. Other commercial operations – helicopter	9.57	10.50	11.87	10.46	11.63	8.92	- 23.4
8. Agricultural operations – aeroplane	12.10	13.36	15.81	11.07	15.25	18.56	+ 21.7
9. Agricultural operations – helicopter	10.99	9.36	9.37	9.15	10.80	9.34	- 13.5
10. Agricultural operations – sport aircraft*	Data not available*						
NON-COMMERCIAL OPERATIONS							
11. Private operations – aeroplane	23.82	15.17	24.21	18.87	20.38	27.66	+ 35.7
12. Private operations – helicopter	34.90	37.84	26.13	34.88	28.92	27.56	- 4.7
13. Private operations – sport aircraft*	Data not available*						
Notes:							
The accident rates are derived using 3 year averages.							
*For these three groups, the accident rate cannot be calculated, as the CAA does not hold data for the number of hours flown.							

Numbers of security incidents

	Year-end June			Year-end March			% change from 2009 to 2010
	2006	2007	2008	2008	2009	2010	
In-flight security incidents ³⁵	-	-	-	-	-	-	nil
Airside security incidents ³⁶	-	-	-	-	-	-	nil
Dangerous goods introduced into aircraft ³⁷	-	-	-	-	-	-	nil

Source: Avsec, 2010

³⁵ In-flight security incidents involving offences against the Aviation Crimes Act 1972 for aircraft which have been screened by Avsec.

³⁶ Airside incidents involving offences against the Aviation Crimes Act 1972 at security designated aerodromes where Avsec operates.

³⁷ Incidents involving the introduction of dangerous goods into aircraft that have been screened by Avsec.

Glossary

ACAG	Aviation Community Advisory Group (NZ)
Act	Civil Aviation Act 1990
AIA	Airlines Industry Association
Authority	Five Member Board of the Civil Aviation Authority (the Crown Entity)
Avsec	Aviation Security Service
BARNZ	Board of Airline Representatives in New Zealand (Inc)
CAA	Civil Aviation Authority of New Zealand (the organisation)
CASA	Civil Aviation Safety Authority (Australia)
CATSA	Canadian Air Transport Security Authority
Director	Director of Civil Aviation Authority of New Zealand
FAA	Federal Aviation Authority (USA)
FTEs	Full Time Equivalents
ICAO	International Civil Aviation Organization
IFRS	International Financial Reporting Standard
MoT	Ministry of Transport
Minister	Minister of Transport
SARP	Standard and Recommended Practices (ICAO)
SOI	Statement of Intent