

# 2009/10 ANNUAL REPORT

Civil Aviation Authority (including Aviation Security Service)

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To: The Minister of Transport

This Annual Report has been prepared in accordance with:

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

I present this annual report 2009/10 on the performance of the Civil Aviation Authority of New Zealand, including Aviation Security Service, for the financial year 01 July 2009 to 30 June 2010.



Rick Bettle

Chairman of the Civil Aviation Authority

Date: 15 October 2010



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*This 2009/10 Annual Report is a combined document of the Civil Aviation Authority of New Zealand (the CAA) and the Aviation Security Service (Avsec). It reflects the framework of the Statement of Intent 2009/12 which is the plan against which this annual report provides an account of actual performance.*

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Part 1:  
OVERVIEW OF  
THE  
AUTHORITY



# 1. Introduction from the Authority

The Authority would like to extend its appreciation to the work done by the Executive Team and staff of the Civil Aviation Authority of New Zealand (CAA and Avsec). They performed well, even beyond the call of duty, regardless of financial constraints and added responsibilities. The 1,000+ men and women of the Civil Aviation Authority made New Zealand civil aviation safer and more secure.

We also acknowledge the work contributed by former Authority members Darryll Park, Errol Millar, and Ross Crawford. We highly appreciate the contributions they have made to the CAA and Avsec during their term.

## → CIVIL AVIATION AUTHORITY (CAA)

The 2009/10 year was one of increased activity levels for the CAA with demand for regulatory services remained high. The CAA's resources have been under extreme pressure as operational expenditure trimmed to offset reduced revenue from safety levies.

Significant activities in the year included:

- amendment of Civil Aviation (Safety) Levies Order 2002 to include Australian airlines operating within New Zealand under their Australian certificates to pay passenger levies at \$1.66 per domestic sector from 4 December 2010;
- the first comprehensive review of the CAA's funding in thirteen years;
- a shared services review with Avsec addressing the value-for-money goal of the government and the planned relocation of both organisations into one building;
- the logistics required in the planned relocation to Wellington CBD from the Petone site; and
- recommendations regarding the follow-up audit by the Office of the Auditor General.

The Authority also approved the appointment of Graeme Harris, General Manager of Personnel Licensing and Aviation Services, as Chief Operating Officer of Civil Aviation in October 2009.

## → AVIATION SECURITY SERVICE (Avsec)

We are very pleased at the manner in which management and staff have responded to the volatility in the aviation sector over the last twelve months.

We particularly acknowledge the manner in which the organisation responded to the new secondary screening requirements for US-bound flights from late December 2009 and the proactive position management has taken in keeping up with the changing global aviation security environment, potential threats and new and emerging technology.

We note also the significant work that has gone into Avsec's internal Efficiency Review and the resetting of the international and domestic passenger security charges.

Avsec continues to be well positioned, both financially and with its resources and capability, to meet the improving economic times.

## → FINANCIAL UPDATE

During the financial year 2009/10, the Authority registered a total surplus of \$14.979 million (Avsec's \$15.044 million surplus and CAA's \$0.065 million deficit) compared to the budget deficit of \$3.085 million.



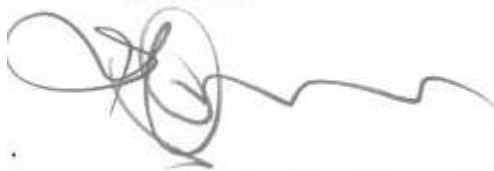
**RICK BETTLE**  
Chairman



**ANITA MAZZOLENI**  
Member



**PETER GRIFFITHS**  
Deputy Chairman



**SUSAN HUGHES**  
Member

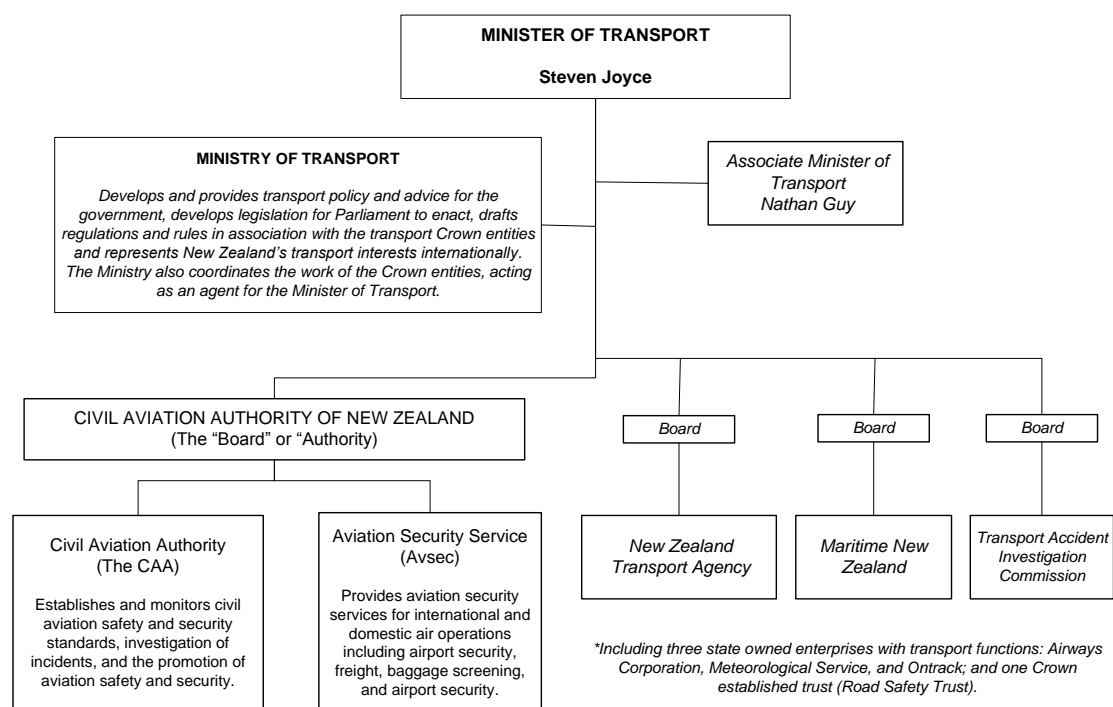


**JOHN BARTLETT**  
Member

Date signed: 15 October 2010

## 2. Nature and scope of the Authority's functions

### 2.1 NEW ZEALAND GOVERNMENT'S TRANSPORT SECTOR STRUCTURE



### 2.2 ROLE OF THE AUTHORITY

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 on safety and security regulation and service delivery of aviation security are achieved by the Authority through the work of two organisations, the CAA and Avsec respectively.

- The 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.
- Avsec 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. It holds a Rules Part 140 (aviation security service organisation certification) document issued by the Director of Civil Aviation.

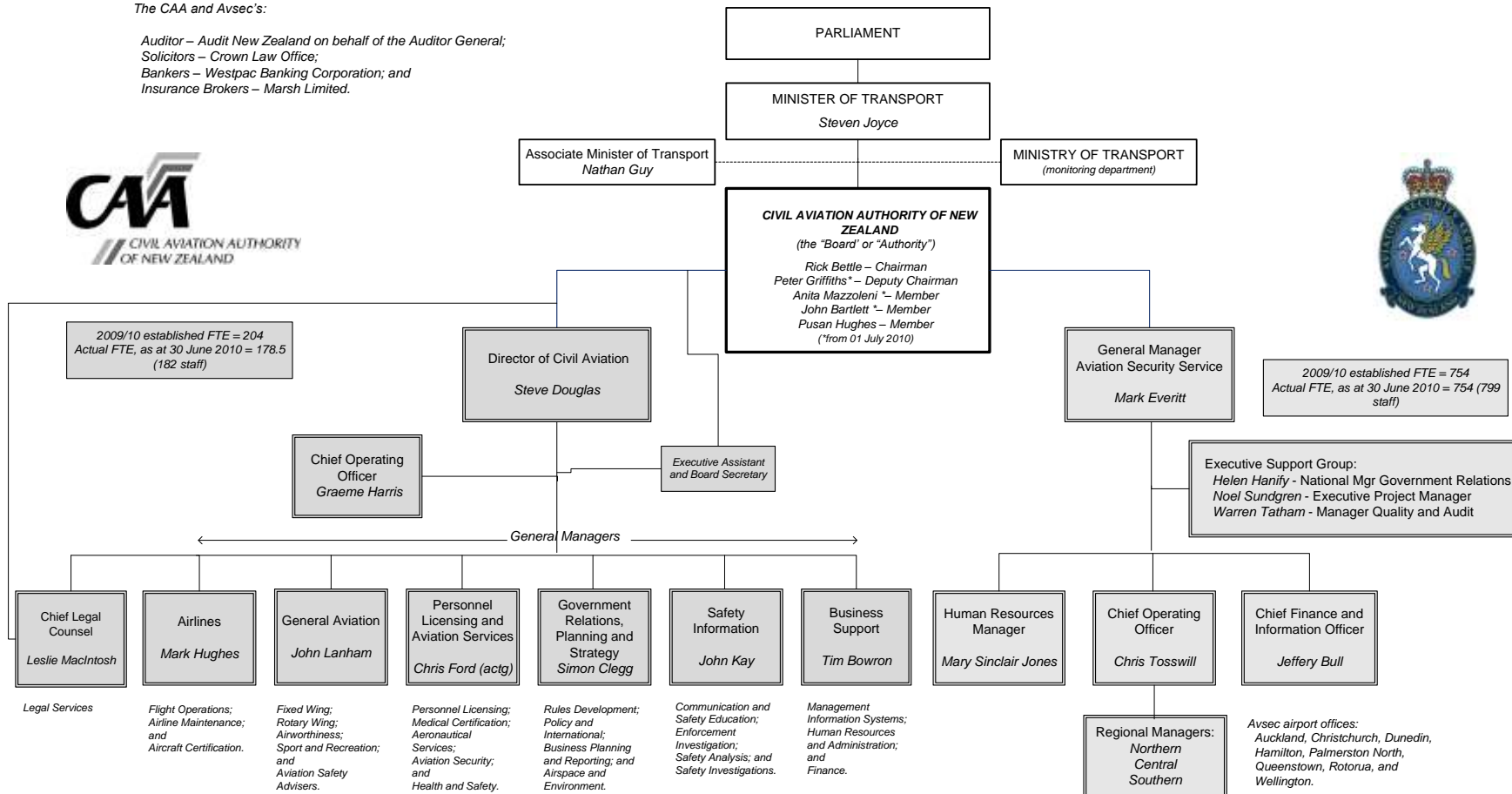
CIVIL AVIATION AUTHORITY OF NEW ZEALAND (or the Authority)	
Civil Aviation Authority (the CAA)	Aviation Security Service (Avsec)
<b>Nature and scope of our functions</b>	
<p>The CAA's roles include the provision of:</p> <ul style="list-style-type: none"> <li>o <i>Civil aviation rules development;</i></li> <li>o <i>policy advice;</i></li> <li>o <i>certification and licensing of aviation participants;</i></li> <li>o <i>monitoring of compliance (surveillance) to civil aviation safety and security standards by participants;</i></li> <li>o <i>education and promotion of aviation rules, advisory circulars and other safety and security-related information;</i></li> <li>o <i>investigation of aviation incidents;</i></li> <li>o <i>analysis of safety trends;</i></li> <li>o <i>enforcement of civil aviation legislation and rules;</i></li> <li>o <i>publication of aeronautical information; and</i></li> <li>o <i>oversight administration of the Health and Safety in Employment Act 1992 and Hazardous Substances and New Organisms Act 1996 in the aviation sector.</i></li> </ul> <p>Certain international civil aviation obligations of the Crown have been delegated to the CAA or the Director of Civil Aviation in respect of the International Civil Aviation Organization (ICAO) and the Convention on International Civil Aviation signed in Chicago on 7 December 1944. The CAA is designated by the Minister of Transport as the:</p> <ul style="list-style-type: none"> <li>o <i>Airspace Authority;</i></li> <li>o <i>Air Traffic Services Authority;</i></li> <li>o <i>Aviation Security Authority;</i></li> <li>o <i>Dangerous Goods Authority;</i></li> <li>o <i>Meteorological Authority; and</i></li> <li>o <i>Personnel Licensing Authority.</i></li> </ul> <p>Some functions and powers of the Director of Civil Aviation are delegated with the consent of the Minister to individuals outside of the CAA under section 23B of the Civil Aviation Act:</p> <ul style="list-style-type: none"> <li>o <i>the Director has undertaken, with the consent of the Minister of Transport, to delegate written and practical flight examinations; and</i></li> <li>o <i>the CAA has contracted out the provision of ICAO-defined aeronautical information publication (AIP), aeronautical charts, and meteorological services for international air navigation.</i></li> </ul>	<p>The Aviation Security Service (Avsec) is a separate service of the Civil Aviation Authority (the Authority). Avsec provides specialised aviation security services at eight security designated airports, including international and domestic operations.</p> <p>Avsec's primary responsibility is to enhance the security of the travelling public by preventing acts of unlawful interference against aircraft and ensuring that threat items are not carried onto the aircraft.</p> <p>Avsec's aviation security activities consist of five principal programmes:</p> <ul style="list-style-type: none"> <li>o <i>Screening passengers and their carry-on baggage</i> <i>Avsec is responsible for pre-board screening at eight security-designated airports*. In the screening process, passengers and their carry-on baggage are inspected to ensure that prohibited items such as knives, firearms, incendiary devices, weapons, dangerous goods, explosives, or any other threat items are not carried onto the aircraft. The screening process in the international environment also ensures passengers do not take more than the permitted quantity of liquids, aerosols, and gels (LAGs) into the cabin of the aircraft.</i></li> </ul> <p><i>*All departing international passengers and their carry-on baggage are screened. All departing domestic passengers and their carry-on baggage are screened where the passenger is travelling on aircraft with seats for 90 or more regular and charter air passengers.</i></p> <ul style="list-style-type: none"> <li>o <i>Screening checked baggage</i> <i>Utilising explosive detection equipment, Avsec screens all checked passenger baggage at international airports for threat items.</i></li> <li>o <i>Airport access controls</i> <i>Undertakes perimeter patrols at security-designated aerodromes, together with patrols of aircraft and aircraft searches, to ensure the prompt interception of persons unlawfully in security areas (including verification of Airport Identity Cards) and increased safety for the flying public.</i></li> <li>o <i>Non-passenger screening</i> <i>Screening of airport workers with access to, and within enhanced security areas at international airports.</i></li> <li>o <i>Managing the Airport Identify Card System</i> <i>Through delegation by the Director of Civil Aviation, Avsec issues airport identify cards.</i></li> <li>o <i>Avsec also provides other aviation related screening services (e.g. Maritime security services).</i></li> </ul> <p><i>The National Aviation Security Programme, with other key statutes, form the key domestic guidance for Avsec activities.</i></p>
<b>Enabling legislation (key statutes)</b>	
<ul style="list-style-type: none"> <li>o <i>Civil Aviation Act 1990;</i></li> <li>o <i>Civil Aviation Rules;</i></li> <li>o <i>Civil Aviation (Safety) Levies Order 2002;</i></li> <li>o <i>Health and Safety in Employment Act 1992 (aviation sector only); and</i></li> <li>o <i>Hazardous Substances and New Organisms Act 1996 (aviation sector only).</i></li> </ul>	<ul style="list-style-type: none"> <li>o <i>Civil Aviation Act 1990 (Section 80);</i></li> <li>o <i>Civil Aviation Rule Part 140;</i></li> <li>o <i>Aviation Passenger Security Charges;</i></li> <li>o <i>Aviation Crimes Act 1972;</i></li> <li>o <i>Crimes Act 1961; and</i></li> <li>o <i>Bill of Rights Act 1990.</i></li> </ul> <p><i>Maritime Security Act 2004 provided the Minister with the power to designate Avsec as a Maritime Security Org.</i></p>
<b>Resource base</b>	
<p>The CAA has an established staff component of 204 full-time equivalents (FTE) and has 178.5 FTE (182 staff) as at 30 June 2010.</p>	<p>Avsec has an established staff component of 799 staff (754 full-time equivalents). It has a uniformed and ranked culture at the operational level.</p>

## 2.3 THE AUTHORITY'S STRUCTURE

The offices of the Director of Civil Aviation and the General Manager of Aviation Security Service are established by section 72I and 72L of the Civil Aviation Act 1990 respectively.

The CAA and Avsec's:

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



- Authority Members who served in 2009/10: Darryll Park, Errol Millar, and Ross Crawford.

## 2.4 GOVERNANCE AND ACCOUNTABILITY STATEMENT OF THE AUTHORITY

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

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

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

### → RESONSIBILITIES

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

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

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

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

### → INTERNAL AUDIT

While many of the Authority's statutory functions have been delegated to the CAA and Avsec, the overall responsibility for maintaining effective systems of organisational control remains with the Authority.

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

Both the CAA and Avsec have internal audit functions that monitor internal controls of the respective organisations. This function is concerned with the quality and reliability of financial and non-financial information reported to the Authority. Internal Audit operates independently of line management. It reports through the executive management to the Audit and Risk Management Committee of the Authority. In the case of the CAA, the internal audit function is outsourced.

→ RISK MANAGEMENT

The Authority acknowledges that it is ultimately responsible for the management of organisational risks. The Authority has required the Director of Civil Aviation and the General Manager of Aviation Security Service, through their respective risk management policies to establish and operate a risk management programme.

→ LEGISLATIVE COMPLIANCE

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

→ ETHICS

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

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

→ STANDARD FOR QUALITY MANAGEMENT

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

→ ENGAGEMENT WITH STAKEHOLDERS

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

## 3. Key factors affecting the Authority's operating environment in 2009/10

### 3.1 CONTRIBUTION TO GOVERNMENT GOALS

#### → VALUE-FOR-MONEY EXPECTATIONS<sup>1</sup>

##### Avsec and CAA Shared Services Review

The Authority has an on-going "Value-for-Money" development programme that includes the possible shared services of the CAA and Avsec.

- The planned re-location of both organisations into one building in central Wellington has provided the opportunity for operational efficiency gains through shared (consolidation of back office support functions) corporate support services, improving the 'value-for-money' proposition of both organisations.
- The project investigated and recommended the most effective and cost efficient means of providing any services required to support Avsec and CAA statutory functions while retaining the segregation required by existing legislative requirements.
- The analysis project was completed on 9<sup>th</sup> June 2010. Final decisions on any rationalisations or other changes have yet to be made.

#### → EMBRACING THE GOVERNMENT'S ECONOMIC GROWTH AGENDA

The Authority serves the public interest in aviation safety and security; the main stakeholders are the public and all who use the services of the civil aviation system. A safe and secure civil aviation system contributes to the economic growth and social fabric of a country.

Although the Authority is not responsible for air services<sup>2</sup> negotiations with other countries, a safe and secure civil aviation system is a factor considered by carriers to fly within the airspace of another country (regardless of air services agreements). Economic<sup>3</sup> benefits that the Authority contributed (but not limited) to are:

- connection of New Zealand with the rest of world, a safe and secure civil aviation access to global markets, essential for global business and tourism;
- increase of foreign visitors' aviation safety and security confidence between their countries and New Zealand, including their air travel within New Zealand;
- increase of business confidence among international and domestic aviation service providers, businesses, international and domestic airlines participating in the New Zealand civil aviation system;
- forging links between New Zealand and the other 189 ICAO Contracting States, including the Pacific Island States; and
- supporting employment in the New Zealand civil aviation system, and freight<sup>4</sup> (e.g. air freight forwarders, especially in the transport of time-sensitive exports and imports like perishables).

<sup>1</sup> The Authority is engaged in a number of value-for-money action plans which are reflected on pages 16 and 17 of its SOI 2010/13.

<sup>2</sup> Air services negotiations are the responsibility of the Ministry of Transport

<sup>3</sup> Aviation's global economic impact is estimated at USD 3,560 billion, equivalent to 7.5% of world gross domestic product. ([www.atag.org](http://www.atag.org), "The economic and social benefits of air transport", 2008)

<sup>4</sup> Rule Part 109, regulated air cargo agent - certification

### 3.2 COMPLIANCE WITH INTERNATIONAL CIVIL AVIATION STANDARDS

New Zealand is a signatory to the Chicago Convention. The Standards and Recommended Practices (SARPs) of the International Civil Aviation Organisation (ICAO) promote uniformity in the regulation of international civil aviation set out in the 18 Annexes to the Chicago Convention.

ICAO is the global forum for civil aviation. It works to achieve its vision of safe, secure, and sustainable development of civil aviation through cooperation among its 190 Contracting States.

Reflected in ICAO SARPs are global civil aviation changes, which support the promotion of uniformity in the regulation of international civil aviation. These SARPs are reflected in the New Zealand civil aviation rules for implementation in the New Zealand civil aviation system.

### 3.3 INTERNATIONAL AND DOMESTIC AIR PASSENGER TRAFFIC MOVEMENT

Air passengers (count)	Year-end June				2010 annual change vs. 2009
	2007	2008	2009	2010	
Total international passenger departures*	4,359,298	4,436,717	4,312,686	4,452,310	+3%
<b>Total domestic passengers recorded by:</b>					
CAA (all domestic operators)**	8,894,997	9,777,968	9,507,548	9,243,532	-3%
Avsec (limited to aircraft with seating capacity of 90 seats or more)	5,024,706	5,654,619	5,620,650	5,703,733	+1.48%
*Source: CAA Finance					
** The CAA domestic passengers data for 2009/10 are understated compared with the actual domestic passengers carried (estimated at >9.5 million). During the period 10 Jun - 03 Dec 2009, Australian Operating Certificates (AOC) carriers (e.g. Jetstar and Qantas) used their ANZA privileges which exempted them from paying passenger safety levies to the CAA. On 04 Dec 2009, the Civil Aviation (Safety) Levies Order 2002 was amended where Australian carriers with ANZA privileges operating within New Zealand will pay a levy of \$1.66 (from \$2.00 prior ANZA affectivity date) per domestic passenger sector.					

In 2009/10, international departures increased by 3% (2009/10: 4.452 million) compared with the previous year (2008/09: 4.31 million). The long-term outlook for inbound tourism is positive; Tourism Research forecasts the average annual growth at 3.5% from 2010 to 2016 with a peak increase in passenger traffic movement in September-October 2011 due to the Rugby World Cup.

In 2009/10, more than 9 million passengers travelled on New Zealand's domestic airline services. The CAA's passenger count in 2009/10 is understated due to the exclusion of passengers carried by Australian carriers with ANZA privileges in the domestic route. Total number of domestic passengers is estimated to have reached the 9.5 million mark in 2009/10.

The Authority's funding is directly dependent on passenger safety levies and passenger security charges. As such, the Authority closely monitors international and domestic air passenger movement.

Regardless of funding fluctuations, the Authority is committed to providing a "safe and secure civil aviation" for the New Zealand public, those who use New Zealand airspace, aviation service providers, and the international aviation community.

On 17 October 2010, Pacific Blue, a low cost carrier or LCC, will cease all domestic flights. The Authority is expecting domestic passenger traffic movement to alter as a consequence affecting the revenues of the Authority.

### 3.4 RELOCATION TO A NEW OFFICE SITE

Avsec moved to new premises at Level 14, 55 Featherston St. on 12 October 2010, while the CAA will move in January 2011.

Part 1a:  
CIVIL AVIATION  
AUTHORITY OF  
NEW ZEALAND  
(THE CAA)



## 4.

## Introduction from the Director of Civil Aviation

The 2009/10 year has been one of significant change for the CAA. The organisation is undertaking work on a comprehensive Funding Review and has embarked on an extensive programme of change to strengthen its business processes and improve its capability and performance. The Office of the Auditor General published its report of its 2009 Follow-Up Audit of the CAA's certification and surveillance functions. The report is critical of the lack of progress made in addressing all the recommendations made in its 2005 audit and makes 14 recommendations for improvements. The Auditor General's report has helped the CAA focus key elements of its work programme, and to make substantive changes to systems, processes and documentation that will result in better safety outcomes.

### Highlights of the Year

#### *Funding Review*

The CAA commenced work on a funding review in early 2009. The review initially focused on revenue from fees and charges and a financial analysis of the costs and sources of funding for the CAA's regulatory functions was undertaken to support this. The commencement of domestic operations by Jetstar in June 2009 necessitated amendment of the Civil Aviation (Safety) Levies Order 2002 to include coverage of operators operating in New Zealand under the ANZA Mutual Recognition Arrangement. With the Levies Order in place in December 2009, and a principal source of CAA's funding restored, the scope of a comprehensive funding review was agreed covering all sources of CAA funding. The review team has developed funding proposals and a consultation document will be released for public consultation in the first quarter of 2010/11.

#### *Safety Performance of the Civil Aviation System*

In 2005 the CAA set targets for the safety performance of the civil aviation system. The system was split into thirteen safety target groups; each representing types of civil aviation activity. Of these thirteen groups, seven are performing at, or better than the target set, while five groups are not.

Of these five groups, three have trends that show steadily improving safety performance, and two are moving away from the target. These two groups are "Sport Aviation Transport Operations" and "Other Commercial Operations — Helicopter".

In response to the safety performance data for these five groups the CAA has put in place initiatives designed to address the causes of poor safety performance. The effectiveness of these initiatives will be demonstrated in time. However, based on current performance, these five groups will not meet the safety performance targets set for them in 2005. The safety performance exhibited by these target groups are fitting reminders of the role and purpose of the CAA.

During the 2010/11 year, the CAA will be working with industry participants to set new safety performance targets. New targets are likely to have a ten year life. For those parts of the civil aviation system struggling to meet current targets, new targets over a longer timeframe may pose a significant challenge.

### ***Review by the Office the Auditor General***

The OAG Report of its 2009 follow-up audit of CAA's certification and surveillance functions was released in May 2010. The report makes 14 recommendations under four main headings:

- Governance and accountability;
- Clarifying regulatory focus and providing better guidance to CAA staff;
- Improving management practices; and
- Improving management oversight of new certification and surveillance processes.

The CAA has fully accepted the recommendations made by the Auditor General with respect to how it can improve the performance of its core regulatory functions. A new Chief Operating Officer role has been created within the Executive team to assist me to drive through the changes necessary to address the OAG recommendations, and to improve the capability of the organisation as part of a wider performance improvement programme.

The CAA will report to the Minister as part of its regular quarterly reports on its progress with implementation of the OAG's recommendations, with the first report due in October 2010.

### ***Changing how the CAA Operates and Develops***

Over the year under review, the CAA continued several programmes of work to help it lift its overall performance. These included:

- Significant work to improve the CAA's certification processes;
- Revising the CAA's outcome and output measurement framework;
- Development and delivery by CAA staff of training programmes for staff to ensure better consistency and regulatory decision making; and
- The temporary detachment of Managers and other key staff as required to lead projects of strategic importance to the CAA

### ***International Responsibilities and Cooperation***

Civil Aviation is an international system. The CAA works within the framework set by the International Civil Aviation Organisation (ICAO), and adopts ICAO Standards through Civil Aviation Rules.

Over the last year, the CAA has:

- Provided ongoing assistance to the Pacific Aviation Safety Office (PASO) in developing its capability as a regional oversight organisation;
- Attended a High Level Safety Conference hosted by the ICAO, in preparation for the triennial assembly meeting in September/October 2010;
- Developed and submitted a Performance Based Navigation Plan (PBN) in accordance with an ICAO timetable; and
- Progressed work on the development and implementation of Safety Management Systems and a State Safety Programme.

### ***Looking Ahead***

For a long-time the CAA has been focussed almost solely on the sector it oversees. While the benefits of being outwardly focussed have been strong, it has been accompanied by a lower level of attention to the development of systems, training and tools for its people than is ideal. The challenges facing the CAA currently are those of organisational capability and performance. The next few years will see the CAA focus more on how it does its job, building on its current strengths and adding new capability.

Good progress has been made in the 2009/10 year on the work that CAA has underway to improve the way it performs its regulatory role and functions, and its effectiveness as the aviation safety and security regulator. The CAA is committed to ensuring that gains that have been made in the safety performance of the civil aviation system are retained and built upon in the future – for the benefit of all of us who use and rely upon the safe operation of the civil aviation system.



STEVE DOUGLAS

Director of Civil Aviation

## 5. Our operating environment

In addition to those reflected in section 3, our operating environment also includes the following:

### 5.1 CIVIL AVIATION RULES

Civil Aviation Rules are secondary legislation made under Part 3 of the Act. Aviation participants are required to comply with rules relevant to the aviation document that they hold.

The Rules must be consistent with ICAO standards. Other than that, they must take into account a broad range of considerations including the recommended practices of ICAO, the level of risk pertaining to a particular activity within New Zealand, and the cost of implementing proposed measures.

### 5.2 AVIATION DOCUMENT HOLDERS<sup>5</sup>

New Zealand's civil aviation sector continued to grow in 2009/10. As at 30 June 2010:

- active aviation documents covering aircraft, individuals and organisations increased by 4% to 49,525 (2008/09:47,827);
- the total number of certificated organisations increased by 5% to 746 (2008/09:709);
- the number of active licensed pilots increased by 3% to 10,368 (2008/09:10,052); and
- the total number of aircraft in the NZ aviation fleet increased by 1% to 4,442 (2008/09:4,398).

#### **EXPECTATIONS FROM AVIATION DOCUMENT HOLDERS INCLUDING PARTICIPANTS IN THE NZ CIVIL AVIATION SYSTEM**

*The Authority expects to continue its collaborative work with the civil aviation community to enhance aviation safety and security in New Zealand.*

*It expects all participants in the civil aviation system to conduct their activities safely and in accordance with prescribed safety standards and practices. Participants are expected to:*

- *fully understand the roles and responsibilities attached to their aviation document(s);*
- *comply with the Civil Aviation Act 1990 and Civil Aviation Rules;*
- *establish and follow documented safety standards and procedures;*
- *demonstrate a commitment to safe and secure practices within their organization so as to maintain compliance with the relevant safety standards and conditions attached to the aviation document(s);*
- *report all safety and security occurrences to the CAA; and*
- *implement all corrective actions required by the CAA in the time set.*

*Participants should expect the Director of the Civil Aviation to exercise his powers, when necessary, to:*

- *carry out safety and security inspections and monitoring;*
- *investigate holder of an aviation documents;*
- *require corrective actions to be implemented by aviation document holders;*
- *impose conditions or suspend an aviation documents;*
- *revoke, partially revoke, or impose permanent conditions to aviation documents; and*
- *detain aircraft, seize aeronautical products, and impose prohibitions and conditions*

<sup>5</sup> Refer to [www.caa.govt.nz](http://www.caa.govt.nz) for updated list of aviation document holders.

## 6. Progress report on our strategic directions and operating intentions

### 6.1 OVERVIEW OF OUR 2009/10 STRATEGIC PRIORITIES

The Authority and the CAA Executive Team considered the current and future needs of New Zealand civil aviation and its international linkages in planning for strategic priorities.

Civil aviation stakeholders seek a safe, secure, efficient and effective civil aviation from the work of the regulator. Specifically:

- the New Zealand public wants confidence in New Zealand civil aviation, the travelling public arrive safe and secure at their destinations;
- businesses depend on air transport to bring people to businesses, products to markets, and tourists to holiday destinations;
- the government requires value-for-money, good advice, support, and contribution to achieving its priorities;
- aviation participants want appropriate and equitable regulation; and
- international civil aviation organizations and other State aviation authorities want to deal with a civil aviation regulator that can provide responsible technical and regulatory interaction and assistance.

The CAA's five strategic priorities in 2009/10 which supported the achievement of its outputs (refer to Part 2, section 17.1) and outcomes (refer to section 6.4):

- effective entry control and monitoring;
- effective analysis and intervention;
- international alignment and effective engagement;
- responsive to aviation sector changes; and
- capable and efficient business operations, information systems, and people.

CAA's 2009/10 strategic priorities	Output Classes			
	1. Policy advice	2. Assessment and certification	3. Investigation, analysis and education	4. Enforcement
Strategic priorities that reflect the CAA's regulatory obligations:				
1. Effective entry control and monitoring.	→	→	→	→
2. Effective analysis and intervention.	→	→	→	
3. International alignment and effective engagement.	→	→	→	
4. Responsive to aviation sector changes.	→	→	→	
Strategic priority that reflects the CAA's capability intentions.				
5. Capable and efficient business operations, information systems, and people.	→	→	→	→

Sections 6.2 and 6.3 describe the CAA's operating intentions and major work programmes to achieve each regulatory strategic priority.

## 6.2 PROGRESS REPORT ON OUR OPERATING INTENTIONS TO SUPPORT ACHIEVEMENT OF OUR REGULATORY STRATEGIC PRIORITIES

The following tables provide information on our progress in delivering our regulatory strategic priorities one to four. (Strategic Priority 5: Capable and efficient business processes, systems and people, is discussed in section 8).

Evaluation on the effectiveness of operating intentions as a tool to achieve the objectives of strategic priorities was not conducted during the year. Firstly, it is too early to evaluate. Strategic priorities and operating intentions were in place in 2009/10 and enough time is needed for operating intentions to achieve their purpose. Secondly, the recently published Office of the Auditor General (OAG) report on the CAA's surveillance and certification work is more than enough to shed light on regulatory issues faced by the CAA. The achievement of the OAG recommendations will be a priority in the short-term.

The CAA's monitoring of its overall performance target portfolio (discussed in section 6.4) has been used to determine how well operating intentions and programmes contributed to the achievement of its intermediate and overall outcomes.

### → STRATEGIC PRIORITY 1: EFFECTIVE ENTRY CONTROL AND MONITORING

What this means to the CAA

The CAA wants to ensure that its entry control and monitoring (surveillance) is effective as a requisite to a safer and more secure New Zealand civil aviation system. Specifically, this means that the CAA:

- has a surveillance methodology that produces clear safety benefits or outcomes;
- has robust knowledge of participants' risks;
- has an active engagement with the aviation community in identifying non-compliance and risks;
- ensures its interventions are closely linked with risk assessment; and
- uses a surveillance methodology that is transparent.

PROGRESS REPORT ON STRATEGIC PRIORITY 1: EFFECTIVE ENTRY CONTROL AND MONITORING		
Work to achieve strategic priority no. 1:	What has been done in 2009/10	Estimated completion date
1. Improve effectiveness of surveillance system.	Enhanced training and development in conjunction with Certification and Surveillance Improvement Projects.	
a) Fix surveillance systems tools, method and business processes.		2010/11
b) Update surveillance policy and reinforce this with staff.		Completed in 2009/10
c) Improve targeting of surveillance.		2010/11
d) Improve competence in using the surveillance system.		2011/12
2. Improve management and implementation of corrective actions.	Commenced review/update of the Surveillance Process. Introduced new service performance measures for output class 2, certification and assessment, which will take effect in 2010/11.	2010/11
3. Strengthen entry controls.	Updated/reviewed the Certification Policy.	2010/11
4. Refine the risk profiling methodology.	Work is on-going to further improve the risk-based surveillance system.	2010/11
5. Scope and document parameters of regulatory tools available to the CAA.	Development of Regulatory Tools Policy which aimed to: <ul style="list-style-type: none"> <li>○ clarify how its regulatory focus is to be applied in practice through certification,</li> </ul>	2010/11

PROGRESS REPORT ON STRATEGIC PRIORITY 1: EFFECTIVE ENTRY CONTROL AND MONITORING		
Work to achieve strategic priority no. 1:	What has been done in 2009/10	Estimated completion date
	surveillance, and other regulatory action; <ul style="list-style-type: none"> <li>○ provide more detailed guidance to staff about what circumstances constitute a significant risk to public safety; and</li> <li>○ mitigate safety risks.</li> </ul>	

→ STRATEGIC PRIORITY 2: EFFECTIVE ANALYSIS AND INTERVENTION

What this means to the CAA

Section 74 (2)(d) of the Civil Aviation Act mandates the Authority to maintain and preserve records and documents relating to activities within the civil aviation system. Rule Part 12 requires the provision of accident and incident information.

Accurate information is vital to decision-making. The trends and profiles identified from safety data should have enabled the CAA make realistic recommendations, and take specific initiatives (or interventions) aimed at defined parts of the New Zealand civil aviation system. However, this was partly achieved in 2009/10. The CAA addressed the quality of data first.

- The CAA is taking steps to improve the integrity and reliability of safety data. A policy about collecting and using safety data was approved in July 2008. This policy identifies the purposes for which the data will be used, which should lead to better classification and analysis so that it can be used to better inform regulatory decision-making. The policy is estimated to be fully implemented in December 2011.

What does “effective analysis and intervention” mean to the CAA?

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

PROGRESS REPORT ON STRATEGIC PRIORITY 2: EFFECTIVE ANALYSIS AND INTERVENTION		
Work to achieve strategic priority no. 2:	What has been done in 2009/10	Estimated completion date
1. Develop measures of the macro-level effectiveness of intervention tools.	The CAA has commissioned work to develop an evaluation methodology to determine the effectiveness of its interventions.  The evaluation methodology adapted will address the systematic acquisition and assessment of information to provide a useful feedback in the business planning cycle.	2011/12
a) Define aviation community safety and security behaviours, interconnection, and cause and effect.		
b) Build methodology to assess intervention benefits and model.		
c) Evaluate various models of 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.)		
2. Develop, publish, and implement policies on the management and use of safety and security information for internal and public purposes.	The CAA has settled on the principles that govern how it manages and uses safety data and information. Changes to the way in which information is managed have been initiated (e.g. a single location for data entry). Industry has been advised of the principles, and a policy document has been developed based on those principles.	2011/12

PROGRESS REPORT ON STRATEGIC PRIORITY 2: EFFECTIVE ANALYSIS AND INTERVENTION		
Work to achieve strategic priority no. 2:	What has been done in 2009/10	Estimated completion date
3. 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.	Postponed to commence in 2011/12 pending results of the Funding Review.	2011/12
4. 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.)	The CAA undertook further work to establish a new set of performance measures. Changes made are reflected in the 2010/13 SOI to include new outcome and output measures.	2011/12
5. Develop better measures of safety and security performance, review safety targets, and redefine as necessary.	The CAA will start reporting on the progress of these new measures from October 2010.	2011/12
<i>Note: The above activities are closely related to the implementation of Safety Management Systems.</i>		

### → STRATEGIC PRIORITY 3: INTERNATIONAL ALIGNMENT AND EFFECTIVE MANAGEMENT

#### What this means to the CAA

To participate effectively in international civil aviation, New Zealand needs to meet its international obligations, and where appropriate, to influence those. The CAA is handling the majority of this work.

For the CAA these obligations mean that:

- the government has confidence 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 the CAA by the Crown; and
- New Zealand's civil aviation rules are aligned with international standards and practices.

PROGRESS REPORT ON STRATEGIC PRIORITY 3: INTERNATIONAL ALIGNMENT AND EFFECTIVE MANAGEMENT		
Work to achieve strategic priority no. 3:	What has been done in 2009/10	Estimated completion date
1. Build capacity and capability to maintain appropriate alignment with ICAO Standards.	A comprehensive review of New Zealand's compliance with ICAO Standards is almost complete, in preparation for the commissioning of ICAO's electronic filing of differences (EFOD) system. This will provide an accurate analysis of the level of compliance, as well as ready identification of new rules issues.	2011/12
2. Address differences to ICAO Standards.	Work is ongoing on compliance statements for input into ICAO's new electronic filing system.	2010/11
3. Establish, publish, and follow priority areas for the engagement with appropriate ICAO and related decision-making forums and study groups in the development of New Zealand standards and implementation of ICAO requirements.	The CAA centralised its representation travel programme. The CAA has nominated an observer to the ICAO Air Navigation Commission to better monitor ICAO's programme of standard development. CAA has permanent representation on Avsec Panel and is seeking permanent observer role on CAEP. The CAA continued to support the work of other ICAO Panels and Study Groups to which it nominated experts (e.g. Performance Based Navigation Study Group, Separation	On-going

PROGRESS REPORT ON STRATEGIC PRIORITY 3: INTERNATIONAL ALIGNMENT AND EFFECTIVE MANAGEMENT		
Work to achieve strategic priority no. 3:	What has been done in 2009/10	Estimated completion date
	and Airspace Safety Panel, and Dangerous Goods Panel).	
4. Development and implementation of multi-lateral technical or policy arrangements with other countries.	<p>USA: Progress has been made in engaging with the FAA with a view to extending the present arrangement relating to aircraft certification. However, cost issues (arising from the FAA's new charging policy) may limit CAA's ability to exploit this opportunity.</p> <p>Europe: Supported maintenance of existing arrangement with EASA (Design and Production approvals) and development of other opportunities for the expansion of the agreement.</p> <p>Canada: Maintenance of existing arrangement on aircraft maintenance .</p>	On-going

➔ STRATEGIC PRIORITY 4: RESPONSIVE TO AVIATION SECTOR CHANGES

What this means to the CAA

As regulators, the CAA must be abreast with all the dynamic technological changes in aviation affecting its roles and responsibilities. The CAA needs to upgrade skills and knowledge of staff. Responding to these changes is expenditure-intensive. The CAA must continue to ensure that:

- technological risk is assessed and understood;
- economic impact of regulatory changes is understood;
- it is flexible and open in the application of technology within the sector; and
- it is organisationally flexible, and up-to-date with new technology to support its operations.

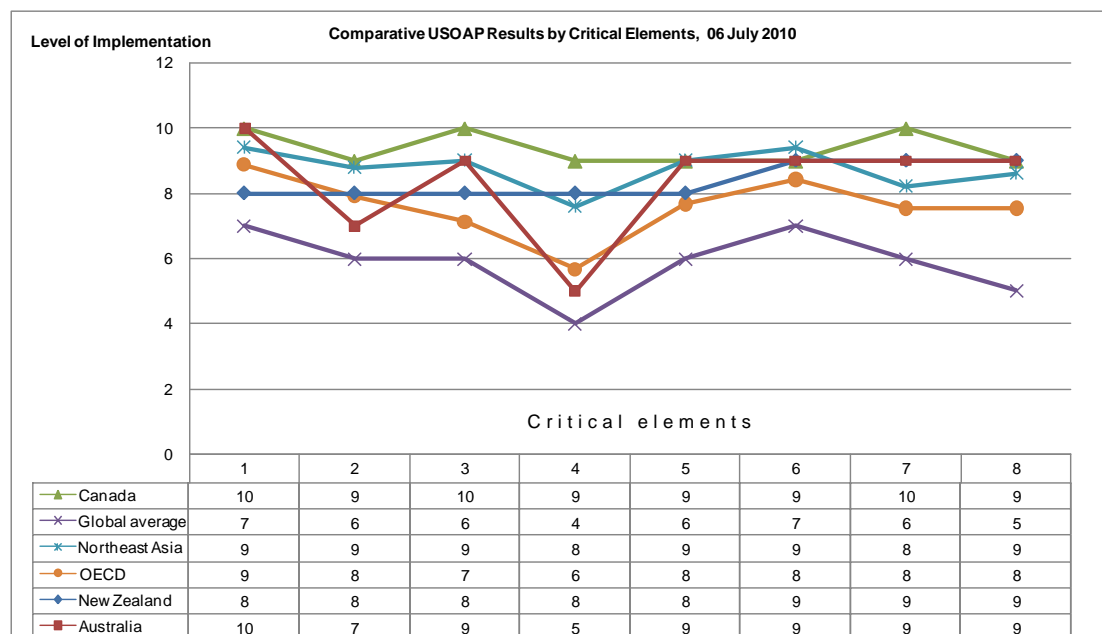
PROGRESS REPORT ON STRATEGIC PRIORITY 4: RESPONSIVE TO AVIATION SECTOR CHANGES		
Work to achieve strategic priority no. 4:	What has been done in 2009/10	Estimated completion date
1. Review alternative methods for the development and delivery of rules.	Commenced review of alternative methods of delivering the rules outcome including the creation of a more flexible regulatory development system.	2011/12
2. Establish the Airspace and Environmental Unit.	The Unit was established during the financial year.	Completed in 2009/10
3. Support bio-fuel experimentation and other sustainability developments.	Liaised with industry regarding airspace and environmental policy issues.	On-going
4. Align and build skills, capacity, and capability reflecting the future civil aviation environment.	Being considered in the Funding Review.	Later than 2011
5. Develop and monitor stakeholder relationship initiatives that reflect the stakeholders' roles in civil aviation.	Liaised with the national regulators of other states, industry, non-aviation organisations on aviation technological changes.	On-going

## 6.3 PROGRESS REPORT ON OUR MAJOR WORK PROGRAMMES

### ➔ CURRENT ICAO-RELATED PROGRAMMES

#### 1. Completion of corrective actions following USOAP

##### *New Zealand civil aviation safety ratings vs. other ICAO Contracting States*



Source: [http://www.icao.int/FSIX/auditRep1\\_icvm.cfm](http://www.icao.int/FSIX/auditRep1_icvm.cfm)

1. Level of implementation: 1=not implemented, 10=fully implemented
2. Critical elements: 1 primary legislation; 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 excludes Iceland, Ireland, Spain, Switzerland, Japan and Finland – due unavailability of data.
4. Northeast Asia: PROC, Hong Kong SAR, North Korea, South Korea. No data available yet for Japan and Taiwan (ROC).

### Benefits

New Zealand's compliance with international aviation safety and security standards.

#### *What has been done?*

Implementation of corrective actions, within the statutory role and responsibilities of the CAA, started in early 2007. Completion of all corrective actions is scheduled to occur in 2011/13.

For the 61 findings, CAA proposed 138 corrective actions of which 93 (2008/09:83) had been completed as at the 30 June 2010, 37 (2008/09:42) are ongoing and 8 (2008/09:13) have not been started yet due to capacity constraints.

USOAP: CAA Corrective Action Plan Status Report Summary, as at 30 June 2010					
Critical element	Number of findings	Number of corrective actions proposed			
		Completed	Ongoing	Not started	Total
1. Primary aviation legislation and civil aviation regulations (LEG)	4	1	10	0	11
2. Civil aviation organisation (ORG)	1	3	0	0	3
3. Airworthiness of aircraft (AIR)	10	17	7	2	26
4. Air navigation services (ANS)	13	21	13	0	34
5. Aircraft operations certification and supervision (OPS)	6	12	0	4	16
6. Aerodromes (AGA)	9	15	3	2	20
7. Aircraft accident and incident investigation (AIG)	18	24	4	0	28
as at 30 June 2010	Total number of corrective actions	61	93	37	138
	%		67.4%	26.8%	100%
as at 30 June 2009	Total number of corrective actions	61	83	13	138
	%		60.2%	9.4%	100.0%
as at 30 June 2008	Total number of corrective actions	61	59	16	138
	%		42.8%	11.6%	100.0%

CAA Status Report on Rules Development related to USOAP, as at 30 June 2010			
Civil Aviation Rules Part	Estimated Timelines		
	Draft NPRM to the Minister of Transport	Final draft rule to the Minister of Transport	Minister signs rule (completion)
ICAO - Part 139, aerodromes, review	Apr 2011	Nov 2011	Apr 2012
ICAO - Part 172, air traffic service organisations-certification, review	Mar 2011	Oct 2011	Mar 2012
ICAO - Part 125, air operations-medium aeroplanes		Aug 2010	Dec 2010
ICAO - Operational compliance	Feb 2011	Sep 2011	Feb 2012
ICAO – Equipment compliance	Aug 2010	Feb 2011	Jun 2011
ICAO – Article 83bis	Post 2011		
ICAO – General Aviation modernisation	Post 2011		
ICAO - Security	Nov 2010	Jun 2011	Nov 2011

## 2. Implementation of Safety Management Systems (SMS)

### *Description*

In early 2009, ICAO has mandated that Contracting States systematically move towards implementing Safety Management Systems (SMS) as a means of enhancing safety in the civil aviation system. SMS embody a risk-based approach to managing safety. In essence, SMS places the onus on a participant to identify risks, and put in place actions to mitigate those risks. The State has the same responsibility; meaning that the CAA will need to develop new ways of identifying risks with respect to the civil aviation system, and actively put in place actions to mitigate them.

### *Benefits*

SMS is information intensive. The CAA is working on how to improve the information it has such that it can robustly assess the effectiveness of its actions in mitigating risks in the civil aviation system.

- Safety becomes a core business driver for participants, and should lower the costs of business through reduction of risk.

- The CAA will be better able to target its resources and mitigate risks earlier, resulting in better safety outcomes.

*What has been done?*

The CAA started work that will eventually lead to the development of new Civil Aviation Rules, which will mandate the use of SMS.

The CAA has also started work on what the changes at the State level mean on the way in which it works. Work done to progress achievement of Strategic Priority 2, reflected in section 6.2, are closely associated with the implementation of SMS.

### 3. Performance Based Navigation (PBN) Implementation Plan

*Description*

In 2007, ICAO passed a General Assembly resolution that called on States to complete a Performance Based Navigation (PBN) Implementation Plan by December 2009. PBN encompasses a shift from reliance on ground-based navigation aids to non-sensor specific aircraft systems with specified navigation performance capability, using the input from satellite navigation, inertial and terrestrial systems. PBN allows aircraft to fly on efficient or optimal noise abatement routes, and offers the possibility of segregated routes for air traffic management and constant climb/descent profiles.

*Benefits*

To provide a high-level strategy on navigation applications in New Zealand airspace. The plan will enable stakeholders in the aviation community to plan for regulatory changes, industry training, operational transitions, and the associated investment actions.

*What has been done?*

The New Zealand PBN Implementation Plan was provided to ICAO on 18 December 2009. An initial work plan is currently under development to address issues in the register and to work with identified groups, including technical representatives, to ensure that the plan is progressing in accordance with stakeholders' interests and ICAO requirements.

The implementation of PBN in New Zealand controlled airspace will be delivered in three phases: prior to Dec 2012 (short-term), 2013-2017 (medium term), and beyond 2018 (long-term).

### 4. Development of NZ's National Airspace and Air Navigation Plan

*Description*

The Ministry of Transport and the CAA have identified the need to proactively develop New Zealand's airspace and air navigation system to enhance safety and efficiency in the air transport system. A policy developed will be the basis for a National Airspace and Air Navigation Plan. It is patterned after ICAO's Global Air Navigation Plan (GANP) that allows maximum use of enhanced capabilities provided by technological advancement.

*Benefits*

The plan will coordinate both the current and future developments in airspace and air navigation and will address how New Zealand can gain efficiency and environmental benefits arising from new technologies. Ultimately, it is to ensure a safe, secure, efficient, and environmentally sustainable global air navigation system.

*What has been done?*

The initial policy work was completed on 30 June 2010. The recommendations from that work will be progressed in 2010/11.

→ OTHER MAJOR PROJECT

Implementation of recommendations the Office of the Auditor General made on its review of the CAA's certification and surveillance functions<sup>6</sup>

*Description*

The Office of the Auditor General (OAG) released its report on "CAA's progress with improving certification and surveillance" on 29<sup>th</sup> June 2010. This is a follow-up audit with the CAA's progress on the OAG's 2005 recommendations about its certification and surveillance.

The purpose of the audit was to establish whether the CAA had addressed the ten recommendations in their 2005 report on its certification and surveillance functions.

However, the OAG findings indicated that the CAA has not made adequate progress in addressing the 2005 recommendations. Of the ten recommendations made in 2005, only one<sup>7</sup> was fully addressed; eight were partly addressed; and one has not been addressed.

*Benefits*

Increased public and government trust and confidence on the CAA as regulator of New Zealand civil aviation safety and security.

*What has been done?*

The CAA provided the OAG with a list of actions it is taking (and will take) in response to the recommendations the latter made in their report prior to the report's presentation at Parliament on 29<sup>th</sup> June 2010.

For the 14 recommendations, the CAA has developed 30 actions that it will take as part of a corrective action plan and these are included in Appendix 8 (Timeframes for the Civil Aviation Authority's actions) of the OAG report.

In 2009/10, the CAA completed seven of the 30 actions corresponding to OAG's 14 recommendations. These seven are:

- surveillance process review;
- project and programme management review;
- review design of audit approach and methodology;
- review of quality management systems;
- appointment of Chief Operating Officer;
- review/revise certification policy; and
- specify project and programme management capability.

It is currently working on completing the remaining 23 actions<sup>8</sup>.

<sup>6</sup> Refer to <http://www.oag.govt.nz/2010/caa> for the full report.

<sup>7</sup> The new risk assessment tool is improving the identification of an operator's risk.

<sup>8</sup> Monitoring report on CAA action plans will be robustly reported in 2010/11 annual report. For quarterly updates, refer to [info@caa.govt.nz](mailto:info@caa.govt.nz).

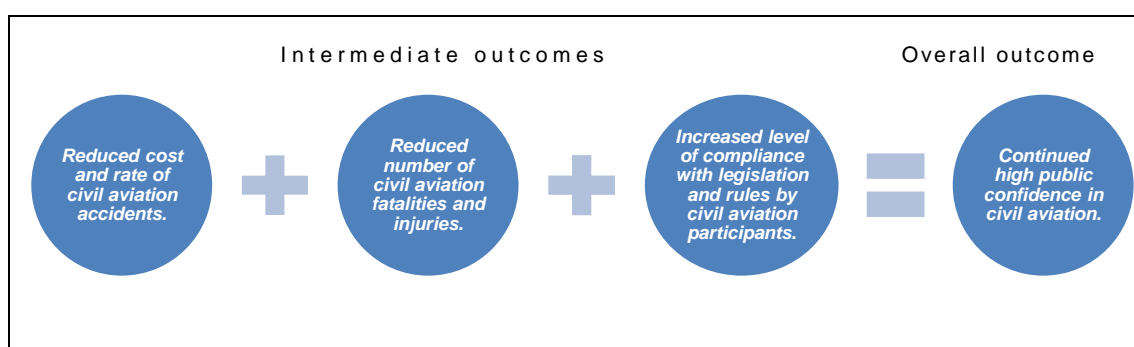
## 6.4 MEASURING PROGRESS TOWARDS ACHIEVEMENT OF OUR OUTCOMES

### → OVERVIEW OF OUR INTERMEDIATE AND DESIRED OVERALL OUTCOMES

The operating intentions and work programmes discussed in the previous two sections (sections 6.2 and 6.3 respectively) contribute to the achievement of the CAA's strategic priorities. These subsequently contributed to the achievement of the CAA's intermediate and overall outcomes. Over time, aviation safety and security trends must result in:

- reduced cost and rate of civil aviation accidents;
- reduced number of civil aviation fatalities and injuries; and
- increased level of compliance with legislation and rules by civil aviation participants.

All three intermediate outcomes, if achieved, will increase the probability of a safer and more secure civil aviation system.



The CAA's overall outcome is **"continued high public confidence in civil aviation"** for air passengers to arrive at their destinations safe and secure. However, a zero aviation accident or incident rate is not realistic. As regulators, the CAA can only minimise the impact of aviation accidents or incidents. There are external factors beyond the CAA's control that rest on the aviation document holder (e.g. the decision to fly during poor weather conditions).

### → ASSUMPTIONS

To ascertain whether the CAA is achieving its intermediate outcomes, the CAA must meet its performance target portfolio. The CAA will know if it meets this performance target portfolio if there is measurable evidence that there is:

- reduced cost and rate of civil aviation accidents, **if**, over time the:
  - *social cost of accidents per unit of person exposure is moving towards its 2010 safety targets, and*
  - *rate of aircraft accidents per 100,00 flight hours is decreasing;*
- reduced number of civil aviation fatalities and injuries, **if**, over time, the number of fatalities and injuries in civil aviation accidents is decreasing; and
- increased level of compliance by civil aviation participants with civil aviation legislation and rules, **if**, over time,
  - *non-compliance finding values is decreasing, and*
  - *corrective actions identified by the CAA during audit (surveillance) are promptly implemented by due dates.*

Aside from its operating intentions and work programmes, the CAA's daily regulatory decisions and activities contribute to helping achieve its intermediate and overall outcomes. This means that achieving its output targets (discussed in Part 2, section 17.1) likewise contribute to the achievement of outcomes.

Outcome measures and targets for 2009/10			
Intermediate outcomes	Measures	Targets	Impacts
1. Reduced cost and rate of civil aviation accidents	Social cost of aviation accidents per unit of passenger exposure.	Moving towards 2010 target.	As targets are met, air travel within New Zealand will be safer enabling the public to have continued confidence in the civil aviation system.  (Internally, the CAA will be able to identify areas of safety concerns, and subsequently prioritise its focus to provide a safer air travel to the public.)
	Rate of aircraft accidents per 100,000 flying hours.	Decreasing over time	
2. Reduced number of civil aviation fatalities and injuries.	Number of aviation fatalities and injuries.	Decreasing over time.	
3. Increased level of compliance by civil aviation participants with civil aviation legislation and rules.	Non-compliance finding values	Decreasing over time.	
	Percent (%) of corrective actions implemented at due dates identified during an audit (audits and inspections; and spot checks).	100% of corrective actions are implemented by due dates regardless of findings (critical, major, or minor).	

→ INTERMEDIATE OUTCOME 1: REDUCED COST AND RATE OF CIVIL AVIATION ACCIDENTS

*Assumption: The CAA will know if there is a reduced cost and rate of civil aviation accidents, IF, over time:*

- *the social cost of accidents per unit of passenger exposure is moving towards its 2010 safety targets, and*
- *rate of aircraft accidents per 100,000 flight hours is decreasing.*

*Impact: As social cost and rate of aircraft accidents decrease, air travel within New Zealand will be safer.*

**Measure: Social cost of aviation accidents**

Social cost is a measure of cost of safety failure in the civil aviation system. Essentially, social cost ascribes a monetary value to the loss of life, serious injury, or damage to property that may result from an aircraft accident.

*Performance achievement 2009/10*

As shown in the following social cost table and chart, two aviation safety target groups are showing an increasing social cost: These two groups registered an increasing average annual growth rate of 40% and 143% respectively.

- sport aviation transport operations (#5); and
- helicopters used in other commercial operations (#7).

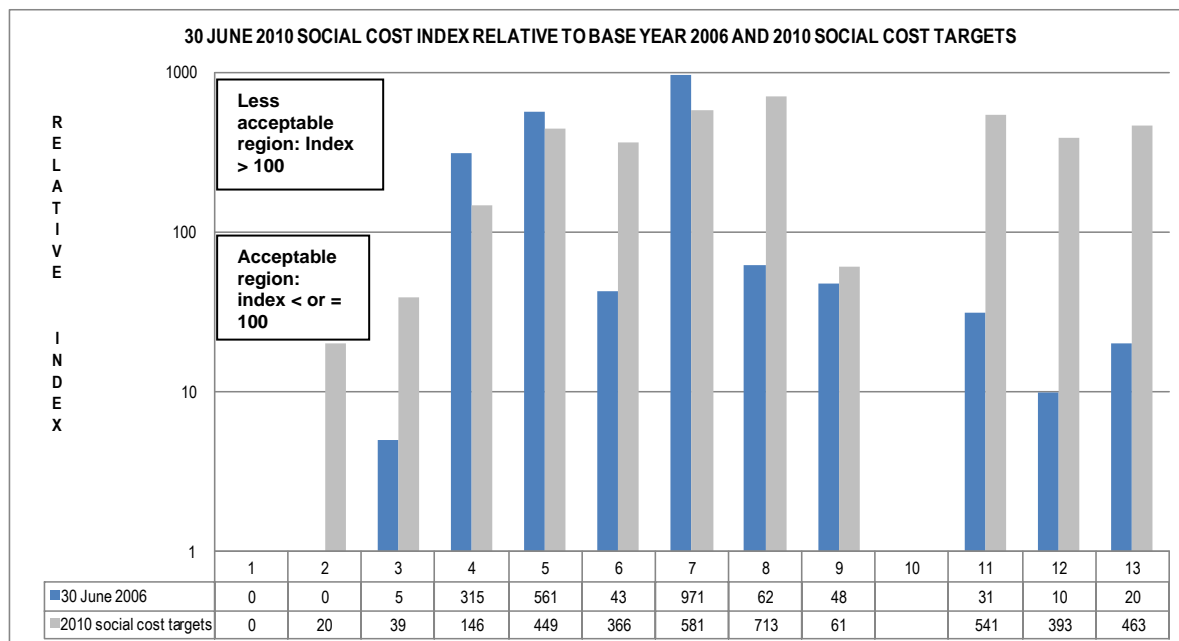
In addition, as at June 2010 the social cost index of the above target groups have a relative index of more than 100 compared to base year 2006 and their respective 2010 targets.

However, the average annual change rate from 2006 to 2010 of ten groups (1,2,3,4,6,8,9,11,12, and 13) have decreasing social costs targets ranging from 21% (airline operations-helicopter) to a high of 100% (airline operations – large and medium aeroplanes).

As regards to the 2010 social cost targets, eight groups (4,5,6,7,8,11,12, and 13) are not meeting their 2010 targets as at end-of-June 2010. However, as previously mentioned, ten (1,2,3,4,6,8,9,11,12, and 13) of these are showing a decreasing social cost trend in a period of five years. Where there is greatest exposure to the flying public, airline operations used in public air transport, have met or exceeded their targets.

**☑** *In 2009/10, social cost of groups are moving towards their 2010 targets except for 5 and 7.*

Social cost of accidents per unit of person exposure (\$)							
Aviation Safety Target Groups	3-years-end June					2010 Target	Ave annual change rate (2006-2010)
	2006	2007	2008	2009	2010		
<b>Public air transport</b>							
1. Airline operations — large aeroplanes	0.10	0.00	0.00	0.00	0.00	<b>0.10</b>	-100%
2. Airline operations — medium aeroplanes	5.04	4.63	0.28	0.00	0.02	<b>0.10</b>	-100%
3. Airline operations — small aeroplanes	54.72	43.89	0.03	0.39	2.52	<b>6.50</b>	-99%
4. Airline operations — helicopters	3.02	2.74	0.00	5.30	9.50	<b>6.50</b>	-21%
5. Sport aviation transport operations	10.40	20.04	14.26	65.35	58.31	<b>13.00</b>	+40%
<b>Other commercial operations</b>							
6. Other commercial operations — aeroplane	55.03	34.82	44.11	24.26	23.79	<b>6.50</b>	-89%
7. Other commercial operations — helicopter	3.89	30.31	69.93	62.73	37.79	<b>6.50</b>	+143%
8. Agricultural operations — aeroplane	161.78	106.94	112.64	74.58	99.86	<b>14.00</b>	-85%
9. Agricultural operations — helicopter	17.94	18.03	19.88	21.84	8.55	<b>14.00</b>	-88%
10. Agricultural operations — sport aircraft	Data not available					<b>28.00</b>	-
<b>Non-commercial operations</b>							
11. Private operations — aeroplanes	174.1	82.42	80.29	48.43	54.13	<b>10.00</b>	-92%
12. Private operations — helicopters	380.93	181.90	161.08	34.54	39.32	<b>10.00</b>	-97%
13. Private operations — sport aircraft	105.88	91.60	96.54	96.40	94.93	<b>20.00</b>	-78%
Notes:							
<ul style="list-style-type: none"> <li>o Social cost per unit of passenger exposure is 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 person exposure, is per seat flying hour. For target groups that are not predominantly passenger carrying, a surrogate of 500 kg of aircraft weight assessed as being the equivalent of an occupied seat.</li> <li>o The results for all groups are derived using 3-year averages.</li> <li>o For sport groups, calculation of social cost based on CAA estimates of aviation activity.</li> <li>o For details and updates, refer to <a href="http://www.caa.govt.nz/safety_info/safety_information.htm">http://www.caa.govt.nz/safety_info/safety_information.htm</a></li> </ul>							



Notes: (1) Index = 0 cannot be plotted on the logarithmic scale. Data not available for group 10. (2) Refer to above table for specific name of the aviation safety target group (e.g. 1 is airline operations – large aeroplane).

Measure: Rate of aircraft accidents per 100,000 flight hours

The rate of aircraft accidents per 100,000 flight hours does not provide information on the severity of an accident. However, it provides an overall indicator of safety performance.

Rate of aircraft accidents per 100,000 flight hours							
Aviation Safety Target Groups	3 years-end June					2010 Relative index (base: 2006)	Ave annual change rate (2006-2010)
	2006	2007	2008	2009	2010		
<b>Public air transport</b>							
1. Airline operations — large aeroplanes	0.11	0.00	0.00	0.11	0.10	91	-77%
2. Airline operations — medium aeroplanes	1.51	1.50	1.02	0.52	0.53	35	-91%
3. Airline operations — small aeroplanes	3.55	3.70	2.83	3.78	5.67	160	-60%
4. Airline operations — helicopters	2.58	1.47	1.46	2.61	5.43	210	-47%
5. Sport aviation transport operations*	<i>Data not available</i>						
<b>Other commercial operations</b>							
6. Other commercial Operations — aeroplane	4.32	4.79	5.86	5.00	4.25	98	-75%
7. Other commercial Operations — helicopter	9.17	9.57	10.50	11.48	7.47	81	-80%
8. Agricultural operations — aeroplane	17.67	12.10	13.36	15.93	21.42	121	-70%
9. Agricultural operations — helicopter	12.18	10.99	9.36	9.51	10.48	86	-78%
10. Agricultural operations — sport aircraft*	<i>Data not available</i>						
<b>Non-commercial operations</b>							
11. Private operations — aeroplanes	28.12	23.82	15.17	24.09	27.11	96	-76%
12. Private operations — helicopters	35.96	34.90	37.84	26.46	33.39	93	-77%
13. Private operations — sport aircraft*	<i>Data not available</i>						
<i>Notes:</i>							
<ul style="list-style-type: none"> <li>The accident rates are derived using 3-year averages.</li> <li>*For these three groups, the accident rate cannot be calculated, as the CAA does not have data for the number of hours flown.</li> <li>For details and updates, refer to <a href="http://www.caa.govt.nz/safety_info/safety_information.htm">http://www.caa.govt.nz/safety_info/safety_information.htm</a></li> </ul>							

#### Performance achievement 2009/10

Overall, the rates of accidents per 100,000 flight hours with the greatest risk exposure (i.e. airlines operations used as public air transport, target groups 1, 2, 3, and 4), continue to improve. That is, rate of accident of these target groups continue to decrease since 2006.

To compare the rate of aviation accidents in aviation target groups, their simple relative index in 2010 with 2006 as base year, and average annual change rate from 2006 to 2010 were calculated. The calculation shows that:

- all ten target groups (excluding 5, 10 and 13 where rates are not available) have decreasing average annual change rate during the past five financial years (2005/06 to 2009/10); and
- 2010 relative index (base year:2006) of airline operations – small aeroplane (#3); airline operations - helicopters (#4); and agricultural operations – aeroplane used in other commercial operations (#8) are higher than their 2006 rates.

In 2009/10, rate of aircraft accidents per 100,000 flight hours is decreasing for ten<sup>9</sup> groups thus meeting the outcome target.

<sup>9</sup> Excluding groups 5,10 and 13 where rate of aircraft accidents per 100,000 flight hours data are not available.

→ INTERMEDIATE OUTCOME 2: REDUCED NUMBER OF CIVIL AVIATION FATALITIES AND INJURIES

*Assumption: The CAA will know if there is a reduced number of civil aviation fatalities and injuries, IF, over time, the number of fatalities and injuries in civil aviation accidents is decreasing.*

*Impact: As fatal accidents decrease, air travel within New Zealand airspace is safer.*

Measure: Number of civil aviation fatalities and injuries

*Performance achievement 2009/10*

During the four-year period from 2007 to 2010, the average annual decline rate of fatal injuries is 67% (details in the following table).

Fatal aircraft accidents	Year-end June					
	2007	2008	2009	2010	2010 Relative index (Base:2007)	Average annual change rate (2007-2010)
Fatal accidents	5	10	8	7	140	-53%
Fatal injuries	8	14	11	8	100	-67%
Serious injuries	16	8	24	12	75	-95%
Minor injuries	20	11	16	36	180	-40%

*In 2009/10, the number of fatalities and injuries are decreasing thus meeting the outcome target.*

→ INTERMEDIATE OUTCOME 3: INCREASED LEVEL OF COMPLIANCE BY CIVIL AVIATION PARTICIPANTS WITH CIVIL AVIATION LEGISLATION AND RULES

*Assumption: The CAA will know if there is an increased level of compliance by civil aviation participants with civil aviation legislation and rules, IF, over time:*

- *non-compliance finding values are decreasing; and*
- *corrective actions identified by the CAA during audit (surveillance or monitoring of aviation participants) are promptly implemented by due dates.*

*What does increase level of compliance mean? It means that as the level of compliance by civil aviation participants increases, there is a higher probability that civil aviation will be safer and more secure.*

*Impact: As non-compliance decreases and corrective actions promptly implemented, the CAA will be able to identify areas of potential safety concerns among aviation document holders. A prompt detection of potential aviation safety concern will contribute to safer air travel within New Zealand air space.*

Measure: Non-compliance finding values

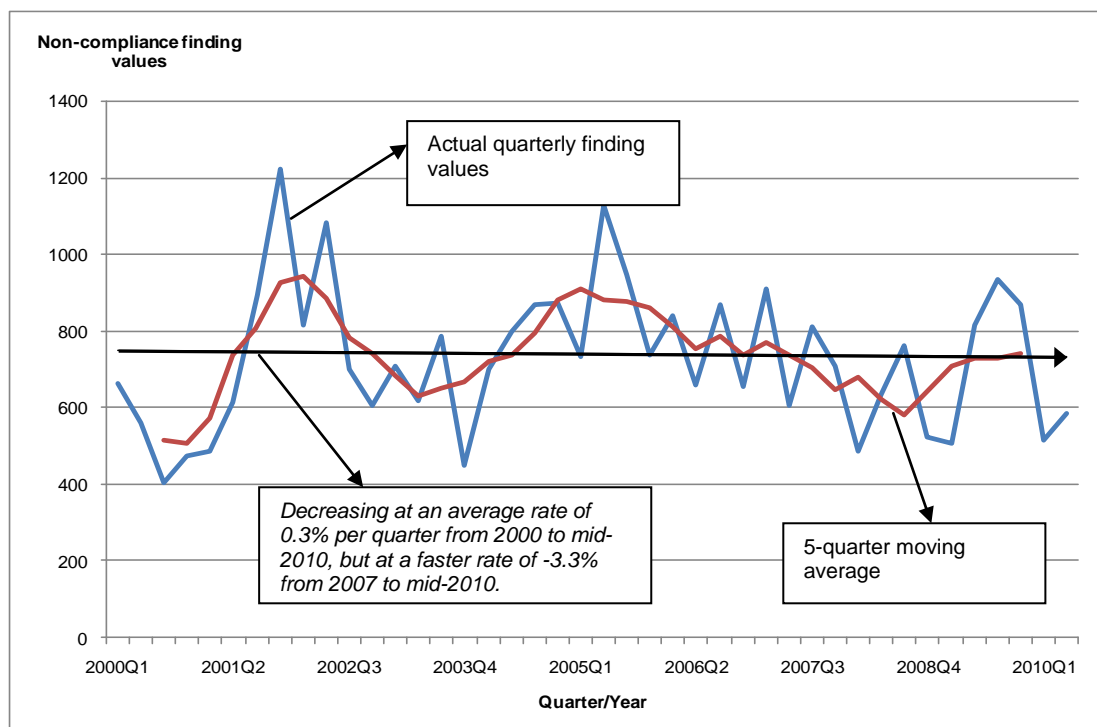
Non-compliance finding values are measures of how well participants in the civil aviation system are meeting their obligations. Each person or entity that holds an aviation document is required to meet the performance standards applicable to the specific aviation document held.

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

*Performance achievement 2009/10*

From 2000 to June 2010, overall non-compliance finding values have decreased at a slow pace with an average quarterly decline rate of 0.3%. However, from 2007 it decreased at a faster rate of 3.3%.

*In 2009/10, non-compliance finding values are decreasing thus meeting the outcome target.*



Measure: Percent of on-time implementation of corrective actions

Corrective actions are grouped into three categories: critical, major, and minor. Each category reflects the severity of the finding that the corrective action is designed to address.

Performance achievement 2009/10

Corrective actions are implemented (closed):		Corrective actions by severity of findings							
		Critical		Major		Minor		Total	
		count	%cum	count	%cum	count	%cum	count	%cum
2009/10	<b>On the agreed date</b>	<b>2</b>	<b>8.7</b>	<b>138</b>	<b>44.2</b>	<b>788</b>	<b>58.6</b>	<b>928</b>	<b>55.2</b>
	Within 1 month	11	56.5	90	73.0	382	87.0	483	84.0
	Within 2 months	5	78.2	35	84.2	62	91.6	102	90.1
	Within 3 months	0	78.2	12	88.0	45	94.9	57	93.5
	Within 4 months	4	95.6	7	90.2	23	96.6	34	95.5
	Within 12 months	1	100.0	30	100.0	45	100.0	76	100.0
	Total due and closed	23	100.0	312	100.0	1,345	100.0	1,680	100.0
	Due later than 30 June 2010	4	14.8	45	12.6	110	7.6	159	8.6
Total findings	27	100.0	357	100.0	1,455	100.0	1,839	100.0	
2008/09	On the agreed date	<b>1</b>	<b>8%</b>	<b>157</b>	<b>46%</b>	<b>552</b>	<b>47%</b>	<b>710</b>	<b>46%</b>
	Total findings	13	100%	345	100%	1,171	100%	1,529	100%
2007/08	On the agreed date	<b>6</b>	<b>67%</b>	<b>242</b>	<b>52%</b>	<b>606</b>	<b>59%</b>	<b>854</b>	<b>57%</b>
	Total findings	9	100%	466	100%	1,029	100%	1,504	100%

The CAA expects that 100% of corrective actions consequent to a finding must be punctually implemented at due date. In 2010, the percentage of on-time implementation was 55.2%, a 9% improvement compared to 2009 (46%). The increase was mainly attributed to the 20% increase (2010:1,839 vs. 2009:1,529) in the number of findings in 2010 and an additional 10% improvement in implementing corrective action (2010:928 vs. 2009:710 = 30%).

In 2009/10, average days to implement a corrective action consequent to a critical finding were 42 days, a major finding 37 days, and a minor finding 11 days. The CAA must identify underlying causes as to why corrective actions are not addressed more rapidly. However, the surveillance database does not provide reasons except for the provision to profile a corrective action or a finding. An additional variable is needed in the database to identify reasons for the delay in implementation.

Further, the CAA is committed to enhance its Surveillance Programme to address on-time implementation of corrective actions.

**✘** In 2009/10, corrective actions are not implemented at their due dates thus not meeting the outcome target.

## 6.5 OUR NEXT STEPS

### → CONCLUSIONS

Is the CAA meeting its intermediate and overall outcome targets?			
Intermediate outcomes	Measures	Targets	Performance achievement 2009/10 – summary
1. Reduced cost and rate of civil aviation accidents	Social cost of aviation accidents per unit of passenger exposure.	Less than or equal to the set 2010 social cost target	✓ Yes, for 10 target groups (1,2,3,4,6,8,9,11,12, and 13) ✘ No, for 2 (5 and 7) (data not available for group 10)
	Rate of aircraft accidents per 100,000 flying hours.	Decreasing over time	✓ Yes for 10 target groups (1,2,3,4,6,7,8,9,11, and 12) (data not available for groups 5,10,13)
2. Reduced number of civil aviation fatalities and injuries.	Number of aviation fatalities and injuries.	Decreasing number over time.	✓ Yes, fatal injuries decreasing at an average annual rate of 67%.
3. Increased level of compliance by civil aviation participants with civil aviation legislation and rules.	Non-compliance finding values	Decreasing values over time.	✓ Yes, decreasing at an average quarterly rate of 3.3% from 2007 to mid 2010.
	Percent (%) of corrective actions implemented at due dates identified during surveillance.	100% of corrective actions are implemented by due dates regardless of findings (critical, major, or minor).	✘ No, only 55.2% on-time implementation rate but improved compared with previous year (46%). 100% of corrective actions are implemented within 12 months from agreed date.
Overall outcome: "Continued high public confidence in civil aviation."		✓ Therefore, the CAA has met most of its intermediate outcome targets. However, it has to address on-time implementation of corrective actions and safety groups 5 (public transport - sport aviation transport operations) and 7 (other commercial operations-helicopter).	

### → FURTHER STEPS TO BE TAKEN

To achieve further improvement in safety performance, the CAA will continue to.

1. improve the effectiveness of the CAA's entry control to the civil aviation system, and monitoring participant's performance once in the system;
2. have a more effective analysis and assessment of the effectiveness of interventions the CAA takes to address safety and security performance issues;
3. align New Zealand's civil aviation system with international requirements, and better linkages with international bodies, such that New Zealand can contribute to the global civil aviation system;
4. respond more quickly to changes within the civil aviation system through recognising, enabling, and authorising changes needed (e.g. technological risk is assessed and understood, economic impact of CAA's regulatory changes is understood, flexible and open in the application of new technology within the industry); and
5. build organisational capability and capacity so that the CAA has capable and efficient business processes, information systems and people.

## 7. Progress report in managing our risks

Set out below are the CAA's mitigation actions to address its major internal and external risks during the year.

### 7.1 HOW WE MANAGED OUR EXTERNAL RISKS

Description	Identified external risks	What we did to manage our external risks
<i>Rapid changes in aviation technology</i>		
Technological advances to continue despite economic downturn. Advances in aviation technology to increase pressure on infrastructure, and activities of regulators. As aircraft technology changes, flight operations, and traffic (passenger and air cargo) change, this requires greater attention by aerodrome and air traffic management (ATM) operators as well as the CAA.	The unpreparedness of regulators to ensure that staff skills keep pace with aviation technological changes would be detrimental to a safe and secure civil aviation environment.	<ul style="list-style-type: none"> <li>o Collaborative planning with aviation participants, aircraft manufacturers and other external stakeholders to better address issues that arise from technological changes.</li> </ul>
<i>Increasing demand to address environmental issues and emissions</i>		
The International Civil Aviation Organization, the International Air Transport Association, aircraft manufacturers, airlines, and governments are working together to reduce fuel consumption, CO <sub>2</sub> and NO <sub>x</sub> emissions.	The inability of the CAA to address environmental issues and emissions from the New Zealand aviation sector would reduce stakeholders' confidence in the CAA's ability to adequately oversee and regulate civil aviation environmental issues.	<ul style="list-style-type: none"> <li>o Worked with aircraft operators and Airways Corporation on the implementation of Performance Based Navigations systems (PBN), including the development of NPRM, and other similar efficiency initiatives.</li> </ul>
<i>Changes in aviation regulatory approach</i>		
The global regulation of civil aviation is dependent on the collaborative development of international standards and practices through ICAO. These standards and practices reflected in State legislation and civil aviation operating rules to ensure the safe and efficient global interaction of civil aviation.	If New Zealand falls out of line with ICAO international standards, the effective and efficient engagement of New Zealand and international civil aviation will not be possible	<ul style="list-style-type: none"> <li>o Worked to ensure New Zealand meets its obligations to international civil aviation agreements, including the Chicago Convention.</li> <li>o Commenced work on the implementation of a State Safety Programme and other corrective actions following ICAO's USOAP (safety) and USAP (security) audits of New Zealand.</li> </ul>
<i>Economic driver of safety risk</i>		
Over the years, it has been observed that 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.	The current global economic decline may diminish the safety efforts of both aviation sector participants and the regulator.	<ul style="list-style-type: none"> <li>o Continued the stringent regulatory monitoring (surveillance). In cases where non-compliance are observed or reported, the CAA implemented the required specific remedial action.</li> </ul>

## 7.2 HOW WE MANAGED OUR INTERNAL RISKS

Description	Identified internal risks	What we did to manage our internal risks
<i>Decreasing civil aviation (safety) levies revenues</i>		
The current global economic slowdown is adversely affecting international air passenger traffic.	Revenue from Civil Aviation (Safety) Levies may not be sufficient to finance the required CAA capability in the medium term.	<ul style="list-style-type: none"> <li>○ <i>The CAA is in its final stage of completing a Funding Review (in collaboration with the Ministry of Transport).</i></li> </ul>
<i>Relocation of the CAA</i>		
The CAA has committed to relocating to the Wellington CBD in 2010/11 as part of an overall property strategy initiated in 2007. The CAA is currently located in two buildings in Petone, which are not suitable for CAA's long-term requirements. The relocation to Wellington will provide a professional location for staff.	The CAA has exposed itself to financial risk associated with new buildings, fit-out costs, etc., at a time when its revenue flows have diminished.	<ul style="list-style-type: none"> <li>○ <i>The costs estimated by the CAA for relocation have been rigorously reviewed, managed to reduce costs below its budget, and monitored within the budget set for the relocation. The funding of the ongoing accommodation costs is considered as part of the analysis of future revenues and costs being undertaken as part of the Funding Review mentioned above (in Safety Levy Revenue risk)</i></li> </ul>
<i>Organisational resilience</i>		
The civil aviation community is subject to rapid changes in aviation technology, international regulatory frameworks, and operations structure. In this highly dynamic environment, the CAA has traditionally drawn on the experienced operations people from the aviation community to strengthen its capability. These factors put significant onus on the CAA to maintain a high level of organizational resilience.	The CAA may be constrained in its ability to implement internal change as quickly as needed in the increasingly dynamic aviation and regulatory environment.	<ul style="list-style-type: none"> <li>○ <i>The CAA is currently reviewing its established staff numbers and capability development requirements. The CAA's long-term plans must reflect changes in the aviation environment, and strategies to optimise its relationships with its stakeholders</i></li> </ul>

# 8. Progress report in managing our capability and resources

## 8.1 SUPPORTING OUR REGULATORY PRIORITIES

### → STRATEGIC PRIORITY 5: CAPABLE AND EFFICIENT BUSINESS PROCESSES, INFORMATION SYSTEMS AND PEOPLE

What this means to the CAA

Strategic Priority 5 supported the CAA's four regulatory strategic priorities (refer to section 6). It ensures that the CAA has effective and efficient business operations and a system that support and enable its people to do their job efficiently.

PROGRESS REPORT ON STRATEGIC PRIORITY 5: CAPABLE AND EFFICIENT BUSINESS PROCESSES, SYSTEMS AND PEOPLE		
Work to achieve strategic priority no. 5:	What has been done in 2009/10	Estimated completion date
1. Implement enhanced business reporting measures and frameworks.	Amended outcome and output measures effective 2010/11 as reflected in the SOI.	2010/11
2. Implement on a priority basis: a) Human resources strategy; b) Information technology strategy; and c) Knowledge management strategy	a) Human resources: Implemented initiatives to support the alignment of HR and business outcomes with the Investors for People framework, including reviewing the Performance Reporting and Development process, and enhancing Health and Safety Management. b) Information technology: Furthered progress on implementing initiatives from the CAA's IT Information Systems Strategic Plan; including a business reporting framework, upgrade to the e-mail platform, and completed a strategic review of IT. Resources have also been invested in CAA's relocation. c) Knowledge management: Established a governance framework for the management of CAA's information including a Steering Committee and Information Management Strategy; completed a records appraisal report and disposal schedule for Archive New Zealand; and implemented initiatives in readiness for CAA's relocation.	Later than 2011
3. Implement the corporate risk management system.	Monitored and maintained the currency and relevance of risk management documentation.	2010/11
4. Implement the long-term financial model.	Implementation has been deferred and resources prioritised for the completion of the Funding Review.	2010/11
5. Developed increased flexibility and seek to increase funds for the rules programme.	The Ministry of Transport provided extra money (\$150 k) on the Rules contract in 2009/10 and an additional \$75k has been made available for 2010/11.	2010/11
6. Review the basis and objectives of levy, and fees and charges (part of Funding Review). Complete the report and recommendations focusing on value-for-money.	The Funding Review is due for public consultation in late 2010.	2010/11

Also, the CAA continues to undertake programmes that:

- build stronger leadership to achieve its outcomes and outputs, manage staff and resources effectively to drive continuous improvement;
- ensure financial discipline and sound financial management are in place; and
- maintain human resource policies embracing the government's initiatives.

## 8.2 PROGRESS REPORT ON OUR CAPABILITY AND RESOURCES PROJECTS

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### ➔ RELOCATION OF THE CAA

The CAA is scheduled to relocate from its two Petone premises to its new site at 55 Featherston St (Asteron Centre) in January 2011. This will be the culmination of a project initiated in October 2007 that determined the need to relocate into the Welling CBD consistent with the expiry of its leases.

Asteron Centre is a new commercial office building being developed by One Featherston Street Development Limited. The CAA will be leasing part of the 14<sup>th</sup> floor and all of the 15<sup>th</sup> floor. Other organisations taking space in the building include the Aviation Security Service (part of the 14<sup>th</sup> floor), Asteron Life Limited (13<sup>th</sup> floor), and the Inland Revenue Department (3<sup>rd</sup> to 12<sup>th</sup> floor).

#### *Why is CAA relocating?*

The CAA will achieve four objectives with its relocation. To:

- make itself more accessible to industry and other stakeholders than its current location permits;
- be accessible and improve collaboration with other stakeholders, including other government transport sector transport agencies;
- provide a professional, safe, and quality workspace for the staff and to meet the likely future requirements of the organisation; and
- provide a centrally accessible location to attract and retain professional and technically skilled staff.

### ➔ FUNDING REVIEW

#### *Why is CAA undertaking a review of its funding?*

The review is designed to ensure that there is adequate funding and cost recovery for the CAA's safety oversight role.

Included in the CAA's cost modelling are initiatives for developing the CAA's human resources and capability, information systems, accommodation, and international engagement. The CAA's work on the Funding Review reflected a Value-for-Money (VfM) approach in ensuring it could meet its obligations and responsibilities in the longer term efficiently and effectively.

#### *What has been done?*

The review completed project-planning, analysis, financial modelling of various options and consultation documents to support the public consultation in the latter half of 2010.

### 8.3 OUR PEOPLE

The CAA is committed to improving its management practices to focus on improving performance and introducing continuous quality improvement. Civil aviation is a dynamic industry with dynamic technologies used in aircraft and aviation infrastructure. Keeping pace with technical changes presents a significant challenge for the CAA.<sup>10</sup>

#### → NUMBER OF FULL TIME EQUIVALENTS

The following table summarises the establishment level of the CAA, and the actual level of FTEs employed.

Financial Year	Established FTE	Actual FTE
2007/08	198.1	181
2008/09	203.9	181
2009/10	203.9	178.5

The CAA, together with Avsec, is reviewing its structure for possible “shared services” of the Business Support functions common to both organisations. Recommendations following this review may affect the established staff level(s) in the medium to long-term.

#### → STAFF PROFILE

The CAA's staff are from diverse cultural and national backgrounds, including New Zealand Maori, New Zealand European, Afghani, American, Australian, English, Canadian, Chinese, Dutch, Indian, Fijian, Filipino, French, Kiribati, South African, Swiss, and Zimbabwean.

The table below summarises information on length of service at the CAA.

Staff length of service at the CAA	As at 01 July 2008		As at 30 June 2009		As at 30 June 2010	
	Count	Percentage	Count	Percentage	Count	Percentage
Less than a year	31	17%	33	17%	13	7%
1 year	22	12%	21	12%	28	15%
2 years	14	8%	12	6%	23	13%
3 to 5 years	36	20%	36	20%	31	17%
6 to 10 years	43	24%	43	24%	47	26%
11 to 15 years	14	8%	20	11%	21	12%
16 to 20 years	4	2%	3	2%	4	2%
More than 20 years	16	9%	13	8%	15	8%
<b>Total staff</b>	<b>181</b>	<b>100%</b>	<b>181</b>	<b>100%</b>	<b>182</b>	<b>100%</b>
<b>Average length of service</b>	<b>6 yrs and 4 months</b>		<b>6 yrs and 3 months</b>		<b>6 yrs and 9 months</b>	

#### → STAFF TURNOVER

In 2009/10:

- staff turnover of 7.3% (2008/09:9.3%);
- 11 permanent staff joined the CAA (2008/09:33);
- 14 resigned (2008/09:13);
- none retired (2008/09:4); and
- none of the staff were made redundant (2008/09:4).

<sup>10</sup> The 29 June 2010 OAG report indicated that the CAA's management practices are not focused on improving staff performance, and it has not been receptive to change. Refer to [www.oag.govt.nz](http://www.oag.govt.nz) for the full report.

## 8.4 OUR GOOD EMPLOYER PROGRAMME

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

Seven elements of a good employer <sup>11</sup>	CAA's good employer policies or practices
<b>1. Leadership, accountability and culture</b>	<ul style="list-style-type: none"> <li>○ <i>Service charter.</i></li> <li>○ <i>CAA-wide quarterly forum with the Director of Civil Aviation.</i></li> <li>○ <i>Weekly web-based internal newsletter ("the Loop").</i></li> <li>○ <i>Social Club activities.</i></li> <li>○ <i>Ka Awatea (relates to the interaction with Maori people).</i></li> <li>○ <i>Regular executive, group and unit meetings.</i></li> <li>○ <i>Register of Interest (managing conflicts of interest) maintained by Legal Services.</i></li> <li>○ <i>Code of conduct.</i></li> <li>○ <i>Confidentiality policy.</i></li> <li>○ <i>Travel policy (international and domestic).</i></li> <li>○ <i>Discipline policy.</i></li> <li>○ <i>Privacy and personal information policy (including protected disclosures).</i></li> </ul>
<b>2. Recruitment, selection and induction</b>	<ul style="list-style-type: none"> <li>○ <i>Vacancies advertised.</i></li> <li>○ <i>Relocation assistance.</i></li> <li>○ <i>Induction and training on CAA IT systems, health and safety, monitoring of health and wellbeing at both the organisational and team level. Use of psychometric and health profiling where required.</i></li> <li>○ <i>New staff introduced during quarterly forums of the Director and web-based internal newsletter "the Loop".</i></li> </ul>
<b>3. Employee development, promotion and exit</b>	<ul style="list-style-type: none"> <li>○ <i>Due to the nature of our work, staff are trained in New Zealand and overseas to maintain their skills at international level.</i></li> <li>○ <i>Provision of on-the-job, experiential learning and external study assistance.</i></li> <li>○ <i>In-house training (e.g. natural justice and fit and proper person).</i></li> <li>○ <i>Restructuring and redundancy policy.</i></li> <li>○ <i>Resignation and termination policy.</i></li> </ul>
<b>4. Flexibility and work design</b>	<ul style="list-style-type: none"> <li>○ <i>Working from home policy.</i></li> <li>○ <i>Flexible provision for overtime.</i></li> </ul>
<b>5. Remuneration, recognition and conditions</b>	<ul style="list-style-type: none"> <li>○ <i>KiwiSaver Scheme at 4% employer contribution since 1 July 2007.</i></li> <li>○ <i>Remuneration policy.</i></li> <li>○ <i>Non-monetary rewards policy.</i></li> <li>○ <i>Performance review and development programme.</i></li> </ul>
<b>6. Harassment and bullying prevention</b>	<ul style="list-style-type: none"> <li>○ <i>Discrimination and harassment prevention policy.</i></li> <li>○ <i>Provision of internal employee assistance advisors and in-house chaplain services.</i></li> </ul>
<b>7. Safe and healthy environment</b>	<ul style="list-style-type: none"> <li>○ <i>Eye examinations and spectacles policy.</i></li> <li>○ <i>Stress management policy and guidelines.</i></li> <li>○ <i>Health and safety committee and employee representation.</i></li> <li>○ <i>Availability of a wellness room.</i></li> <li>○ <i>In-house health and safety, and employee assistance framework and programme.</i></li> <li>○ <i>Health and safety, critical incident, emergency response induction and ongoing training.</i></li> </ul>

## 8.5 OUR EQUAL EMPLOYMENT OPPORTUNITY (EEO) PROGRAMME

The CAA's EEO Programme is evident in the diversity profile of its staff. CAA policies assure that selection, recruitment, restructuring, redundancies and termination are gender, ethnicity, age, length of service, personality, health and disability neutral.

<sup>11</sup> From the Human Rights Commission, refer to [www.hrc.co.nz](http://www.hrc.co.nz) for guidelines.



Part 1b:  
AVIATION  
SECURITY  
SERVICE  
(AVSEC)



## 9. Introduction from the General Manager of Aviation Security

The last financial year has been a year of challenge for Avsec. Global economies appear to be slowly recovering from the recession and Avsec has responded well to the changing needs and expectations of key stakeholders who in turn have had to adjust their business models to meet the changing economic environment.

It has also been a year in which Avsec has been able to focus inwardly and look critically at the way we operate at the “coal-face” of the business and to follow through on initiatives that will result in greater efficiencies and more cost-effective use of our resources.

### → HIGHLIGHTS – 2009/10

- **Secondary screening:** Since 26 December 2009 Avsec has been undertaking secondary screening<sup>12</sup> for US-bound flights under contract to Air New Zealand and Qantas. This function, which occurs after the “normal” international screening point, is not funded through the international passenger charge and it is expected to continue indefinitely. The function is currently managed by existing staff, recalled from rostered days off or having extensions to their normal working days. Additional staffing will be required to service the ongoing activity and Avsec is currently assessing the optimal staffing level required.

- **Liquids, aerosols and gels (LAGs):** As part of the international passenger security charges negotiations with the Board of Airline Representatives of New Zealand (BARNZ) in late 2007, Avsec reluctantly agreed to gradually withdraw its “queue-combing” function. The withdrawal had little impact on the smaller international airports but severely impacted Auckland International with a major increase in LAGs items being found on frustrated passengers at screening points. In May 2010 the interactions increased to around 10,000, compared with 3,000 in May 2009. This increase indicates that travel agents and airlines are not making their passengers aware, prior to check-in, that inappropriate LAGs cannot be carried in hand luggage.

Avsec is continuing to work with airlines and Auckland International Airport to resolve the LAGs issue.

- **Our trade union partnership:** In the previous financial year Avsec management and the representatives and staff delegates of the three Combined Unions (PSA, NUPE and EPMU) successfully re-negotiated the Collective Employment Agreement (CEA)<sup>13</sup> which endures for a three year period, commencing 1 July 2008.

The three year collective has provided staff with some degree of financial certainty during the economic downturn and it has also assisted Avsec with its financial forecasting processes over a three year period, including the setting of the passenger security charges.

Over the past year Avsec senior management has continued to meet regularly with the union representatives and delegates.

It is pleasing that we have a very good and amicable industrial relationship and partnership with our unions. This relationship will be invaluable as the parties prepare their bargaining positions for the renegotiation of the Collective, which takes effect from 1 July 2011. These negotiations are expected to take place at a time the economy is still in recovery mode and within an environment when the government and industry are demanding fiscal restraint, cost efficiencies and value for money.

<sup>12</sup> Secondary screening is a requirement of the US Government on all US-bound flights and results from the [Xmas Day event in the US].

<sup>13</sup> The CEA embraces the terms and conditions of employment for 83% of Avsec's employees.

- **Passenger security charges:** During 2009/10 Avsec worked closely with the Ministry of Transport on the review of the international and domestic passenger security charges. The review involved considerable consultation with industry. The new passenger security charges came into effect on 1 April 2010. The International charge was reduced from \$15 to \$10 (GST incl.) and the domestic charge was reduced from \$4.66 to \$4.35 (GST incl.). The new charges were set for a three year period and will absorb the surplus funds that Avsec has been building up over recent years.
- **Value for money project:** As part of the decisions around the review of the passenger security charges 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”. It also asked that officials undertake a review to identify a way the charges could be amended more quickly when appropriate.

Avsec looks forward to the results of the independent review which is due with Cabinet in October 2010.

- **Internal efficiency review:** During 2009/10 Avsec commenced implementation of the recommendations arising from an operational efficiency review. The implementation phase will continue during 2010/11. The seventeen recommendations of the Review and additional recommendations from a peer review have been captured within seven project groups, and business as usual activity.

Detailed industry feedback was received on the Review and, where appropriate, the industry suggestions were integrated into the project recommendations.

The focus of the Review was on training integration, efficiency measurement, evaluation measurement criteria, behavioural analysis, efficiencies around staff deployment, rostering and screening point design. In addition, a new electronic rostering system is scheduled to go-live in late 2010/14 and this will compliment the initiatives being progressed from the Review.

We believe that over the next twelve months the enhancements we are making to the operational side of the business will result in improved efficiencies and cost savings.

- **United States technology visit:** Earlier this year a group of our senior operations, technology and finance staff visited the United States to meet with US government organisations (the Department of Homeland Security, the Transportation Security Administration and the Transportation Security Laboratory) and private sector security equipment vendors in order to update on aviation security technology options.

The visit was the first between the United States and New Zealand under the recently signed Science & Technology Agreement between the two governments. The particular focus of interest for Avsec was emerging threats, new and emerging technology, technology and human factor trials, screening point design, behavioural analysis and use of detector dogs.

The visit highlights the proactive position taken by Avsec in keeping up with the changing global aviation security environment.

- **International benchmarking:** At the beginning of the year we hosted two senior officials from Avsec’s Canadian counterpart, CATSA<sup>14</sup>. The visit resulted in Avsec and CATSA entering into a Memorandum of Understanding to share operational and corporate information, exchange best practice in the areas of pre-board, hold baggage and non-passenger screening and airport identity cards. Both organisations are also in the process of developing common measurement and reporting methodologies. The key performance indicators and measures will enable the organisations to benchmark performance around efficiency, effectiveness and consistency.

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<sup>14</sup> Canadian Air Transport Security Authority.

## Financial results – 2009/10

Avsec's financial result for the year ended 30 June 2010 was an operating surplus of \$15,044k against a budget surplus of \$1,414k. Revenue was ahead of budget by \$5,448k (7%), and expenses were lower than budget by \$8,182k (10%).

The increase in the budget surplus and liquid funds has been addressed through the reduction of the passenger security charges that took effect from 1 April 2010. The new charges have been set at levels that will absorb the surplus funds that Avsec has been building up over recent years, over a three year period.

Avsec's financial position is sound with net working capital of \$66,758k and taxpayers' equity of \$75,880k. Cash funds on hand or deposit amount to \$74,137k.

## Our people

We will also continue to enhance and foster the goodwill and loyalty that we enjoy with our key asset, our staff, and ensure that through our *good employer programmes*, Avsec is an employer of choice.

I would like to take the opportunity to express my sincere thanks to staff and management and acknowledge the manner in which they have responded to the changing and uncertain times. I particularly note the willingness of regional staff that have temporally deployed to other airports.

## Conclusion

Avsec remains committed to enhancing its business processes and striving for greater efficiencies. We are very mindful of government expectations that the public sector must embrace value-for-money concepts and operate in a cost-effective manner. We believe that we are on the right track in meeting government expectations as we implement the recommendations from our internal efficiency review. It is also likely that some savings in corporate costs will evolve as both the CAA and Avsec embrace the sharing of some common services during 2010/11.

We will continue to be proactive and responsive to the changing economic environment and the requirements of our key stakeholders, especially airlines and airports, who continue to be challenged as global economies emerge from recessionary cycle.

Our focus is also on ensuring our operational technology is at the forefront, that we are constantly aware of international emerging trends in aviation security and that our training programmes and quality management philosophy continues to be highly-rated and respected by our global aviation security counterparts.

We remain firmly committed to working actively alongside our key stakeholders and security partners in fulfilling our mandated, critical role of providing security in the international and domestic air transport systems.



MARK EVERITT

General Manager of Aviation Security Service

# 10. Our operating environment

## 10.1 IMPACT OF GLOBAL UNCERTAINTY ON AVSEC

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.

## 10.2 PASSENGERS SCREENED

The numbers of international and domestic passengers screened by Avsec over the last year exceeded forecast and were slightly ahead of the same period in the previous year. For the year ended 30 June 2010 international passengers screened were ahead of budget by 13.39% (3.23% ahead of previous year actual) and domestic passengers screened were ahead by 11.42% (1.48% ahead of previous year actual).

The higher than anticipated passenger growth during 2009/10 results principally from increased competition in both the international and domestic market. In particular, a very competitive market continues to develop on trans-Tasman routes and the Government is placing significant focus on promoting New Zealand as a tourist destination and on creating improved trans-Tasman passenger facilitation to expand that market.

The increased passenger growth also resulted in a higher than forecast operating surplus, but this has been recognised in the resetting of the international and domestic passenger charges at lower levels, effective 1 April 2010.

For the year ending 30 June 2011 Avsec is forecasting a growth in international screened passengers of 0.06%, and 1.70% for domestic passengers compared with 2009/10 actual. The forecast allows for expected increases in international and domestic travel during the World Cup Rugby series

## 10.3 THREATS AND RISKS

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 such threats.

Although the current threat to New Zealand aviation is relatively low, circumstances can change without warning and in particular it is anticipated that the threat level will increase during the World Cup Rugby series in 2010/11.

Avsec continuously maintains a high level of preparedness through its intelligence networks, contingency planning, monitoring international security trends and by being aware of developments in aviation security screening technology. As part of its contingency planning

Avsec also supports core government agencies in crisis exercises conducted from the National Crisis Management Centre, and by attending the Counter Terrorism Watch Group.

Avsec's response to an event must always be effective and efficient and it must also be prepared to recover quickly after the event.

#### **10.4 AIRPORT EXPANSIONS**

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Over recent years, airports, in particular Auckland and Christchurch, have embarked on substantial development work to accommodate their future growth requirements.

Avsec continues to work proactively with airports in their strategic planning to ensure aviation security requirements are scheduled into the early stages of the developments to maximise efficiencies, maintain security compliance and minimise costs.

Avsec will continue to foster its very close working relationship, with airport operators in the changing aviation environment. As part of this relationship regular site meetings take place between Avsec and airport companies throughout New Zealand.

#### **10.5 CROSS BORDER ACTIVITY**

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Avsec continues to work closely with the NZ Police and government border agencies such as Customs, Immigration and the Ministry of Agriculture and Forestry. At the international screening points Avsec staff are usually located adjacent to Customs personnel, who are performing the immigration function and checking for Police and Customs alerts. Co-operation occurs across a wide range of areas including sharing of data on passenger numbers, intelligence sharing, discussions on passenger facilitation issues at both formal and informal levels, airport security issues, VIP facilitation and so forth.

Avsec has maintained a support role in the Government's Border Sector Governance Group (BSGG) which is focused on the interactions and efficiencies of Customs, MAF and Immigration. Avsec will continue to contribute as appropriate and as requested by the transport sector BSGG member, the Ministry of Transport.

During 2009/10 Avsec has worked with MAF and Customs on issues such as airport restarts, passenger facilitation and a MAF trial x-ray image transfer (Australia to New Zealand).

#### **10.6 AVSEC PACIFIC ACTIVITY**

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Of particular importance to Avsec are its close ties with the airlines and aviation security organisations of the South Pacific region. A component of managing New Zealand's aviation security risks also involves providing targeted assistance to several Pacific Island countries using funding from the Ministry of Foreign Affairs and Trade Pacific Security Fund.

Under sponsored performance or failure in aviation security systems in the Pacific could result in vulnerability to the Pacific and to countries with direct air links such as New Zealand, Australia or the United States. The difficulty of managing such incidents if they occur in the Pacific is also a factor to be acknowledged.

Avsec's key activities in the Pacific are directed at building capability within Pacific aviation security organisations and cementing and enhancing our relationship with people working in those organisations. It is important for these Pacific countries to achieve compliance with the requirements set by the regulators, particularly the US Transportation Safety Administration, NZ CAA and the Australian Department of Transport, Infrastructure and Regional Services.

Avsec also makes a valuable contribution to ICAO and APEC initiatives in the Asian / Pacific regions, often in conjunction with the CAA. Avsec's Auckland training facility is also an ICAO sub-regional aviation security training centre. Having ICAO designation in Auckland complements Avsec training initiatives planned for the Pacific region.

Our major Pacific activities in 2009/10 included projects involving training, equipment provision, equipment maintenance audits and regional coordination and cooperation.

## 10.7 MARITIME SECURITY

The Maritime Security Act (MSA 2004) resulted in the Minister of Transport designating Avsec as one of three Maritime Security Organisations (MSOs)<sup>15</sup>, along with NZ Customs and the Ministry of Agriculture and Forestry (MAF). MSOs will only be deployed in a high threat situation. Day-to-day security is conducted by the ports and ships.

Avsec may be called on to provide maritime security services (e.g. passenger screening) where the Director Maritime Safety believes that the threat level at a particular port be raised to Level 2 security alert. Avsec's activity is focused on the Port of Auckland during the cruise ship season. To this end, Avsec has trained 40-50 Aviation Security Officers as Maritime Security Officers, should the need arise.

## 10.8 AVSEC – KEY FACTS 2009/10

	2008/09	2009/10	% Change
Number of passengers screened	9,932,000	10,155,411	2.25%
Pieces of hold baggage screened	4,934,450	5,515,470	11.77%
Pieces of cabin baggage screened <sup>16</sup>	14,900,000	15,233,165	0.90%
Number of non-passengers screened <sup>17</sup>	36,349	33,595	-7.58%
Number of internal and external quality management audits conducted <sup>18</sup>	33	33	0.0
Number of Aviation Security Officers across New Zealand at 30 June	728	732	0.55%

<sup>15</sup> Avsec has a standby and readiness role in case of a high threat situation in the maritime arena, particularly the Port of Auckland where staff are well-trained to respond where cruise-ships, or their passengers, might be affected. Avsec's current role in maritime security is not significant on a day to day basis and accordingly has not been given prominence in this Annual Report.

<sup>16</sup> Estimate based on sampling, applied to passengers screened

<sup>17</sup> e.g. Airport workers.

<sup>18</sup> Excludes ongoing full time quality system auditing undertaken by Avsec's three fulltime Regional Quality Officers (RQOs).

# 11. Progress report on our strategic directions and operating intentions

## 11.1 PROGRESS REPORT ON OUR STRATEGIC OUTCOME

### → OUR DESIRED OUTCOME

Avsec's desired outcome is, *"A more secure New Zealand civil aviation system"*<sup>19</sup>

This outcome also provides confidence to key international stakeholders and State aviation authorities (especially those in the Pacific) who want responsible technical interaction and, in the case of some South Pacific countries, assistance with coordination and capability building.

### → PROGRESS AGAINST OUR OUTCOME MEASURES

Avsec's progress and performance against the desired outcome is assessed against the three outcome measures set out in the 2009/12 Statement of Intent:

Outcome measures	Progress and performance during 2009/10
i. Avsec successfully meeting and implementing 100% of international and other regulatory obligations that enhance aviation security, and which are mandated in New Zealand legislation, within the required time frames.	<ul style="list-style-type: none"> <li>All ICAO standards complied with.</li> <li>All current New Zealand regulatory requirements complied with.</li> </ul>
ii. Consistently achieving our key output performance measures set out in Section 9.5 of the 2009/12 Statement of Intent.	<ul style="list-style-type: none"> <li>All security related performance measures achieved, apart from twenty-one instances where prohibited items were discovered post screening<sup>20</sup>; and less than a 1.1% failure of Aviation Security Officers who did not pass the 1<sup>st</sup> test in recurrent testing for proficiency in screening/aircraft search functions.</li> </ul>
iii. Consistently achieving a high standard of verification from internal and external security audits and the subsequent urgent attention and rectification of any audit shortcomings.	<ul style="list-style-type: none"> <li>No findings resulting from 2009/10 Verifications NZ interim audit (ISO 9001:2008 quality systems certification).</li> <li>One procedural finding resulting from eleven CAA compliance audits. The one procedural finding was addressed through appropriate corrective action.</li> <li>No issues from the TSA inspection undertaken in January 2010.</li> <li>Fifty-nine internal quality assurance actions raised by internal auditors were rectified and addressed within the time-frames determined by the relevant Internal Auditors.</li> </ul>

<sup>19</sup> Despite the aviation focus of the outcome Avsec also has a standby and readiness role in case of a high threat situation in the maritime arena, particularly the Port of Auckland where staff is well-trained to respond should the Port or cruise-ships' threat level be raised. 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 Annual Report.

<sup>20</sup> The twenty-one systems failures were fully investigated by Avsec and reported to the CAA. The causal factors of the failures were identified and appropriate corrective and preventative processes were put in place.

## ➔ PROGRESS AGAINST OUR HIGH LEVEL SECURITY IMPACTS AND MEASURES

Avsec focuses on three high-level aviation security impacts as shown in the table below:

Performance against high level aviation security impacts		
Security impact	Performance target	Performance achievement 2009/10
No in-flight security incidents	To achieve a nil rate of in-flight security incidents involving offences against the Aviation Crimes Act 1972 for aircraft which have been screened by Avsec.	Achieved. No in-flight security incidents.
No airside security incidents	To achieve a nil rate of airside incidents involving offences against the Aviation Crimes Act 1972 at security designated aerodromes where Avsec operates.	Achieved. No airside security incidents.
No dangerous goods introduced into aircraft	To achieve a nil rate of incidents involving the introduction of dangerous goods into aircraft that have been screened by Avsec.	Achieved. No dangerous goods introduced into aircraft.

## 11.2 PROGRESS REPORT ON OUR OPERATING INITIATIVES AND ACTIVITIES

### ➔ INTRODUCTION

In the 2009/12 Statement of Intent Avsec identified specific short and longer-term initiatives and project activity in our business planning cycles.

It was noted that these initiatives would be progressed in the 2009/10 financial year principally for the following reasons:

- Introduction and implementation of new aviation security measures, either through legislation or rules, usually mandated by international regulatory requirements, or at the request of airlines.
- In response to the development and growth at New Zealand airports, in particular Auckland and Christchurch, and the potential requirement to service new airline entrants.
- To ensure Avsec can maintain and enhances its current capability to service the rapid growth in the organisation and the demand for new and improved aviation security requirements.

The cost of implementing the initiatives was provided in the financial budgets<sup>21</sup> for 2009/10 and out-years.

It was also noted that in some instances further activity might be required, but, due to uncertainties, timing and the economic climate, the activity could not be clearly quantified or substantiated. Accordingly, no provision for the expenditure was made in the financial budgets and forecasts in the passenger security charges review or the 2009/10 Statement of Intent and out-years. Details of this potential activity are shown below under key strategic awareness initiatives.

<sup>21</sup> The cost of implementing the initiatives was also provided in the financial projections used in the revision of the new passenger security charges that took effect from 1 April 2010.

➔ PROGRESS OF KEY WORK INITIATIVES FOR 2009/10

The principal initiatives and activities that were progressed during the 2009/10 financial year are shown in the table below.

Key work initiatives for 2009/10	Progress during 2009/10
i. Phased rollout and deployment of new generation x-ray baggage inspection system to replace Avsec's existing equipment.	During 2009/10 sixteen x-ray cabin baggage screening system units and eight HBS, duty free and transit screening units were commissioned and installed.
ii. Facilities developments: <ul style="list-style-type: none"> <li>▪ Development of a new operations and administration base at Auckland Airport due to outgrowing of existing facilities.</li> <li>▪ Planning for the fit-out of the new leased premises that have been secured for the Avsec National Office.</li> </ul>	<ul style="list-style-type: none"> <li>• Leasehold purpose built facility in final stages of completion and available for location September 2010.</li> <li>• Leasehold premises currently being fitted-out and available for location October 2010.</li> </ul>
iii. Ongoing review of Avsec's additional screening point measures, a review of methods, efficiencies and productivity in operational staffing and the development of an electronic rostering solution.	<ul style="list-style-type: none"> <li>• During 2009/10 Avsec commenced implementation of the recommendations arising from the Efficiency Review and these will proceed during 2010/11. The focus is on training integration, efficiency measurement, evaluation measurement criteria, behavioural analysis, efficiencies around staff deployment and screening point design.</li> <li>• The electronic rostering system is scheduled to 'go live' in late August 2010.</li> </ul>
iv. Continuing the new Avsec leadership development programmes to ensure Avsec staff are trained and competent to deliver the business to a consistently high standard.	All mid-level supervisory staff have participated in a leadership development programme. Further professional development continues to be rolled out to senior and executive level staff.
v. Providing an intelligence gathering unit to provide an ongoing filter of information that provides quality security information to key business units.	Avsec's intelligence unit was established and operational during 2010/11.
vi. Implementing an organisation-wide information management system that constitutes good business practice and meets the requirements of the Public Records Act.	Information management work programme, records management policy, information-map and business classification scheme completed. An electronic document and records management system is under consideration for 2011/11.
vii. Contributing to South Pacific project activity that contributes to New Zealand's aviation security objectives and assists Pacific aviation security development.	All Pacific Security Fund (PSF) activity completed for 2009/10.

→ KEY STRATEGIC AWARENESS INITIATIVES FOR 2009/10

The table below shows the activity that was identified in the 2009/12 Statement of Intent, together with a brief report on how it was monitored / progressed during the 2009/10 financial year.

Key strategic awareness activity for 2009/10 Activity – Impact- Preparedness	Progress during 2009/10
<p><b>Procurement of new and emerging aviation security technology and equipment</b></p> <p>Significant international research and development is taking place into new aviation security technology and equipment. In particular there is significant research underway overseas into technology that detects liquid explosives that would enable the liquids, aerosols and gels restriction to be removed.</p> <p>Avsec continually monitors emerging technology to ensure its aviation security equipment is at the leading edge in proficiency, efficiency and cost effectiveness. Avsec provides for the cyclical replacement of equipment in the normal course of business but not for the substantive replacement of equipment and technology that may result from emerging research and development.</p> <p><b>Impact:</b> Substantial capital costs would require Crown funding.</p> <p><b>Avsec preparedness:</b> Avsec has a dedicated development and research function that is committed to planning and research into emerging technologies, including testing, trial and evaluation.</p> <p><b>Likely catalyst for activity:</b> Resulting from Avsec's strategic research and planning which will identify Avsec's future equipment requirements; ICAO mandate; Avsec role per primary legislation.</p>	<p>Ongoing research and monitoring of emerging technologies that will enhance aviation security and provide improved efficiencies and facilitation at screening points.</p> <p>United States technology visit focused on emerging threats, new and emerging technology and human factor trials, behavioural analysis and use of detector dogs.</p>
<p><b>Regional airport developments:</b></p> <p>Regional airport development e.g. new airports for which Avsec would be expected to provide a security function; a requirement for Avsec to provide 24/7 presence at all existing or potential airports which it services.</p> <p><b>Impact:</b> Increase in staffing, rostering and heightened level of security which may extend to ports, other transport areas or airport locations.</p> <p><b>Avsec preparedness:</b> Monitoring brief. Early involvement in the event planning</p> <p><b>Likely catalyst for activity:</b> Notification from airport company. Regulator or airline.</p>	<p>Ongoing monitoring in consultation with airport companies and airlines.</p>
<p><b>Domestic aviation security:</b></p> <p>Avsec currently screens passengers on domestic flights on aircraft that have more than 90 seats. The government has recently decided not to extend this level of screening. Nevertheless additional screening may be required in future and it may require Avsec to undertake aviation security services at a greater number of airport locations.</p> <p>Any reduced threshold would also have a significant impact on other locations at which Avsec currently operates.</p> <p><b>Impact:</b> Significant increase in staffing and capital equipment. Capital expenditure may require initial funding. Greater impact if the current screening threshold is further reduced.</p> <p><b>Avsec preparedness:</b> Monitoring brief and further development of scenario plans for this contingency.</p> <p><b>Likely catalyst for activity:</b> Decision of Cabinet following any review of domestic aviation security; increased security threat within New Zealand or overseas; Government or regulator via legislation or rules.</p>	<p>No further developments during 2009/10. Ongoing monitoring brief and further development of contingency scenario plans. In May 2009 the Ministry of Transport announced the government had decided not to change the current threshold for domestic air travel security screening, opting instead to implement a range of alternative security measures.</p>

# 12. Progress report in managing our risks

## 12.1 OUR RISK MANAGEMENT

Identifying and managing risk forms an essential part of Avsec's day-to-day activities and is a key component of the organisation's strategic and business planning processes. Avsec operates a risk management framework, based on the principles of ISO 31000. The framework covers not only activities carried out as part of our business, but also takes into consideration changes in the external business environment that may impact on Avsec.

## 12.2 MANAGING OUR RISKS

Avsec's business is principally related to risk and proactive risk management. Risk is identified and initiatives are put in place with impacts and outcomes concentrated on risk mitigation. Any residual risk exposure is in turn covered through Avsec's comprehensive insurance programme.

In the 2009/12 Statement of Intent Avsec identified ten high level areas of internal and external risk. Those areas of risk are shown in the table below, together with specific mitigation strategies that were progressed during 2009/10.

No.	Identified risk exposure	What we did to manage our risk exposure during 2009/10
1.	Decline in passenger numbers (reflected in diminishing revenue) caused by global recession, natural disaster, pandemic, changes in preferred passenger destination or disinclination to travel due to terrorist activity or environmental policies.	During 2009/10 both international and domestic passenger growth was slightly higher than 1%, cushioning Avsec from the major impact of the global recession.
2.	Short-notice advice from airlines of flight withdrawals, starts/restarts from a regional airport impacts on Avsec's continuing airport and staffing presence at that location.	Avsec has a policy of deploying regional operations staff to other locations, as an interim measure, when an airport is impacted by flight withdrawals/curtailments.
3.	Ongoing international terrorist threat against the aviation industry and other modes of transport.	Major event planning; implementation of new security measures (e.g. new TSA requirements on flights into the USA); establishment of an intelligence gathering and dissemination unit; United States technology visit to focus on emerging threats, new and emerging technology, technology and human factor trials, behavioural analysis and use of detector dogs.
4.	Non-airside security incident or damage to airport infrastructure, at an overseas or local airport, could impact on airport operations and cause disruption to air travel.	Airport company awareness and participation in airport security committees at major airports
5.	Instability and under-resourcing in the South Pacific increases the aviation security risk in the South Pacific	All planned South Pacific project activities for 2009/10 undertaken; planning and strategy developed, and funding options guaranteed for proposed 2010/11 activity. Activity is principally in the form of capability development, equipment provision, training and advice and coordination.
6.	Legislative changes, major redevelopments at airports and new international aviation security requirements significantly increase the role and security activities to be undertaken by Avsec.	Strategic awareness planning and scenario planning during lead-up process; capability development, especially involving capital equipment, staff recruitment, training and development of appropriate policies and procedures; strategic risk identification.
7.	Loss of key staff, staff recruitment and retention issues.	Application of good employer and "employer of choice" principles; most staff are subject to a three year employment Collective Agreement with the combined unions which has

No.	Identified risk exposure	What we did to manage our risk exposure during 2009/10
		given remuneration certainty to staff during recessionary times; enhanced leadership development programmes for managerial staff; enhanced capability in Avsec's Human Relations function; management participation at National Working Parties with the unions; particular focus on regular management meetings with all staff, especially during times of economic uncertainty.
8.	Failure of contingency or business continuity plans.	Continual review and update of the plans as part of Avsec's quality management process.
9.	Reputational risk as a result of screening failure leading to a security incident.	Recurrent testing standards set at a high level; internal quality systems place an emphasis on compliance and continual improvement; use of modern technology; implementation of an electronic incident/occurrence reporting system.
10.	Impact on Avsec's capability to respond to an incident if called on to assist in an incident involving maritime security.	Contingency plans and backup systems in place to mobilise existing resources; standby equipment available; ongoing scenario planning takes place with other agencies.

### 12.3 AUDIT ACTIVITY REPORT

Avsec's quality management philosophy is a significant driver of our approach to aviation security and risk management processes. In particular, the extensive internal and external annual audit regime that Avsec is subject to mitigates risk at the operational level and is a constant check and test of our operational policies, procedures and processes to ensure an ongoing high level of compliance.

Avsec holds ISO 9001:2008 quality management systems certification and subject to satisfactory outcomes from interim surveillance audits by an independent accredited agency the current ISO certificate remains valid until May 2011. At that time a full renewal audit will be undertaken to extend the ISO 9001 certification for a further three years.

During 2009/10 Avsec was subject to eleven routine Civil Aviation Authority compliance audits covering all airport locations and national office management systems as required by CAR Parts 140 and 141. The audits covered passenger and baggage screening performance, quality systems, airport identity card management and training standards. As a result of these audits one procedural finding was raised and this was addressed through appropriate corrective action.

In addition to the external audits, Avsec also conducted two internal audits of each station together with internal audits of the airport identity card management, maritime security, screening or security controls on goods delivered into sterile areas of airports, cargo screening and screening activities relating to NZ Post mail and baggage screening for Antarctic New Zealand at Christchurch.

The United States Transport Security Administration (TSA) conducted an inspection at Auckland International Airport in January 2010. This inspection included checks of Avsec activities associated with security measures applied to flights departing for US territory. At the completion of the inspection the TSA representatives were satisfied the security measures provided by Avsec met US requirements.

The internal quality assurance systems raised 59 internal actions during the 2009/10 year as a result of audits and internal systems failure reporting. All major findings have been addressed through the application of appropriate corrective or preventive actions.

Avsec has implemented an electronic incident reporting and management system to provide improved capability when dealing with security incidents, breaches of rules and systems failures. This system went live in May 2010. Later in 2010 the current paper based internal audit system will also be managed electronically using the same software platform.

Avsec's extensive audit regime and risk management register is regularly reviewed by Avsec's management, Quality Council and the Board Audit and Risk Management Committee.

## 13.

## Progress report in managing our capability and resources

### 13.1 KEY CAPABILITY DEVELOPMENTS

#### → OUR PEOPLE, SYSTEMS AND PROCESSES

During 2009/10 Avsec's capability enhancement focused on the following key initiatives (initiatives highlighted with an asterisk are ongoing and will continue beyond 2009/10).

Key initiatives	Focus	Progress during 2009/10
Learning and development strategies*.	<p>Ongoing review of the organisation's training needs and programmes to ensure training is meeting the needs of our people and is in line with our key business objectives.</p> <p>A particular focus will be the continuity of the new Avsec leadership development programmes to senior operational staff.</p>	<p>All scheduled operational training for 2009/10 undertaken. Training plan for 2010/11 established, with a particular focus on the development of E-learning.</p> <p>Professional development continues to be rolled out to senior and executive level staff</p>
Incident Reporting System.	<p>Enhancement to Avsec's existing statistical gathering and facilitating prompter reporting response and monitoring on security incidents at airport locations.</p>	<p>New Q-Pulse incident reporting system implemented and operational from mid-May 2010.</p>
Intelligence-gathering and dissemination.	<p>Further development of an intelligence-gathering and dissemination unit to provide an ongoing filter of quality intelligence information to key business units.</p>	<p>Unit established and operational.</p>
Review policies and procedures.	<p>Review and update of policies and procedures to enhance the organisation's quality management philosophy.</p>	<p>Review completed and subject to ongoing review.</p>
Enhance business systems.	<p>Recruitment of specialised Information Technology staff identified in a recent review of the IT division.</p> <p>Updating the financial accounting system and implementing the new accounting standards.</p> <p>Implementing an information management system that will meet the requirements of the Public Records Act.</p> <p>Developing an efficient electronic rostering system that will facilitate the staff roster process</p>	<p>IT staff at full strength with dedicated IT Manager.</p> <p>All required financial accounting system updates implemented. Compliant with all new accounting standards.</p> <p>Progressing to plan. Activities completed include Information management work programme 2009/11; records management policy; information map; communications plan; business classification scheme; physical filing system revamp at National Office and development of HR information management processes.</p> <p>Quintiq electronic rostering system scheduled to go live August 2010.</p>
Planning new office location.	<p>Planning for the transfer of Avsec's national office to premises at No 1 Featherston Street Wellington. The new accommodation is expected to meet Avsec requirements for at least fifteen years.</p>	<p>New office location will be occupied mid-October 2010.</p>

→ CAPITAL ASSET PROGRAMMES

During 2009/10 Avsec's key capital expenditure focus was on the following key initiatives that were identified in the 2009/12 Statement of Intent.:

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.

Earlier in 2010 a group of Avsec's senior operations, technology and finance staff visited the United States to meet with US government organisations (the Department of Homeland Security, the Transportation Security Administration and the Transportation Security Laboratory) and private sector security equipment vendors in order to update on aviation security technology options.

The visit was the first between the United States and New Zealand under the recently signed Science and Technology Agreement between the two governments. The particular focus for Avsec was emerging threats, new and emerging technology, technology and human factor trials, screening point design, behavioural analysis and use of detector dogs.

The following table shows Avsec's capital expenditure during 2009/10 in relation to the proposed capital expenditure programmes set out in the 2009/12 Statement of Intent.

Proposed Capital Expenditure Programmes Identified in 2009/12 Statement of Intent	Budget \$000	Actual \$000	Commentary (and explanation on variances as required)
Furniture and fittings	291	-	Project delays-new Auckland Operations base and new National Office accommodation.
Office equipment	34	15	Wlg audio visual equipment (\$7k), training data projector (\$9k) and Chc whiteboard (\$3k) not required.
Plant and equipment	1,628	2,631	Additional HBS equipment purchased for re-start int'l flights at Rotorua (\$210k), additional WTMD's (\$121k), replacement 9075 CBX equipment brought forward (\$740k) and reduced pricing on replacement plant and equipment.
Hardware	283	104	Fewer servers and laptops replaced (-\$177k)
Motor vehicles	696	901	2x additional CRV's added to the fleet (\$90k), 4x CRV's scheduled in 2008/09 not commissioned until 2009/10 (\$115k).
Leasehold improvements	1,605	96	Project delays – new Akl operations base and new National Office accommodation.
Leased equipment	6,976	5,231	Lower than expected cost of re-leasing and refurbishing existing HBS equipment (\$5,231 m) and cargo equipment was leased in the previous year.
Software	333	272	Project delays – Quintig Rostering Management system.
<b>Total</b>	<b>\$11,845</b>	<b>\$9,248</b>	

Avsec has approval 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. As at 30 June 2010 Avsec has entered into finance leases amounting to \$6.207 million (as referred to in the table above).

→ WORKPLACE TRAINING AND DEVELOPMENT

Avsec's ICAO Auckland training centre and Regional Training Officers (RTOs) provided an extensive range of training programmes during 2009/10, as shown in the table below.

The training programmes include specialised training provided to Pacific islands as part of the Pacific security enhancement initiatives.

Training development programme provided	Training development objective	Number of Participants trained 2008/09	Number of Participants trained 2009/10
<b>TECHNICAL TRAINING</b>			
Basic Training Course (BTC)	CAA approved programme. Initial training of new recruits to the frontline ASO/Screeners roles followed by on job training programme.	19	29
Behaviour Analysis Training	Workshop that introduces frontline Avsec staff in the recognition of behaviour patterns in human behaviour.	651	100
Dangerous Goods Refresher Training IATA & CAA	Compliance training required as per CAR Part 92. Half day Dangerous Goods Awareness programme approved under CAR Part 141 FOR Aviation Security Officers.	447	426
Dangerous Goods (DG) Training Programme for Avsec Supervisors	One day DG training programme for Avsec Supervisors in compliance with CAR Part 92.	-	37
Control Room Refresher Training	Control room refresher training for ASOs assigned this task	29	25
Airside Driving	Interactive airside driving refresher training conducted by specialist driving assessors to ensure airside drivers maintain competency.	-	80
Airport Terminal Evacuation procedures	Training programme to enable ASOs to perform effective evacuation procedures of airport terminals.	428	160
Fire Evacuation & Airport Emergency Procedures	Refresher training programme for frontline Aviation Security Officers to maintain working knowledge of procedures.	-	314
Trace Detection Training	Training programme in the correct use of Trace Detection equipment used for cargo screening and passenger screening points.	201	115
X-ray Image Recognition Training	Initial training in the use the computer based training programme for x-ray image recognition.	260	426
Vehicle Search Training	Training programme to provide Security Officers with the skills to perform vehicle searches in compliance with Non-Passenger Screening (NPS) requirements.	111	7
<b>LEGISLATIVE COMPLIANCE TRAINING</b>			
Avsec Legislation Refresher Training	Refresher training in relevant Avsec legislation conducted on a two year cycle.	492	393
Avsec Specialist Legislation Training	Specialist training relating to maritime security and unruly passengers.	5	296
<b>LEADERSHIP &amp; MANAGEMENT DEVELOPMENT</b>			
Leadership & Management Development for Sergeants	Leadership and management development programme for Avsec Sergeants, facilitated by specialist external providers.	54	97
Avsec HR Policy Workshops for Sergeants & Senior Sergeants (Performance Management, Harassment Prevention,	Workshop delivered to Avsec supervisors to ensure that they are up to date with Avsec HR policy in terms of appropriately addressing frontline issues with performance	17	24

Training development programme provided	Training development objective	Number of Participants trained 2008/09	Number of Participants trained 2009/10
Discipline & Grievance Handling)	management, harassment prevention, discipline and grievance handling.		
<b>HUMAN RESOURCE ISSUES TRAINING</b>			
Harassment Prevention Workshops for Aviation Security Officers (ASOs)	Workshop delivered to ASOs to ensure they are fully aware of Avsec policy on harassment prevention in the workplace.	373	-
Staff Wellbeing Workshops	Workshop that overviews coping with shift-work & driver fatigue avoidance, manual handling procedures.	271	-
Professional Client Service Training	Workshop that provides frontline staff with Avsec's expectations of how we deliver professional service to all of our stakeholders.	136	27
<b>SPECIALIST DEVELOPMENT TRAINING</b>			
Training workshops for Trainers	Internal and external training workshops for Security Officers undertaking training of Avsec operations staff.	57	98
Other Managerial / Administrative Specialist Skills Courses and Workshops	Training to provide skills in business and report writing, negotiating skills, computer applications and other administrative processes.	69	839
Dangerous Goods (DG) Training Programme for Dangerous Goods Specialists	Two day DG training programme for Avsec DG specialists.	-	18
<b>ICAO AVIATION SECURITY TRAINING PROGRAMMES</b>			
ICAO Courses and Workshops (conducted at Avsec Training Centre (Auckland))	Specialist programmes relative to quality control, instructors, crisis management, national inspectors and professional managers.	71	34
<b>PACIFIC TRAINING PROGRAMME</b>			
Pacific Islands Training	Pacific security training programmes delivered in Rarotonga, Samoa, Niue, Tonga, Vanuatu and Solomon Islands by Avsec's training teams.	237	250

#### ➔ REVIEW POLICIES AND PROCEDURES

During 2009/10 Avsec's policies and procedures were subject to ongoing review. The review process is a significant part of Avsec's business process that enhances Avsec's quality management philosophy.

→ OUR GOOD EMPLOYER PROGRAMME

Avsec's "Good Employer Programme" was advanced during 2009/10 covering the following areas:

Seven elements of being a good employer	Avsec "good employer" policies or practices
<p><b>1. Leadership, accountability and culture.</b></p>	<ul style="list-style-type: none"> <li>• Regular national staff bulletins and frequent regional bulletins.</li> <li>• Redevelopment of the HR and training pages of the Avsec Intranet to ensure information is widely available in as many formats as possible.</li> <li>• Regular Executive and Operations Management meetings, including Avsec's Quality Council to ensure consistency across the organisation.</li> <li>• Regular review of existing policies.</li> <li>• Commitment to ongoing senior and executive leadership professional development.</li> <li>• Organisation wide staff satisfaction survey and Health, Safety and Wellness culture for internal improvement benchmarking.</li> <li>• Regional in-house teams to improve staff/management communications.</li> <li>• Support for in-house sporting events.</li> <li>• Comprehensive HR strategy in place.</li> <li>• Register of interests maintained.</li> </ul>
<p><b>2. Recruitment, selection and induction.</b></p>	<ul style="list-style-type: none"> <li>• Vacancies advertised internally.</li> <li>• Short-listing based on specific competencies.</li> <li>• Open information days held prior to short-listing officers.</li> <li>• All role descriptions include role specific competencies, outputs and outcomes.</li> <li>• Behavioural and competency based interviewing.</li> <li>• Interview training for inexperienced interviewers.</li> <li>• All candidates notified of recruitment process; shortlisted candidates notified of results.</li> <li>• Comprehensive Basic training courses and on job follow up induction training.</li> </ul>
<p><b>3. Employee development, promotion and exit.</b></p>	<ul style="list-style-type: none"> <li>• Management development programmes for supervisory staff that reflect the leadership development programmes for Executive staff.</li> <li>• Recognition for On-Job-Trainers and training support staff.</li> <li>• Officer training is integrated as much as possible with operations.</li> <li>• Training Steering Group and Training Working Group guide and implement new initiatives.</li> <li>• Development requirements form an integral part of the performance management system.</li> <li>• Exit interviews conducted by external providers to encourage objective feedback.</li> </ul>
<p><b>4. Flexibility and work design.</b></p>	<ul style="list-style-type: none"> <li>• Consideration of flexible working arrangements complying with current legislation.</li> <li>• Where possible, flexibility of role design depending on individual circumstances.</li> <li>• Where possible part-time work available for staff returning after maternity leave.</li> </ul>
<p><b>5. Remuneration, recognition and conditions.</b></p>	<ul style="list-style-type: none"> <li>• Equitable, transparent and gender neutral remuneration structure and policy.</li> <li>• Equal access to job opportunities and conditions.</li> <li>• 79.7% of Avsec belong to a Collective Employment Agreement.</li> <li>• Formal disputes resolution process.</li> <li>• Ongoing engagement between management and three unions.</li> <li>• KiwiSaver provider and 2% employer contribution.</li> <li>• Remuneration benchmarking and ongoing Hay job evaluation and market survey.</li> </ul>
<p><b>6. Harassment and bullying prevention.</b></p>	<ul style="list-style-type: none"> <li>• Discrimination and harassment prevention policy.</li> <li>• Harassment and bullying workshops for employees, ongoing.</li> </ul>

Seven elements of being a good employer	Avsec "good employer" policies or practices
	<p>Code of Conduct is clear that harassment and bullying are not tolerated.</p> <ul style="list-style-type: none"> <li>Separate policy regarding harassment and bullying.</li> </ul>
<b>7. Safe and healthy environment.</b>	<ul style="list-style-type: none"> <li>Annual wellness payment to all staff.</li> <li>Uniform provided to all operational staff.</li> <li>Member of Southern Cross group discount scheme.</li> <li>Personal protective equipment provided to all staff as required.</li> <li>Subsidised eye examinations and spectacles.</li> <li>Hearing tests carried out on a regular basis.</li> <li>Subsidised Employee Assistance programme.</li> <li>Life and trauma cover for employees.</li> <li>First Aid Officers at all Avsec locations.</li> <li>National and Regional Health and safety committees and education.</li> <li>Tamiflu available for all staff.</li> <li>Vaccinations (Hepatitis A &amp; B, seasonal flu, Tetanus).</li> </ul>

Other good employer initiatives undertaken / commenced during 2009/10 include:

- o National Consultative Committee comprising senior management and union representation;
- o Regional Committees to address specific local issues; and
- o Roster committees in Northern, Central and Southern regions.

➔ AVSEC'S STAFF PROFILE

Avsec's workplace profile, at 30 June 2010, is analysed by employee numbers, gender, length of service and age:

Workplace Profile	As at 30 June 2009		As at 30 June 2010	
	Number	%	Number	%
<b>Staff Number:</b>				
Headcount	799		799	
FTE	759		754	
<b>Gender:</b>				
Women	287	36.1%	301	37.7%
Men	512	63.9%	498	62.3%
<b>Age profile (where age provided)</b>				
Under 20	-	0.6%	-	-
20-29	39	6.5%	40	5.0%
30-39	163	22.2%	156	19.5%
40-49	275	36.3%	277	34.7%
50-59	255	28.6%	260	32.6%
Over 60	59	5.8%	63	7.9%
Age not known	8	-	3	0.3%
<b>Total</b>	<b>799</b>	<b>100%</b>	<b>799</b>	<b>100%</b>
<b>Length of service profile</b>				
Less than 1 year	16	2.0%	38	4.8%
1 – 2 years	79	9.9%	15	1.9%
2 – 5 years	377	47.2%	341	42.6%
5 – 10 years	241	30.2%	313	39.2%
10 – 15 years	34	4.3%	32	4.0%
15 – 20 years	29	3.6%	34	4.2%

Workplace Profile	As at 30 June 2009		As at 30 June 2010	
	Number	%	Number	%
Over 20 years	23	2.8%	26	3.3%
<b>Total</b>	<b>799</b>	<b>100%</b>	<b>799</b>	<b>100%</b>
<b>Employment Status:</b>				
Members of Collective Agreement	662	82.8%	637	79.7%
Individual Employment Agreements	137	17.2%	162	20.3%
<b>Total</b>	<b>799</b>	<b>100%</b>	<b>799</b>	<b>100%</b>
<b>KiwiSaver Enrolments:</b>				
Employees contributing to KiwiSaver <sup>22</sup>	335	41.9%	421	52.7%
<b>Frontline / Management Support:</b>				
Frontline operations	728	91.1%	732	91.6%
Managerial and frontline support	71	8.9%	67	8.4%
<b>Total</b>	<b>799</b>	<b>100%</b>	<b>799</b>	<b>100%</b>
<b>Annualised Staff Attrition Rate</b>		<b>7.04 %</b>		<b>3.75 %</b>

#### → OUR EQUAL EMPLOYMENT OPPORTUNITIES PROGRAMME

Through its EEO Programme, Avsec aims to achieve a positive climate in the workplace. This is achieved by the provision of services, facilities activities and opportunities that support not only the legislative requirements of EEO but also the well-being and satisfaction of employees.

Avsec's recruitment policy fully reflects its EEO status. Every vacancy is advertised internally and externally (through the Avsec website and other media) to give everyone an equal chance to be included in the recruitment selection.

Avsec is staffed with people from diverse cultural backgrounds. Ethnicity and age is not a determinant in recruitment selection. Gender, however, is a consideration for some screening recruitment as only female Security Officers can carry out some searching activities on female passengers.

The major recruitment determinant is that the person is best qualified and capable, and has the relevant competencies and experience that the role requires.

Avsec reviews its Equal Employment Opportunities plan every year. It contains major goals, objectives, actions, responsibilities, time frames and performance indicators.

<sup>22</sup> Avsec's current contribution to KiwiSaver is 2%.

## Part 2: STATEMENT OF SERVICE PERFORMANCE AND FINANCIAL STATEMENTS



### CONSOLIDATED FINANCIAL STATEMENTS, 01 JULY 2009 - 30 JUNE 2010

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These financial statements have been prepared pursuant to the requirements contained in *section 150 of the Crown Entities Act 2004*.

The financial statements provide the consolidated financial performance of the Civil Aviation Authority of New Zealand in respect of the responsibilities for:

- the regulation of civil aviation safety in New Zealand (the Civil Aviation Authority or the CAA); and
- the provision of aviation security services in New Zealand (Aviation Security Service or Avsec).

## 14. Statement of responsibility

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

- The preparation of the financial statements and the Statement of Service Performance and for the judgements used therein.
- The establishment and maintenance of a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial and non-financial reporting.
- In the opinion of the Authority, the financial statements and Statement of Service Performance fairly reflect the financial position and operations of the Civil Aviation Authority for the year ended 30 June 2010.

Signed on behalf of the Board:



**RICK BETTLE**

Chairman

Date: 15 October 2010



**PETER GRIFFITHS**

Deputy Chairman

Date: 15 October 2010



**STEVE DOUGLAS**

Director of Civil Aviation

Date: 15 October 2010



**MARK EVERITT**

General Manager, Aviation Security Service

Date: 15 October 2010

## 15. Ministerial directions

There were no ministerial directions to the Civil Aviation Authority during the financial year 2009/10.

# 16. Audit report

**AUDIT NEW ZEALAND**  
Mana Arotake Aotearoa

## Audit Report

### To the readers of Civil Aviation Authority's financial statements and statement of service performance for the year ended 30 June 2010

The Auditor-General is the auditor of Civil Aviation Authority (the Authority). The Auditor-General has appointed me, John O'Connell, using the staff and resources of Audit New Zealand, to carry out the audit on her behalf. The audit covers the financial statements and statement of service performance included in the annual report of the Authority for the year ended 30 June 2010.

#### Unqualified opinion

In our opinion:

- The financial statements of the Authority on pages 86 to 119:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect:
    - the Authority's financial position as at 30 June 2010; and
    - the results of its operations and cash flows for the year ended on that date.
- The statement of service performance of the Authority on pages 68 to 85:
  - complies with generally accepted accounting practice in New Zealand; and
  - fairly reflects for each class of outputs:
    - its standards of delivery performance achieved, as compared with the forecast standards outlined in the statement of forecast service performance adopted at the start of the financial year; and
    - its actual revenue earned and output expenses incurred, as compared with the forecast revenues and output expenses outlined in the statement of forecast service performance adopted at the start of the financial year.

The audit was completed on 15 October 2010, and is the date at which our opinion is expressed.

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

## Basis of opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements and statement of service performance did not have material misstatements, whether caused by fraud or error.

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

The audit involved performing procedures to test the information presented in the financial statements and statement of service performance. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement and statement of service performance disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance.

We evaluated the overall adequacy of the presentation of information in the financial statements and statement of service performance. We obtained all the information and explanations we required to support our opinion above.

## Responsibilities of the Board and the Auditor

The Board is responsible for preparing the financial statements and statement of service performance in accordance with generally accepted accounting practice in New Zealand. The financial statements must fairly reflect the financial position of the Authority as at 30 June 2010 and the results of its operations and cash flows for the year ended on that date. The statement of service performance must fairly reflect, for each class of outputs, the Authority's standards of delivery performance achieved and revenue earned and expenses incurred, as compared with


the forecast standards, revenue and expenses adopted at the start of the financial year. The Board's responsibilities arise from the Crown Entities Act 2004.

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

### Independence

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

Other than the audit, we have no relationship with or interests in the Authority.



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

### **Matters relating to the electronic presentation of the audited financial statements**

This audit report relates to the financial statements of the Civil Aviation Authority for the year ended 30 June 2010 included on the Civil Aviation Authority's website. The Civil Aviation Authority (the Authority) is responsible for the maintenance and integrity of the Civil Aviation Authority's website. We have not been engaged to report on the integrity of the Civil Aviation Authority's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements as well as the related audit report dated 15 October 2010 to confirm the information included in the audited financial statements presented on this website.

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

# 17. Statement of service performance

The consolidated financial statements comprise the following output classes:

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

## 17.1 CAA'S STATEMENT OF SERVICE PERFORMANCE

### ➔ 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 associated with or arising from the work of the ICAO Air Navigation Bureau and the Technical Assistance Bureau (excluding search and rescue);
- administration of aviation security matters arising from the work of the ICAO Aviation Security and Facilitation Branch;
- participation in appropriate ICAO international and regional fora;
- 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;
- 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.

Impacts the outputs have on a safe and secure civil aviation

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

The impacts and consequences 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 manner;
- international requirements relating to civil aviation safety and security are reflected in the New Zealand environment where applicable; and
- the potential for accidents or incidents is reduced by ensuring that a safer and more secure interface is achieved between international and domestic aviation operations.

The Authority undertakes the development of Civil Aviation Rules, under contract to the Ministry of Transport. The impacts and consequences of rules development are that the Civil Aviation Rules are aligned with international civil aviation standards and the achievement of the Authority's operational objectives as stipulated in the *Civil Aviation Act 1990*.

### Performance of Output Class 1 measures against targets

Output Class 1: Policy advice outputs	Output performance against quantity, quality and timeliness targets For the year ended 30 June 2010		
	Quantity	Quality	Timeliness
1. Reports to Parliament and the Minister	Measure: Number of reports provided. Target: Demand-driven and provided as required 100% of the time.	Measure: Meets the Parliament, or Minister's requirements, of what the report should contain. Target: 100% of responses, reports, or briefings to Ministerial correspondence and Parliamentary Questions are acceptable to the Minister and advisers.	Measure: On-time submission of reports at due dates. Target: 100% of responses, reports or briefings are responded to by the CAA within due dates as required (e.g. all replies to Ministerial correspondence are forwarded to the MoT within 10 working days of receipt by the CAA).
a) Responses to Ministerial correspondence (demand driven number)	Estimated range 20-50 09/10: 50 08/09: 44 07/08: 36	2009/10: a) to d): 100%, target met	2009/10: a) 1 minor delay b) to d): complied
b) Reports and briefings to the Minister (demand-driven number)	Estimated range 40-60 09/10: 55 08/09: 60 07/08: 52		
c) Responses to Parliamentary Questions (demand-driven number)	Estimated range 15-50 09/10: 107 08/09: 16 07/08: 2		
d) Reports and responses to Select Committees (demand-driven number)	Estimated range 4-8 09/10: 3 08/09: 0 (not required) 07/08: 2		
2. International relations and obligations	Measure: Number of reports and responses provided as required. Target: Demand-driven and provided as required 100% of the time.	Measure: Meets ICAO, the government or CAA objectives and requirements. ( <i>new measure in 09/10</i> ) Target: 100% (all) of advice and representation will be based on the priorities and goals of the government and CAA.	Measure: On-time completion of projects, responses, implementation of changes by due dates. ( <i>new measure in 09/10</i> ) Target: 100% (all) are completed in the agreed or required period.
a) Response to ICAO proposals for amendments to Annexes;	2009/10: a to f excluding b) Provided as required. b) work is still in progress on compliance statements. 2008/09: Target met	2009/10: a, c and e): complied b) work is still in progress on compliance statements for input into ICAO's new electronic filing system. d) The initial review was completed. Completion is dependent on ICAO implementing a new system for notifying differences. f) Still in progress. No estimated completion date.	2009/10: a, c and e): achieved b) work-in-progress
b) file differences;			
c) implement decisions arising from review of CAA's ICAO obligations.			
d) complete review of compliance with ICAO SARPs and update differences;			
e) provide representation of New Zealand interests with ICAO; and			
f) complete the implementation of the ICAO Corrective Action Plan.			
	2008/09*	2008/09	
	Target: Advice and representation will be based on the priorities and goals of the government and the CAA.	Target: Completed in a timely fashion or within an agreed or required timeframe.	Actual: Target met.
	Actual: Target met		

Output Class 1: Policy advice outputs	Output performance against quantity, quality and timeliness targets For the year ended 30 June 2010		
	Quantity	Quality	Timeliness
<b>3. South Pacific obligations</b> a) New Zealand representation on the Council of the Pacific Aviation Safety Office (PASO); and b) oversight of safety and security support agreements with Pacific Island Countries (PICs).	Measure: Number of representations or projects completed as required. Target: Demand-driven and provided as required 100% of the time. 2009/10: a) 2 council meetings attended b) provided as per requests from PICs  2008/09: Target: New Zealand is represented or gave support as required 100% of the time. Actual: Target met. New Zealand participated in a PASO Council meeting in Niue and the PASO AGM in Vanuatu during the period.	Measure: Meets the government objectives and requirements. ( <i>new measure in 09/10</i> ) Target: 100%(all) of advice and representation meet the priorities and goals of the government or the CAA. 2009/10: a) and b) complied  2008/09* Target: Advice and representation will be based on the priorities and goals of the government and the CAA. Actual: target met	Measure: On-time completion of projects at due dates. ( <i>new measure in 09/10</i> ) Target: 100% (all) are completed at agreed or required period. 2009/10: a) and b) some were on-time others not.  2008/09 Target: Completed in a timely fashion or within an agreed or required timeframe. Actual: Target met.
<b>4. International safety and security agreements with other countries</b> a) USA: Bilateral Aviation Safety Agreement (BASA) Maintenance Implementation Procedures (MIP); b) Europe: Develop further opportunities for expansion of the Mutual Recognition Agreement/ Technical Arrangement (Design and Production approvals); and c) Multilateral Technical Arrangement on Aircraft Maintenance with Canada, Singapore, Australia, and Hong Kong.	Measure: Number of agreements completed as required. Target: Demand-driven and provided as required 100% of the time.  2009/10: a) Progress held-up by US policy and legislative process concerning approval of foreign repair stations. b) The Agreement was to have been initiated under the umbrella of a (re-negotiated) Air Services Treaty between New Zealand and the EU. Negotiations are not proceeding at this time. c) New Zealand unable to attend previous meeting – waiting for advice on further meeting from Canada as the lead.  2008/09 Target: NZ is represented or gave support as required 100% of the time. Actual; Target met. New Zealand participated in a PASO Council meeting in Niue and the PASO AGM IN Vanuatu during the period.	Measure: Meets the government's and/or CAA objectives and requirements. ( <i>new measure in 09/10</i> ) Target: 100% (all) advice and representation meet the priorities and goals of the government and CAA.  2008/09* Target: Advice and representation will be based on the priorities and goals of the government and the CAA. Actual: target met	Measure: On-time completion of projects at due dates. ( <i>new measure in 09/10</i> ) Target: Completed in a timely fashion or within an agreed or required timeframe. 2009/10: a) to c) Delayed due to external factors.  2008/09 Target: Completed in a timely fashion or within an agreed or required timeframe. Actual: Target met.
<b>5. Policy activities and programmes for 2009/10</b> a) Development of policy on designation of Airspace. b) Review of CAA's responsibilities and arrangements covering the Auckland Oceanic Flight Information Region. c) Provide advice to the Ministry of Transport on requirements for operator's Security Management Systems. d) New Zealand's State Safety Programme. e) Provide advice to the Ministry	Measure: Number of projects completed as required. Target: a) 1, b) 1, c) 1, d) 1, e) 1, f) 1, g) 1, h) 1, i) 1  2009/10: e) Provided. Project is complete. Target met. For a to j (excluding e) – Not achieved, read below.	Measure: Meets requirements and objectives of project. Target: Advice provided will be based on: 1. comprehensive analysis of information from relevant sources; 2. relevant priorities and goals of the government and CAA; and 3. clear, accurate, and well-presented consultation with	Measure: On-time completion of projects at due dates. 2009/10: a) June 2010 – Not achieved. (read below) b) June 2010 – Not achieved (read below) c) June 2010 – Not achieved (read below) d) June 2010 – Not achieved (read below) e) June 2010 – Achieved (read below)

Output Class 1: Policy advice outputs	Output performance against quantity, quality and timeliness targets For the year ended 30 June 2010		
	Quantity	Quality	Timeliness
<p>of Transport on amendments to the Civil Aviation Act 1990.</p> <p>f) Review of key safety policy documents.</p> <p>g) Implement increase in annual AIS levy.</p> <p>h) Implement decisions from review of levy, fees and charges.</p> <p>i) Provide input to the Ministry of Transport's Substance Impairment Group.</p> <p>j) Implement changes resulting from the Review of Regulatory Tools.</p>	<p>interested parties.</p> <p>2009/10: e) complied</p> <p>For a to j (excluding e) – Not achieved, read below.</p>	<p>f) June 2011 – work-in-progress</p> <p>g) June 2011 – work-in-progress</p> <p>h) June 2010 – Not achieved. (read below)</p> <p>i) June 2011 – work-in-progress</p> <p>j) June 2010 – Not achieved (read below).</p>	
	<p>09/10: Unable to report against the quantity, quality and timeliness measures because projects a, b, c, d, f, h, i and j are still work-in-progress. For (g), the MoT decided not to proceed with it.</p> <p>Details as follows:</p> <p>a) Project is complete. The final report will be provided to the MoT in early 2010/11.</p> <p>b) Requiring clarification from ICAO and further legal advice from CAA's Legal Services before proceeding.</p> <p>c) Advice not yet required from MoT.</p> <p>d) Still a work-in-progress.</p> <p>e) Provided. Project is complete.</p> <p>f) Re-prioritised for FY2010/11.</p> <p>g) MoT has decided not to proceed with the proposed changes in the AIS levy but to instead include AIS costs into the broader review of CAA funding, which is underway.</p> <p>h) Work-in-progress. Part of the Funding Review.</p> <p>j) Due to the urgent need for the Funding Review, implementation of changes from the Regulatory Tools Review is to be made by the 2<sup>nd</sup> quarter of FY2010/11.</p>		
	<p>2008/09</p> <p>Target: Demand-driven and provided as required 100% of the time.</p> <p>Actual: Target met</p>	<p>2008/09*</p> <p>Target: Same as 2009/10</p> <p>Actual: target met</p>	<p>2008/09</p> <p>Target: Completed in a timely fashion or within an agreed or required timeframe.</p> <p>Actual: Target met.</p>
<p>6. Rules development</p> <p>The Authority undertakes Rules Development services under contract to the Ministry of Transport. The contract covers:</p> <p>a) drafting and publishing of rules and rule amendments required by the Minister;</p> <p>b) researching and developing appropriate safety and security standards;</p> <p>c) publishing notices of intention to make or amend ordinary rules; and</p> <p>d) consulting on the proposed rules or amendments with such persons as in, each case is considered appropriate.</p> <p><i>(Consolidated description in 2009/10 compared to 2008/09.)</i></p>	<p>Measure: Rules development agreed between the CAA and the Ministry of Transport.</p> <p>Target: Provided as agreed in the 2009/10 Agreement for Rules Development Services with the Ministry of Transport.</p> <p>2009/10: Provided as required.</p> <p>2008/09: Target met.</p>	<p>Measure: Quality requirements of the rules contract between the CAA and the Ministry of Transport.</p> <p>Target: Rule documentation meets the quality requirements in the 2009/10 Agreement for Rules Development Services with the Ministry of Transport.</p> <p>2009/10: Complied. Achieved.</p> <p>2008/09: Target met.</p>	<p>Measure: Timeliness requirements of the rules contract between the CAA and the Ministry of Transport.</p> <p>Target: Contracted deliverable documents meet the timeliness requirements in the 2009/10 Agreement for Rules Development Services with the Ministry of Transport.</p> <p>2009/10: Not achieved.</p> <p>2008/09: Target met.</p>

## Financial performance of Output Class 1

For the year ended 30 June 2010

Output Class 1: Policy advice	2009/10		2008/09
	Actual \$000	Budget \$000	Actual \$000
Crown funding (Vote Transport: Policy Advice)	1,821	1,821	1,821
Ministry contract revenue (Rules Development)	1,541	1,418	1,439
Other income	-	-	2
<b>TOTAL OUTPUT REVENUE</b>	<b>3,362</b>	<b>3,239</b>	<b>3,262</b>
<b>TOTAL OUTPUT EXPENSES</b>	<b>(3,919)</b>	<b>(3,651)</b>	<b>(3,604)</b>
<b>NET SURPLUS / (DEFICIT)</b>	<b>(557)</b>	<b>(412)</b>	<b>(342)</b>

## ➔ OUTPUT CLASS 2: ASSESSMENT AND CERTIFICATION

## Description

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

- exercise of control over entry into the New Zealand civil aviation system through the issuance or amendment of aviation documents and approvals to organisations, individuals and products (*section 7 of the Civil Aviation Act 1990*);
- exercise of control over exit from the civil aviation system through the amendment of aviation documents including the suspension, revocation or imposition of conditions on documents where such action is necessary in the interests of safety and security;
- monitoring of adherence to safety and security standards by participants in the civil aviation system including the carrying out of inspections and audits;
- updating of entry, exit and monitoring information in our 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 1990* and rule making procedures; 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 *Health and Safety Employment* regulations.

Impacts the outputs have on a safe and secure civil aviation

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

## Performance of Output Class 2 measures against targets

Output Class 2: Assessment and certification outputs	Output performance against quantity, quality and timeliness standards For the year ended 30 June 2010		
	Quantity	Quality	Timeliness
<b>Airlines</b>			
7. Airline sector monitoring and surveillance a) audits and inspections	<p>Measure: Number of audits and inspection hours. Target: 4,000-5,000 hrs estimated range Actual: 09/10: 5,745 08/09: 5,025</p> <p>From 2010/11 changed to estimated number of units (200-250) based on CAA's assessment of the likely number of audits and inspections to mitigate the safety risks identified..</p>	<p>Measure: Number of critical and major findings raised by internal audit. (<i>new measure in 09/10</i>) Target: Nil (zero) critical or major findings. 2009/10: PWC conducted a field audit of 1 certificated Airline organisation to review the design of surveillance audit approach and methodology. Their field audit had two major* findings relating to preparation and lack of documentation.  (*Major finding is defined as an occurrence or deficiency involving a major system that caused, or had the potential to cause significant problems to the function or effectiveness of the system.)  From 2010/11, changed to 100% of CAA policy and procedures are followed based on a review of 5% randomly sampled events by suitably qualified and independent persons. 2008/09 (7a and 7b) Target: Airlines' actual safety and security assessment and certification procedures meet the specified accuracy and completeness requirements as specified in the CAA internal safety and certification procedures 100% of the time. Actual: Target met.</p>	<p>Measure: To be developed within the framework of the new Surveillance System.  2009/10: Unable to report against timeliness measure. Functionality has not been developed within the framework of the Surveillance system.  From 2010/11, changed to 90% of audit and inspection reports are issued to the subject within 30 days of the entry meeting. 2008/09 (7a) Target: 80% of scheduled audit inspection modules are completed by due date. Actual: data not available. The surveillance project changes have negated the system's timeliness of audits. Remedial work is underway.</p>
b) Spot checks  From 2010/11, reporting of this output is discontinued.	<p>Measure: Number of spot check hours. Target: 150-200 hours Actual: 09/10: 236 08/09: 333</p>	<p>From 2010/11, changed to 100% of CAA policy and procedures are followed based on a review of 5% randomly sampled events by suitably qualified and independent persons. 2008/09 (7a and 7b) Target: Airlines' actual safety and security assessment and certification procedures meet the specified accuracy and completeness requirements as specified in the CAA internal safety and certification procedures 100% of the time. Actual: Target met.</p>	<p>2008/09 (7b) Target: 100% of programmes completed by due dates. Actual: 08/09 data not available. The surveillance project changes have negated the system's timeliness of audits. Remedial work is underway</p>
8. Airworthiness directives (issue-driven number) From 2010/11, reporting of this output is discontinued.	<p>Measure: Number of airworthiness directives developed and published. Target: 150-250 estimated range Actual: 09/10: 238 08/09: 220</p>	<p>Measure: Number of critical and major findings raised by internal audit. Target: Nil (zero) critical or major findings. 2009/10: Unable to report against the quality measures for outputs 8 to 11 due internal audit has not been performed.</p>	<p>Measure: Number of delays recorded in the release and publishing of airworthiness directives. Target: No delays. 09/10: No delays recorded. 08/09: Target met. No delays recorded.</p>
9. Airline Certification (demand-driven number)	<p>Measure: Number of airline certifications completed. Target: 200-500 estimated range Actual: 09/10: 974 08/09: 922</p>	<p>From 2010/11, quality measure for outputs 9 and 10 changed to 100% of CAA policy and procedures are followed based on a review of 5% randomly sampled events by suitably qualified and independent persons.</p>	<p>Measure: Number of delays recorded in the issue of airline certificates. Target: No delays. 09/10: No delays. 08/09: Target met. No delays recorded.</p>
10. Aircraft Certification (demand-driven number)	<p>Measure: Number of aircraft certifications completed.</p>		<p>From 2010/11, changed</p>

Output Class 2: Assessment and certification outputs	Output performance against quantity, quality and timeliness standards For the year ended 30 June 2010		
	Quantity	Quality	Timeliness
	Target: 800-1,000 estimated range  Actual: 09/10: 816 08/09: 998	2008/09 (8 to 11): Target: Airlines' actual safety and security assessment and certification procedures meet the specified accuracy and completeness requirements as specified in the CAA internal safety and certification procedures 100% of the time.  Actual: Target met.	to acceptance of fully compliant documentation certification within 60 working days for renewals of existing certification, and 90 working days for new certification.
11. Aircraft Registration work requests (demand-driven number)  From 2010/11, reporting of this output is discontinued.	Measure: Number of aircraft registration changes completed.  Target: 1,000-2,000 estimated range  Actual: 09/10: 1,655 08/09: 2,192		Measure: Number of delays recorded in the issue of aircraft registration.  Target: No delays.  09/10: The CA is unable to report against this measure because timeliness target has not been defined.  08/09: Target met. No delays recorded.
<b>General aviation</b>			
12. General aviation monitoring and surveillance  a) audits and inspections	Measure: Number of audit and inspection hours.  Target: 3,500-4,500 hours estimated range  Actual: 09/10: 3,395 08/09: 3,384  From 2010/11 changed to estimated number of units (200-250) based on CAA's assessment of the likely number of audits and inspections to mitigate the safety risks identified..	Measure: Number of critical and major findings raised by internal audit.  Target: Nil (zero) critical or major findings.  09/10: CAA's Internal Audit Coordinator conducted a field audit of 1 Fixed Wing certificated organisation and 3 Rotary Wing certificated organisation to assess whether field activities were being applied consistently and correctly in accordance with the policies and procedures in relation to routine audit and certification activities.  During his field audit, there were three major* findings pertaining to documentation, training and capacity constraints.  (*Major finding is defined as an occurrence or deficiency involving a major system that caused, or had the potential to cause significant problems to the function or effectiveness of the system.)	Measure: To be developed within the framework of the new Surveillance System.  2009/10: Unable to report against this measure. Functionality has not been developed within the framework of the Surveillance system.  From 2010/11: The measure is changed to 90% of audit and inspection reports are issued to the subject within 30 days of the entry meeting.  2008/09 (12a) Target: 80% of scheduled audit inspection modules are completed by due date.  Actual: data not available. The surveillance project changes have negated the system's timeliness of audits. Remedial work is underway
b) Spot checks  From 2010/11, reporting of this output is discontinued.	Measure: Number of spot checks hours.  Target: 1,500-1,900 hours estimated range (issue driven)  Actual: 09/10: 1,012 08/09: 811	From 2010/11, changed to 100% of CAA policy and procedures are followed based on a review of 5% randomly sampled events by suitably qualified, independent persons.  2008/09 (12a and 12b) Target: General Aviation's actual safety and security assessment and certification procedures meet the specified accuracy and completeness requirements	2008/09 (12b) Target: 100% of programmes completed by due dates: Actual: data not available.  The surveillance project changes have negated the system's timeliness of audits. Remedial work is underway

Output Class 2: Assessment and certification outputs	Output performance against quantity, quality and timeliness standards For the year ended 30 June 2010		
	Quantity	Quality	Timeliness
		as specified in the CAA internal safety and certification procedures 100% of the time.  Actual: Target met.	
13. Operator Certification (demand-driven number)	Measure: Number of operator certification changes completed.  Target: 1,000-1,400 estimated range  Actual: 09/10: 1,146 08/09: 912	Measure: Number of critical and major findings raised by internal audit.  Target: Nil (zero) critical or major findings.  2009/10: Unable to report against the quality measure for output 13 due internal audit has not been performed.  From 2010/11, the quality measure for outputs 9 and 10 changed to 100% of CAA policy and procedures are followed based on a review of 5% randomly sampled events by suitably qualified and independent persons.  2008/09 (13)  Target: General Aviation's actual safety and security assessment and certification procedures meet the specified accuracy and completeness requirements as specified in the CAA internal safety and certification procedures 100% of the time.  Actual: Target met.	Measure: Number of delays (within the control of the CAA) recorded in the issue of operator certificates.  Target: No delays.  09/10: The CA is unable to report against this measure because timeliness target has not been defined.  From 2010/11: The measure is changed to acceptance of fully compliant documentation certification within 60 working days for renewals of existing certification, and 90 working days for new certification.  2008/09 (13): Target: No delays recorded, Actual: Target met. No delays recorded.
<b>Personnel licensing and aviation services</b>			
14. Personnel licensing and aviation services monitoring and surveillance a) audits and inspections	Measure: Number of audit and inspection hours.  Target: 1,050 -1,350 hours estimated range  Actual: 09/10: 2,333 08/09: 1,353  Increased in 09/10 due spot checks of non-certificated flight training organisations are now conducted as programmed inspections.  From 2010/11, changed to number of units based on an estimate of the safety risk of participants.	Measure: Number of critical and major findings raised by internal audit.  Target: Nil (zero) critical or major findings.  09/10: Unable to report against quality measure due internal audit has not been performed.  From 2010/11, the quality measure for output 14a changed to 100% of CAA policy and procedures are followed based on a review of 5% randomly sampled events by suitably qualified, independent persons.  2008/09 (14a and 14b)  Target: Actual safety and security assessment and certification procedures meet the specified accuracy and completeness requirements as specified in the CAA internal safety and certification procedures 100% of the time.  Actual: Target met.	Measure: To be developed within the framework of the new Surveillance System.  09/10: Unable to report against timeliness measure. Functionality has not been developed within the framework of the Surveillance system.  From 2010/11, changed to 90% of audit and inspection reports are issued to the subject within 30 days of the entry meeting.  2008/09 (14a) Target: 80% of scheduled audit inspection modules are completed by due date. Actual: data not available.  The surveillance project changes have negated the system's timeliness of audits. Remedial work is underway
b) Spot checks) From 2010/11, reporting of this output is discontinued.	Measure: Number of spot check hours.  Target: 50-200 hours estimated range (issue-driven)	Actual: Target met.	2008/09 (14b) Target: 100% of programmes completed by due dates: Actual: data not available. The surveillance project

Output Class 2: Assessment and certification outputs	Output performance against quantity, quality and timeliness standards For the year ended 30 June 2010		
	Quantity	Quality	Timeliness
	Actual: 09/10: 9.5 08/09: 323 Dropped in 09/10 due spot checks of non- certificated flight training organisations conducted as programmed inspections.		changes have negated the system's timeliness of audits. Remedial work is underway
15. Personnel licensing (demand-driven number)	Measure: Number of personnel licenses changes completed. Target: 5,000-7,000 estimated range Actual: 09/10: 6,620 08/09: 7,042	Measure: Number of critical and major findings raised by internal audit. Target: Nil (zero) critical or major findings. 09/10: Unable to report against quality measure due internal audit has not been performed. From 2010/11, quality measure for output 15 changed to 100% of CAA policy and procedures are followed based on a review of 2% randomly sampled of events by suitably qualified independent persons.	Measure: Number of delays recorded in the issue of personnel licensing. Target: No delays 09/10: No delays. 08/09: Target met. No Delays recorded. From 2010/11, changed to 95% of licensing and certification completed within 10 working days (where the applicant has supplied fully compliant documentation).
16. General Directions for consultation (demand- driven number) From 2010/11, reporting of this output is discontinued	Measure: Number of general directions released for consultation. Target: 2 Actual 09/10: General Directions not undertaken. CAA has limited number of doctors on medical assessment and is unable to undertake the activity. 08/09 and 07/08: 0	2008/09 (15 to 17) Target: Actual safety and security assessment and certification procedures meet the specified accuracy and completeness requirements as specified in the CAA internal safety and certification procedures 100% of the time. Actual: Target met.	Measure: Number of delays recorded in the release of general medical directions. Target: No delays Actual 09/10: Not applicable. No general direction was released for consultation in 2009/10. 2008/09 (16): Target: 100% of General Directions programmes completed by due dates. Actual: Target met.
17. Petitions for rule exemptions (demand-driven number) From 2010/11, reporting of this output is discontinued.	Measure: Number of petitions for rule exemptions processed. Target: 100-200 estimated range Actual: 09/10: 70 08/09: 57		Measure: Number of delays recorded in the release for rule exemptions. Target: No delays 09/10: Number of exemptions decreased. Nine items delayed due to internal issues. 2008/09 (17) Target: No delays in liaison with petitioner. Actual: Target met. No delays with petitioner.
<b>Aviation community in health and safety</b>			
18. HSE investigations (demand-driven number)	Measure: Number of HSE investigations carried-out. Target: 55 – 75 estimated range Actual: 09/10: 25 08/09: 33	Measure: Number of critical and major findings raised by internal audit. Target: Nil (zero) critical or major findings. 09/10: Unable to report against quality measure due internal audit has not been performed. From 2010/11, quality measure for outputs 18 and 19 changed to	Measure: Percentage completion of HSE occurrence investigations from period of registration. Target: a) 70% of all investigations of occurrences completed within 6 months of registration; b) 90% completed within 12

Output Class 2: Assessment and certification outputs	Output performance against quantity, quality and timeliness standards For the year ended 30 June 2010		
	Quantity	Quality	Timeliness
		<p>100% of CAA policy and procedures are followed based on 5% randomly sampled events by suitably qualified, independent persons.</p> <p>2008/09 (18) Target: Actual safety and security assessment and certification procedures meet the specified accuracy and completeness requirements as specified in the CAA internal safety and certification procedures 100% of the time. Actual: Target met.</p>	<p>months of registration; and c) 100% completed within 2 years of registration.</p> <p>09/10: a) 44%; b) 48% c) No HSE investigations undertaken in the 4<sup>th</sup> quarter. Five investigations are stretching beyond two years.</p> <p>2008/09 (18) a) 50%; b) 67%; c) 2-yr measure can't be read. Criteria records for the Unit began a year ago.</p> <p>From 2010/11, targets are changed to 75% of investigations completed within 12 months, and 100% completed within 24 months.</p>
19. HSE audits and inspections	<p>Measure: Number of HSE audits and inspections carried-out.</p> <p>Target: 20 estimated number Actual: 09/10: 19 08/09: 23</p>	<p>Measure: Number of critical and major findings raised by internal audit.</p> <p>Target: Nil (zero) critical or major findings.</p> <p>09/10: Unable to report against quality measure due internal audit has not been performed.</p> <p>From 2010/11, changed to 100% of CAA policy and procedures are followed based on 5% randomly sampled events by suitably qualified, independent persons.</p>	<p>Measure: Percentage of HSE audits and inspections completed by due date.</p> <p>Target: 100% of audits completed by due date.</p> <p>09/10: Not applicable. "Due dates" tend not to be applied to HSE audits.</p> <p>08/09: Target not met. Some delays at end of financial year.</p> <p>From 2010/11, changed to 90% of reports issued within 30 working days of entry meeting.</p>
20. HSE education to clients and stakeholders (demand-driven)  From 2010/11, reporting of this output is discontinued.	<p>Measure: Number of HSE education workshops conducted.</p> <p>Target: 10 estimated number Actual: 09/10: 12 08/09: 10</p>	<p>Measure: Number of critical and major findings raised by internal audit.</p> <p>Target: Nil (zero) critical or major findings.</p> <p>09/10 Unable to report against quality measure due internal audit has not been performed.</p>	<p>Measure: Percentage of HSE stakeholders' education completed by due date.</p> <p>Target: 100% HSE stakeholders education completed by due date:</p> <p>09/10: Not applicable. "Due dates" tend not to be applied to HSE.</p> <p>08/09: Target not met. Some delays at end of financial year.</p>

## Financial performance of Output Class 2

For the year ended 30 June 2010

Output Class 2: Assessment and certification	2009/10		2008/09
	Actual \$000	Budget \$000	Actual \$000
Crown funding (Vote Transport: Health and safety in aviation)	440	440	440
Fees and Charges	3,574	3,773	3,243
Levies	15,110	12,368	15,816
Other income	467	-	1,374
<b>TOTAL OUTPUT REVENUE</b>	<b>19,591</b>	<b>16,581</b>	<b>20,873</b>
<b>TOTAL OUTPUT EXPENSES</b>	<b>(19,178)</b>	<b>(19,713)</b>	<b>(20,218)</b>
<b>NET SURPLUS / (DEFICIT)</b>	<b>413</b>	<b>(3,132)</b>	<b>655</b>

## ➔ OUTPUT CLASS 3: 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 accidents and 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.

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

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

Work on the analysis of safety and security data and information, and intelligence 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.

The impacts and consequences of the information services and educational programmes to be provided under this output are to reduce risk of accidents and incidents and increase compliance with the civil aviation legislation and rules.

## Performance of Output Class 3 measures against targets

Output Class 3: Investigation, analysis and education outputs	Output performance against quantity, quality and timeliness standards For the year ended 30 June 2010		
	Quantity	Quality	Timeliness
<b>INVESTIGATION</b>			
21. Safety and security investigations	<p>Measure: Number of safety and security investigations completed.</p> <p>Target: 1,700-2,200 estimated range</p> <p>Actual: 09/10: 875 08/09: 1,539 07/08: 2,655</p> <p>Number of investigations in 09/10 has dropped because the Units involved are no longer responsible for minor actions unlike the previous years.</p>	<p>Measure: Number of critical and major findings raised by internal audit.</p> <p>Target: Nil (zero) critical or major findings.</p> <p>09/10: Unable to report against this quality measure due internal audit has not been performed during the year.</p> <p>From 2010/11, changed to peer review findings of sampled accident investigation reports .</p> <p>2008/09 (21):</p> <p>Target: Actual safety and security investigations procedures meet the specified accuracy and completeness requirements as specified in the CAA internal safety and security investigation procedures 100% of the time.</p> <p>Actual: Target met.</p>	<p>Measure: Percent completion of safety and security investigations from period of registration.</p> <p>Target: a) 70% of all investigations of occurrences completed within 6 months of registration: b) 90% completed within 12 months; and c) 100% completed within 2 years.</p> <p>09/10: a)79%; b)94%; c) 99%</p> <p>The 99% completion within 2 years is estimated based on the number of investigations open within 2 years, rather than defined functionality within the framework of the system.</p> <p>2008/09: a) 80%; b) 91%; c)99%</p>
<b>ANALYSIS</b>			
22. Aviation safety summary reports	<p>Measure: Number of aviation safety summary reports released.</p> <p>Target: 4 times a year</p> <p>Actual: 09/10: 4 08/09: 4</p>	<p>Measure: Accuracy of data provided in the report.</p> <p>Target: 100% accurate.</p> <p>09/10: 100% accurate</p> <p>2008/09 (22):</p> <p>Target: Meet the CAA quality standards policy for data analysis.</p> <p>Actual: Target met.</p>	<p>Measure: On-time publication of report.</p> <p>Target: Published within 40 working days at the end of the quarter</p> <p>09/10: Complied</p> <p>2008/09 (22):</p> <p>Target: Published within 40 working days at the end of the quarter to which it relates to.</p> <p>Actual: Target met.</p>
<b>EDUCATION</b>			
23. Vector periodicals From 2010/11, reporting of this output is discontinued	<p>Measure: Number of Vector periodicals published.</p> <p>Target: 6 per year</p> <p>Actual: 09/10: 6 08/09: 6</p>	<p>Measure: Accuracy of information provided in Vector.</p> <p>Target: 100% accurate.</p> <p>09/10: 100% accurate</p> <p>2008/09 (23):</p> <p>Target: Meet the CAA quality standards policy.</p> <p>Actual: Target met.</p>	<p>Measure: On-time publication of Vector.</p> <p>Target: Vector is published by due date – 6x a year during the last week of odd months.</p> <p>09/10: Achieved.</p> <p>2008/09 (23):</p> <p>Target: 100% of safety education and information materials are published by due date.</p> <p>Actual: Target met.</p>
24. Safety seminars From 2010/11, reporting of this output is discontinued	<p>Measure: Number of safety seminars conducted.</p> <p>Target: minimum of 10 seminars</p> <p>Actual 09/10: 31 08/09: 32</p>	<p>Measure: Participants' feedback</p> <p>Target: 80% of participants rated the seminar as "very good".</p> <p>09/10: Over 90% of participants rated the</p>	<p>Measure: On-time provision of seminars.</p> <p>Target: 100% of seminars conducted on-schedule.</p> <p>09/10: Achieved.</p> <p>2008/09 (24):</p>

Output Class 3: Investigation, analysis and education outputs	Output performance against quantity, quality and timeliness standards For the year ended 30 June 2010		
	Quantity	Quality	Timeliness
		seminar as "very good". 2008/09 (24): Target: Meet the CAA quality standards policy. Actual: Target met.	Target: 100% of safety education and information materials are published by due date. Actual: Target met.
25. Aviation security risk context statement From 2010/11, reporting of this output is discontinued.	Measure: Number of aviation security risk context statement released. Target: Minimum of 1. Actual: 09/10: 1 2008/09 (25): Target: 1 Actual: 0 Note: No longer undertaken.	Measure: Information provided is current and accurate. Target: 100% of information provided is current and accurate. 09/10: 100% accurate 2008/09 (25): Target: 100% of information provided is up-to-date. Actual: Not applicable	Measure: On-time provision of the statement. Target: 100% of statements are provided within established due dates. 09/10: Achieved 2008/09 (25): Target: Published within due dates. Actual: Not applicable. None undertaken (published) in 2008/09.

### Financial performance of Output Class 3

For the year ended 30 June 2010

Output Class 3: Investigation, analysis and education	2009/10		2008/09
	Actual \$000	Budget \$000	Actual \$000
Levies	4,806	3,784	4,879
Other income	17	-	7
<b>TOTAL OUTPUT REVENUE</b>	<b>4,823</b>	<b>3,784</b>	<b>4,886</b>
<b>TOTAL OUTPUT EXPENSES</b>	<b>(4,842)</b>	<b>(4,832)</b>	<b>(5,217)</b>
<b>NET SURPLUS / (DEFICIT)</b>	<b>(19)</b>	<b>(1,048)</b>	<b>(331)</b>

### ➔ 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 1990*; 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.

Impacts the outputs have on a safe and secure civil aviation

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 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. The impacts and consequences 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.

#### Performance of Output Class 4 measures against targets

Output Class 4: Enforcement outputs	Output performance against quantity, quality and timeliness standards For the year ended 30 June 2010		
	Quantity	Quality	Timeliness
26. Number of detailed enforcement investigations undertaken (demand-driven number)	Measure: Number of detailed enforcement investigations undertaken. Target: 70-90 estimated range Actual: 09/10: 50 08/09: 58 07/08: 102	Measure: Number of critical and major findings raised by internal audit. Target: Nil (zero) critical or major findings. 09/10: Unable to report against this year due internal audit was not conducted. From 2010/11, changed to peer review findings of sampled investigations. 2008/09 (26): Target: 100% of Enforcement's investigations closed meet the specified accuracy and completeness requirements in CAA procedures. Actual: Target met	Measure: Percentage of detailed investigations completed from commencement date. Target: 100% of detailed investigations completed within 12 months of commencement and 90% within 6 months. Actual: 09/10: 98%/66% 08/09: 100%/96% 07/08: 100%/98%
Greater emphasis was made in FY2009/10 to carry-out Enforcement work under the guidance of the Operations Group with the regulatory oversight of the issue under investigation. This has resulted in fewer investigations conducted, but each investigation was completed in more detail. This is reflected in the % timelines of investigations completed within 6 months at 66%. The 98% is 2% lower than 100% target of completing an investigation within 12 months due a complex case pursued under the Crimes Act 1961.			

#### Financial Performance of Output Class 4

For the year ended 30 June 2010

Output Class 4: Enforcement	2009/10		2008/09
	Actual \$000	Budget \$000	Actual \$000
Levies	1,135	739	1,034
Other income	3	-	10
<b>TOTAL OUTPUT REVENUE</b>	<b>1,138</b>	<b>739</b>	<b>1,044</b>
<b>TOTAL OUTPUT EXPENSES</b>	<b>(1,040)</b>	<b>(1,035)</b>	<b>(1,074)</b>
<b>NET SURPLUS / (DEFICIT)</b>	<b>98</b>	<b>(296)</b>	<b>(30)</b>

## 17.2 AVIATION SECURITY SERVICE (AVSEC) STATEMENT OF SERVICE PERFORMANCE

### → OUTPUT CLASS 1: AVIATION SECURITY SERVICE

Output (a): Prevention of in-flight security incidents (including dangerous goods screening)

Performance Measures 2009/10		2009/10	
		Actual	2009/12 SOI Target
<b>GENERAL PERFORMANCE MEASURES</b>			
These performance measures reflect Avsec's capability to process a significant number of passengers <sup>23</sup> and their baggage, detect prohibited items and ensure Avsec is not responsible for delays to aircraft departures.			
1.	Percentage of international hold baggage screened.	100%	100%
2.	Number of flight delays attributable to screening activities (due to an Avsec system failure).	Nil	Nil
3.	Number of flight delays attributable to aircraft search activities.	Nil	Nil
<b>WAITING TIME PERFORMANCE MEASURES</b>			
These performance measures are a test of Avsec's capability and efficiency in processing passengers at international and domestic screening points within prescribed international standards.			
4.	Average passenger wait times at international 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).	Auckland 1 minute 21 seconds.  Christchurch 1 minute 12 seconds.	No more than three minutes.
5.	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).  International benchmarking against CATSA will also be undertaken where comparable data is available.	Auckland 50 seconds.  Christchurch 46 seconds.	No more than three minutes.
<b>SCREENING PERFORMANCE MEASURES</b>			
These performance measures reflect the very high standard of proficiency that is expected of all Aviation Security Officers in screening activities and detecting prohibited items.			
6.	Percentage of all Aviation Security Officers involved in the screening function covertly tested within a 150 working days against key aviation security functions (searching, wandng and x-ray proficiency).	100%	100%
7.	Number of verified unauthorised or prohibited items discovered post screening points (due to an Avsec system failure).	19	Nil
8.	Number of verified unauthorised dangerous goods discovered post screening points (due to an Avsec system failure).	2	Nil
<b>COMPLAINTS AND AUDIT PERFORMANCE MEASURES</b>			
These performance measures are quality tests and measure of the proficiency that is expected of all Aviation Security Officers in screening activities and detecting prohibited items.			
9.	Number of justified complaints against Aviation Security Officers involved in the screening function (includes 'free riders'). <sup>24</sup>	One formal complaint per 423,639 passengers screened.	No more than one formal complaint per 250,000 passengers screened.
10.	Number of airline complaints against Aviation Security Officers pertaining to aircraft search.	Less than 1.25 airline complaints	No more than five airline complaints

<sup>23</sup> Benchmark testing is undertaken at the two largest international airports, twice per year, as they provide a fair representation and measure that can be applied to other airports where Avsec undertakes passenger screening.

<sup>24</sup> "Free riders" refers to those screened domestic passengers for which no charge is recovered from airlines. The situation arises due to infrastructural configurations at certain airports.

Performance Measures 2009/10		2009/10	
		Actual	2009/12 SOI Target
		per annum	per annum.
11.	Number of corrective action requests issued pertaining to the aircraft search function issued by external auditors during any programmed audit.	Nil	Nil
12.	Number of corrective action requests issued pertaining to screening functions issued by external auditors during any programmed audit.	Nil	Nil
13.	Percentage of any findings cleared within the specified timeframes.	96%	100%

## Output (b): Prevention of airside security incidents

Performance Measures 2009/10		2009/10	
		Actual	2009/12 SOI Target
<b>Access control management and response to security related emergencies</b>			
These performance measures are a reflection on Avsec's management of access control at a security designated airport and ability to respond with urgency to a security related emergency.			
1.	Number of corrective action requests pertaining to access control issued by external auditors.	Nil	Nil
2.	Percentage of responses to any security-related emergency within five minutes of being requested.	100%	100%
<b>Management of Airport Identity Card (AIC) process</b>			
These performance measures reflect Avsec's capability to manage the AIC System in accordance with the standards and requirements set out in Civil Aviation Rules <sup>25</sup> .			
3.	Forecast number of Airport Identity Cards issued: Permanent: Temporary:	6,965 41,576	7,500 (+/- 5%) 60,000 (+/- 5%)
4.	Percentage compliance <sup>26</sup> by Airport Identity Cardholders per CAA Rule 19.357.	99.63%	100%

<sup>25</sup> The issuing of AICs is a security measure to ensure non-passengers are confirmed as having a legitimate reason for being in security enhanced areas. In addition to the administrative role involved in issuing AICs it is a mandated role of Avsec to screen airport workers with access to and within enhanced security areas.

<sup>26</sup> Applies only to those cards checked by Avsec. Civil Aviation Rule 19.357 sets out the requirements for issuing Airport Identity Cards, areas of security designated airports in which they must be worn, and the vetting processes that must occur. Compliance testing is both targeted and random and is reported on a monthly basis.

## Financial Performance of Output Class 1: Aviation Security Services

For the year ended 30 June 2010

## ○ Output (a): Prevention of in-flight security incidents

	2009/10		2008/09
	Actual (\$000)	Budget (\$000)	Actual (\$000)
Contracted services	1,567	764	343
Passenger security charges	77,931	73,510	80,782
Other income	2,514	1,638	2,539
<b>TOTAL OUTPUT REVENUE</b>	<b>82,012</b>	<b>75,912</b>	<b>83,664</b>
<b>TOTAL OUTPUT EXPENSES</b>	<b>(54,308)</b>	<b>(60,505)</b>	<b>(51,085)</b>
<b>NET SURPLUS / (DEFICIT)</b>	<b>27,704</b>	<b>15,407</b>	<b>32,579</b>

## ○ Output (b): Prevention of air-side security incidents

	2009/10		2008/09
	Actual (\$000)	Budget (\$000)	Actual (\$000)
Contracted services	2,275	3,017	2,168
Other income	601	514	564
<b>TOTAL OUTPUT REVENUE</b>	<b>2,876</b>	<b>3,531</b>	<b>2,732</b>
<b>TOTAL OUTPUT EXPENSES</b>	<b>(15,536)</b>	<b>(17,524)</b>	<b>(15,510)</b>
<b>NET SURPLUS / (DEFICIT)</b>	<b>(12,660)</b>	<b>(13,993)</b>	<b>(12,778)</b>

## ○ Output 1: Total

	2009/10		2008/09
	Actual (\$000)	Budget (\$000)	Actual (\$000)
Contracted services	3,842	3,781	2,511
Passenger security charges	77,931	73,510	80,782
Other income	3,115	2,152	3,103
<b>TOTAL OUTPUT REVENUE</b>	<b>84,888</b>	<b>79,443</b>	<b>86,396</b>
<b>TOTAL OUTPUT EXPENSES</b>	<b>(69,844)</b>	<b>(78,029)</b>	<b>(66,595)</b>
<b>NET SURPLUS / (DEFICIT)</b>	<b>15,044</b>	<b>1,414</b>	<b>19,801</b>

## → OUTPUT CLASS 2: MARITIME SECURITY SERVICES

## Output (c): Maritime Security Services

Performance measure 2009/10		2009/10	
		Actual	2009/12 SOI Target
1.	Percentage of Avsec responses within four hours 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 <sup>27</sup> .	No requests received	100%

## Financial Performance of Output Class 2: Maritime Security Services

For the year ended 30 June 2010

## ○ Output 2: Maritime Security Services

	2009/10		2008/09
	Actual (\$000)	Budget (\$000)	Actual (\$000)
Crown	145	145	156
<b>TOTAL OUTPUT REVENUE</b>	<b>145</b>	<b>145</b>	<b>156</b>
<b>TOTAL OUTPUT EXPENSES</b>	<b>145</b>	<b>(145)</b>	<b>(156)</b>
<b>NET SURPLUS / (DEFICIT)</b>	<b>-</b>	<b>-</b>	<b>-</b>

<sup>27</sup> Avsec is not actively involved in day-to-day maritime security. Avsec acts in a standby role only and has resources available that can be deployed as and when required to respond to a high level threat situation at the Port of Auckland affecting cruise ships or their passengers.

# 18. Consolidated financial statements

## 18.1 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2010

	Note	2010 Actual \$000	2010 Budget \$000	2009 Actual \$000
<b>Income</b>				
Levies revenue	2	21,051	16,891	21,729
Revenue from passenger security charges and other services	2	85,555	80,905	87,481
Crown funding revenue	3	2,406	2,406	2,417
Ministry contract revenue	3	1,976	1,875	2,129
Other income	4	2,940	2,243	2,865
<b>Total income</b>		<b>113,928</b>	<b>104,320</b>	<b>116,621</b>
<b>Expenditure</b>				
Personnel costs	5	73,634	78,044	71,602
Depreciation and amortisation expense	14,15	6,007	7,483	6,233
Capital charge	6	2,011	2,111	2,019
Finance costs	7	405	113	446
Other cost of services	8	16,892	19,654	16,568
<b>Total expenses</b>		<b>98,949</b>	<b>107,405</b>	<b>96,868</b>
<b>NET SURPLUS / (DEFICIT)</b>		<b>14,979</b>	<b>(3,085)</b>	<b>19,753</b>
<b>Other comprehensive Income:</b>				
Gain on revaluation of land and buildings	14	150	-	-
<b>Total comprehensive income</b>		<b>15,129</b>	<b>(3,085)</b>	<b>19,753</b>

Explanation of major variances against budget are detailed in Note 32.

The accompanying notes form part of these financial statements.

## 18.2 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2010

	Note	2010 Actual \$000	2010 Budget \$000	2009 Actual \$000
<b>Equity</b>				
<b>Opening balance of equity at 1 July</b>				
General funds	20	30,744	30,842	25,235
Property, plant and equipment revaluation reserve	20	640	640	640
Passenger security charges reserves	20	35,363	31,304	15,158
<b>Total opening balance of equity at 1 July</b>		<b>66,747</b>	<b>62,786</b>	<b>41,033</b>
Total comprehensive income		15,129	(3,085)	19,753
Repayment of capital		-	-	(1,386)
Capital contributions		2,981	7,055	7,347
Transfers to passenger security reserves		-	1,563	-
Transfers from passenger security reserves		-	(1,563)	-
<b>Total changes in equity during the year</b>		<b>18,110</b>	<b>3,970</b>	<b>25,714</b>
<b>Closing balance of equity at 30 June</b>				
General funds	20	34,255	33,249	30,744
Property, plant and equipment revaluation reserve	20	790	640	640
Passenger security charges reserves	20	49,812	32,867	35,363
<b>Total closing balance of equity at 30 June</b>		<b>84,857</b>	<b>66,756</b>	<b>66,747</b>

The accompanying notes form part of these financial statements.

## 18.3 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	Note	2010 Actual \$000	2010 Budget \$000	2009 Actual \$000
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	9	66,373	56,768	61,908
Debtors and other receivables	10	8,347	11,467	9,558
Inventories including services work in progress	11	345	344	334
Investments - term deposits	12	14,750	-	-
Derivative financial instruments	13	8	-	-
<b>Total Current Assets</b>		<b>89,823</b>	<b>68,579</b>	<b>71,800</b>
<b>Non-Current Assets</b>				
Property, plant and equipment	14	18,028	18,012	11,738
Intangible assets	15	2,015	2,062	1,567
<b>Total Non-Current Assets</b>		<b>20,043</b>	<b>20,074</b>	<b>13,305</b>
<b>Total Assets</b>		<b>109,866</b>	<b>88,653</b>	<b>85,105</b>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Creditors and other payables	16	6,535	3,904	4,169
Employee entitlements	17	8,758	7,653	8,082
Provisions	18	210	-	-
Borrowings	19	1,446	1,678	1,645
Derivative financial instruments	13	-	-	116
<b>Total Current Liabilities</b>		<b>16,949</b>	<b>13,235</b>	<b>14,012</b>
<b>Non-Current Liabilities</b>				
Employee entitlements	17	3,991	4,410	3,311
Provisions	18	233	-	327
Borrowings	19	3,836	4,252	708
<b>Total Non - Current Liabilities</b>		<b>8,060</b>	<b>8,662</b>	<b>4,346</b>
<b>Total Liabilities</b>		<b>25,009</b>	<b>21,897</b>	<b>18,358</b>
<b>NET ASSETS</b>		<b>84,857</b>	<b>66,756</b>	<b>66,747</b>
<b>EQUITY</b>				
General funds	20	34,255	33,249	30,744
Property, plant and equipment revaluation reserve	20	790	640	640
Passenger security charges reserves	20	49,812	32,867	35,363
<b>TOTAL EQUITY</b>		<b>84,857</b>	<b>66,756</b>	<b>66,747</b>

The accompanying notes form part of these financial statements.

## 18.4 CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2010

	Note	2010 Actual \$000	2010 Budget \$000	2009 Actual \$000
<b>Cash Flows from Operating Activities</b>				
Receipts from levies		20,701	16,891	22,316
Receipts from passenger security charges and other services		86,826	80,698	87,869
Receipts from Crown funding and Ministry contracts		4,382	4,281	4,535
Interest received		2,535	2,082	2,663
Payments to employees		(69,702)	(73,183)	(66,670)
Payments to suppliers		(16,955)	(25,594)	(20,775)
Interest paid		(158)	(113)	(418)
Payments of capital charge to the Crown		(2,011)	(2,111)	(2,086)
Goods and Services Tax (net)		(26)	(332)	(16)
<b>Net Cash Flows from Operating Activities</b>	21	<b>25,592</b>	<b>2,619</b>	<b>27,418</b>
<b>Cash Flows from Investing Activities</b>				
Sale of property, plant and equipment		426	220	274
Placement of investments		(14,750)	-	-
Purchase of property, plant and equipment		(11,892)	(12,969)	(5,088)
Purchase of intangible assets		(861)	(275)	(216)
<b>Net Cash Flows from Investing Activities</b>		<b>(27,077)</b>	<b>(13,024)</b>	<b>(5,030)</b>
<b>Cash Flows from Financing Activities</b>				
Capital contributions from the Crown		2,981	7,055	7,348
Proceeds from external borrowings		5,231	6,916	-
Repayment of capital		-	-	(1,386)
Repayment of external borrowings		(2,262)	(2,403)	(1,864)
<b>Net Cash Flows from Financing Activities</b>		<b>5,950</b>	<b>11,568</b>	<b>4,098</b>
Net increase/(decrease) in cash and cash equivalents		4,465	1,163	26,486
Opening cash and cash equivalents at 1 July		61,908	55,605	35,422
<b>CLOSING CASH AND CASH EQUIVALENTS AT 30 JUNE</b>	9	<b>66,373</b>	<b>56,768</b>	<b>61,908</b>

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

The Authority acquired property, plant and equipment totalling \$5,230,906 (2009:\$nil) by means of a finance lease during the year.

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

## 19.

## Consolidated notes to the financial statements

**1 STATEMENT OF ACCOUNTING POLICIES****Reporting entity**

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

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

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

These financial statements of the Authority are for the year ended 30 June 2010. The financial statements were approved by the Authority on 15 October 2010.

**Basis of preparation****Statement of compliance**

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

**Measurement basis**

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

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

**Functional and presentation currency**

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

**Changes in accounting policies**

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

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

- NZ IAS 1 *Presentation of Financial Statements* (Revised 2007) replaces NZ IAS 1 *Presentation of Financial Statements* (Issued 2004). The revised standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income that will enable readers to analyse changes in equity resulting from non-owner changes separately from transactions with owners. The Authority has decided to prepare a single statement of comprehensive income for the year ended 30 June 2010 under the revised standard. Financial statement information for the year ended 30 June 2009 has been restated accordingly. Those items of other comprehensive income presented in the statement of comprehensive income were previously recognised directly in the statement of changes in equity.
- Amendments to NZ IFRS 7 *Financial Instruments: Disclosures*. The amendments introduce a three-level fair value disclosure hierarchy that distinguishes fair value measurements by the significance of valuation inputs used, and requires the maturity analysis of derivative liabilities to be presented separately from non-derivative financial liability contractual maturity analysis. This new information is disclosed in note 28. The transition provisions of the amendments do not require disclosure of comparative information in the first year of application. The Authority has elected to disclose comparative information.

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

The following standards, amendments and interpretations that are relevant to the Authority are not yet effective for the year ended 30 June 2010 have not been applied in preparing these financial statements:

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

## Significant accounting policies

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

### **Revenue**

The Authority earns revenue from:

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

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

#### ○ Provision of fee-based services

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

#### ○ Interest

Interest income is recognised using the effective interest method.

#### ○ Crown funding and Ministry contracts

Revenue provided by the Crown and revenue earned under Ministry contracts is recognised in the Statement of Comprehensive Income 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 financial statements are presented exclusive of Goods and Services Tax (GST), except receivables and payables, which are presented on a GST inclusive basis. Where GST is not recoverable it is recognised as part of the related asset or expense.

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

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

**Income Tax**

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

**Payment of Any Surplus to the Crown**

Section 165 of the *Crown Entities Act 2004* provides the Minister of Finance with discretion to require Crown Entities to return annual and accumulated operating surpluses to the Crown, unless exempted in Schedule 1. The Authority is so exempted. However, *section 72CA of the Civil Aviation Act 1990* specifically provides that Avsec surplus funds are subject to a similar requirement by the Minister of Finance.

**Derivative Financial Instruments and Foreign Currency Transactions**

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

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

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

*Foreign currency transactions*

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

**Other Financial Instruments**

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

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

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

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

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

*Impairment of Financial Assets*

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

**Leases***Finance Leases*

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

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

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

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

*Operating Leases*

The Authority leases office premises and office equipment. As substantially all the risks and rewards incidental to ownership of the asset are retained by the lessor, these leases are classified as operating leases. Operating lease payments are recognised in the Statement of Comprehensive Income as an expense on a straight-line basis over the lease term.

**Cash and Cash Equivalents**

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

**Inventories***Services Work in Progress*

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

*Inventories held for use in the provision of services*

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

*Inventory write-downs*

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

**Investments**

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

*Bank deposits*

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

***Property, Plant and Equipment***

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

*Revaluations*

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 2010. 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 Comprehensive Income. Any subsequent increase in the revaluation that offsets a previous decrease in value recognised in the Statement of Comprehensive Income will be recognised first in the Statement of Comprehensive Income up to the amount previously expensed, and then credited to the revaluation reserve of the asset class.

*Additions*

The cost of an item of property, plant and equipment is recognised as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. The minimum cost value for a purchase to be 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 Comprehensive Income. When revalued assets are sold, the amounts included in revaluation reserves in respect of these assets are transferred to general funds.

*Subsequent Costs*

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

*Depreciation*

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

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

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

### ***Intangible Assets***

#### *Software acquisition and development*

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

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

Staff training costs are recognised as an expense when incurred.

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

#### *Indefinite life intangible assets*

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

#### *Amortisation*

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

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

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

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

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

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

Indefinite life intangible assets are tested for impairment annually.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair

value less costs to sell and value in use. Value in use is based on depreciated replacement cost.

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

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

### ***Borrowings***

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

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

### ***Employee Entitlements***

#### *Short-Term Employee Entitlements*

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

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

#### *Long-Term Employee Entitlements*

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

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

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

#### *Post-Employment Entitlements*

##### Superannuation schemes

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

**Provisions**

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

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

**Budget figures**

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

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

Direct costs for CAA are those costs directly attributable to an output. Indirect costs are those costs that cannot be identified with a specific output in an economically feasible manner. Indirect personnel, property, occupancy and certain other indirect costs for the Aviation Security Service are charged on the basis of actual staff hours attributable to an output. Depreciation and capital charges are charged on the basis of asset utilisation.

*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.

There have been no changes in the methodology from that used in previous years.

**Critical Accounting Estimates, Assumptions and Judgements**

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

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

*Internally developed computer software intangible assets availability of use*

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

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

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

*Lease classification*

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

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

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

*Retirement and long service leave*

An analysis of the exposure in relation to estimates and uncertainties surrounding retirement and long service leave liabilities is disclosed in note 17.

**2 REVENUE FROM LEVIES AND SERVICES**

	<b>2010 Actual \$000</b>	<b>2009 Actual \$000</b>
<b>Levies revenue</b>		
International passenger levies	3,888	3,833
Domestic passenger levies	16,152	16,902
Other levies	1,011	994
<b>Total levies revenue</b>	<b>21,051</b>	<b>21,729</b>
<b>Revenue from passenger security charges and other services</b>		
International passenger security charges	54,680	57,503
Domestic passenger security charges	23,251	23,282
Aviation regulatory and safety services	3,797	4,171
Other contracted aviation security services	3,827	2,525
<b>Total revenue from passenger security charges and other services</b>	<b>85,555</b>	<b>87,481</b>

**3 CROWN FUNDING AND MINISTRY CONTRACT REVENUE****Crown funding revenue**

The Authority has been provided with funding from the Crown for the following specific purposes of the Authority as set out in the *Civil Aviation Act 1990* and the scope of the relevant government appropriations. Apart from these general restrictions, there are no unfulfilled conditions or contingencies attached to government funding (2009: nil).

	<b>2010 Actual \$000</b>	<b>2009 Actual \$000</b>
Policy	1,821	1,821
Health and safety in employment	440	440
Maritime security	145	156
<b>Total revenue from the Crown</b>	<b>2,406</b>	<b>2,417</b>

### **Policy**

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

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

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

### **Health and safety in employment**

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

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

### **Maritime security**

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

### **Ministry contract revenue**

	<b>2010 Actual \$000</b>	<b>2009 Actual \$000</b>
Rules development (Ministry of Transport)	1,541	1,439
Pacific Security Fund (Ministry of Foreign Affairs and Trade)	435	690
<b>Total Ministry contract revenue</b>	<b>1,976</b>	<b>2,129</b>

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

## **4 OTHER INCOME**

	<b>2010 Actual \$000</b>	<b>2009 Actual \$000</b>
Interest income	2,534	2,621
Net gain on sale of property, plant and equipment	281	244
Net foreign exchange gains	125	-
<b>Total other income</b>	<b>2,940</b>	<b>2,865</b>

During the year the Authority disposed of vehicles and screening equipment that formed part of the capital replacement programme as determined by the useful life of the asset.

**5 PERSONNEL COSTS**

	<b>2010</b>	<b>2009</b>
	<b>Actual</b>	<b>Actual</b>
	<b>\$000</b>	<b>\$000</b>
Salaries and wages	66,689	64,459
Employer contributions to defined contribution plans	980	536
Other personnel expenses	4,609	5,361
Increase/(decrease) in employee entitlements (Note 17)	1,356	1,246
<b>Total personnel costs</b>	<b>73,634</b>	<b>71,602</b>

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

**6 CAPITAL CHARGE**

The Authority pays a capital charge to the Crown as at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 2010 was 7.5% (2009: 7.5%).

In December 2009, the CAA changed the basis on which the capital charge was paid, from being calculated on total taxpayer funds to the capital injection made by the Crown. The new methodology applies to the capital charge from 1 July 2009. For periods prior to 30 June, the capital charge was levied on total taxpayer funds that included accumulated surpluses arising from third party revenues, fees and charges exceeding expenditure.

**7 FINANCE COSTS**

	<b>2010</b>	<b>2009</b>
	<b>Actual</b>	<b>Actual</b>
	<b>\$000</b>	<b>\$000</b>
Interest on finance leases	158	253
Discount unwind on long-term employee entitlements	247	193
<b>Total finance costs</b>	<b>405</b>	<b>446</b>

**8 OTHER COST OF SERVICES**

	<b>2010</b>	<b>2009</b>
	<b>Actual</b>	<b>Actual</b>
	<b>\$000</b>	<b>\$000</b>
Fees to auditor:		
Audit fees for financial statements audit	100	76
Audit related fees for assurance and related services	-	7
Operating lease expense	2,419	2,239
Building operating expenses	808	628
Information technology expenses	1,537	1,436
Staff travel	3,632	3,072
Insurances	1,244	971
Donations	23	38
Impairment of receivables (note 10)	2	2
Safety information services	1,820	1,672
Consultancy	1,382	1,143
Consumables and maintenance	1,529	2,071
Net foreign exchange losses	2	134
Net loss on sale of property, plant and equipment	-	8
Impairment of property, plant, equipment & intangibles	29	-
Other expenses	2,365	3,071
<b>Total other cost of services</b>	<b>16,892</b>	<b>16,568</b>

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

## 9 CASH AND CASH EQUIVALENTS

	2010 Actual \$000	2009 Actual \$000
Cash on hand and at bank	4,593	2,228
Cash equivalents -- short-term deposits	61,780	59,680
<b>Total cash and cash equivalents</b>	<b>66,373</b>	<b>61,908</b>

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

The weighted average effective interest rate for the short-term deposits held is 3.8% (2009: 4.0%).

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

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

## 10 DEBTORS AND OTHER RECEIVABLES

	2010 Actual \$000	2009 Actual \$000
Debtors	7,986	8,956
Other receivables	361	604
Less: provision for impairment	-	(2)
<b>Total debtors and other receivables</b>	<b>8,347</b>	<b>9,558</b>

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

As at 30 June 2010 and 2009, all receivables were reviewed for evidence of impairment. Both provisioned and non-provisioned bad debts are written-off when recovery actions have been unsuccessful and when the likelihood of recovery is considered remote

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

	Current	Past due 1-30 days	Past due 31-60 days	Past due 61-90 days	Past due more than 90 days	Total \$000
<b>2010</b>						
Not past due and not impaired	2,521	-	-	-	-	2,521
Past due but not impaired	-	5,519	235	17	55	5,826
Impaired assets -- gross	-	-	-	-	2	2
Impairment	-	-	-	-	(2)	(2)
Impaired assets -- net	-	-	-	-	-	-
<b>Total debtors and other receivables</b>	<b>2,521</b>	<b>5,519</b>	<b>235</b>	<b>17</b>	<b>55</b>	<b>8,347</b>
<b>2009</b>						
Not past due and not impaired	2,692	-	-	-	-	2,692
Past due but not impaired	-	6,132	644	15	69	6,860
Impaired assets -- gross	-	-	-	5	3	8
Impairment	-	-	-	(1)	(1)	(2)
Impaired assets -- net	-	-	-	4	2	6
<b>Total debtors and other receivables</b>	<b>2,692</b>	<b>6,132</b>	<b>644</b>	<b>19</b>	<b>71</b>	<b>9,558</b>

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

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

	2010 Actual \$000	2009 Actual \$000
Balance at 1 July	(2)	(2)
Additional provisions made during the year	2	-
Receivables written-off during the period	(2)	-
Provisions reversed during the year	2	-
<b>Balance at 30 June</b>	<b>-</b>	<b>(2)</b>

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

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

## 11 INVENTORIES

	2010 Actual \$000	2009 Actual \$000
Inventories held for use in the provision of services	90	72
Services work in progress	255	262
<b>Total inventories</b>	<b>345</b>	<b>334</b>

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

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

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

There have been no write-downs (2009: \$nil) or reversals of write-downs (2009:\$nil) for inventories during the year.

**12 INVESTMENTS**

	<b>2010 Actual \$000</b>	<b>2009 Actual \$000</b>
<b><i>Current investments are represented by:</i></b>		
Term deposits	14,750	-
	<b>14,750</b>	<b>-</b>
<b><i>Maturity analysis and effective interest rates of term deposits</i></b>		
Term deposits with maturities of 4-6 months (91-180 days)	14,750	
<i>effective interest rate</i>	4.80%	-
	<b>14,750</b>	<b>-</b>

**13 DERIVATIVE FINANCIAL INSTRUMENTS**

The Authority has taken a forward exchange contract for USD465,000 (2009: USD 471,000) to settle liability insurance cover premiums for the 2010/11 financial year.

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

## 14 PROPERTY, PLANT AND EQUIPMENT

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

	Asset under construction \$000	Buildings (inch components) \$000	Leasehold improvements \$000	Furniture & fittings \$000	Plant & equipment \$000	Office equipment \$000	Motor vehicles \$000	Computer equipment \$000	Leased HBS screening equipment \$000	Total \$000
<b>Cost or valuation</b>										
Balance at 1 July 2008	-	808	2,370	1,095	8,893	883	2,798	3,413	10,675	30,935
Additions	601	-	300	2	1,838	119	1,054	337	976	5,227
Revaluation increase	-	-	-	-	-	-	-	-	-	-
Disposals	-	(1)	(136)	-	(518)	(312)	(833)	(136)	-	(1,936)
<b>Balance at 30 June 2009</b>	<b>601</b>	<b>807</b>	<b>2,534</b>	<b>1,097</b>	<b>10,213</b>	<b>690</b>	<b>3,019</b>	<b>3,614</b>	<b>11,651</b>	<b>34,226</b>
Balance at 1 July 2009	601	807	2,534	1,097	10,213	690	3,019	3,614	11,651	34,226
Additions	2,680	-	96	-	2,616	27	935	304	5,231	11,889
Revaluation increase	-	11	-	-	-	-	-	-	-	11
Disposals	-	-	(18)	(2)	(362)	-	(782)	(10)	(10,675)	(11,849)
<b>Balance at 30 June 2010</b>	<b>3,281</b>	<b>818</b>	<b>2,612</b>	<b>1,095</b>	<b>12,467</b>	<b>717</b>	<b>3,172</b>	<b>3,908</b>	<b>6,207</b>	<b>34,277</b>
<b>Accumulated depreciation and impairment losses</b>										
Balance at 1 July 2008	-	(73)	(954)	(403)	(5,358)	(710)	(1,534)	(2,454)	(6,759)	(18,245)
Depreciation expense	-	(68)	(344)	(105)	(1,326)	(97)	(588)	(611)	(2,730)	(5,869)
Eliminate on disposal	-	-	2	-	496	279	753	96	-	1,626
Eliminate on revaluation	-	-	-	-	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-	-	-	-	-
<b>Balance at 30 June 2009</b>	<b>-</b>	<b>(141)</b>	<b>(1,296)</b>	<b>(508)</b>	<b>(6,188)</b>	<b>(528)</b>	<b>(1,369)</b>	<b>(2,969)</b>	<b>(9,489)</b>	<b>(22,488)</b>
Balance at 1 July 2009	-	(141)	(1,296)	(508)	(6,188)	(528)	(1,369)	(2,969)	(9,489)	(22,488)
Depreciation expense	-	(93)	(502)	(171)	(1,526)	(69)	(653)	(421)	(2,173)	(5,608)
Eliminate on disposal	-	-	8	-	331	-	684	10	10,676	11,709
Eliminate on revaluation	-	138	-	-	-	-	-	-	-	138
Impairment losses	-	-	(9)	-	-	-	-	-	-	(9)
Reversal of impairment losses	-	-	9	-	-	-	-	-	-	9
<b>Balance at 30 June 2010</b>	<b>-</b>	<b>(96)</b>	<b>(1,790)</b>	<b>(679)</b>	<b>(7,383)</b>	<b>(597)</b>	<b>(1,338)</b>	<b>(3,380)</b>	<b>(986)</b>	<b>(16,249)</b>
<b>Carrying amounts</b>										
<b>At 1 July 2008</b>	<b>-</b>	<b>735</b>	<b>1,416</b>	<b>692</b>	<b>3,535</b>	<b>173</b>	<b>1,264</b>	<b>959</b>	<b>3,916</b>	<b>12,690</b>
<b>At 30 June 2009</b>	<b>601</b>	<b>666</b>	<b>1,238</b>	<b>589</b>	<b>4,025</b>	<b>162</b>	<b>1,650</b>	<b>645</b>	<b>2,162</b>	<b>11,738</b>
<b>At 30 June 2010</b>	<b>3,281</b>	<b>722</b>	<b>822</b>	<b>416</b>	<b>5,084</b>	<b>120</b>	<b>1,834</b>	<b>528</b>	<b>5,221</b>	<b>18,028</b>

The Authority owns a building at Auckland airport which is restricted for government or reserve use. The original carrying cost of this building was \$900,000. The building was revalued on 30 June 2010 by an independent registered valuer, Seagar & Partners FPINZ.

The total amount of property, plant and equipment in the course of construction is \$3,281,000 (2009: \$601,000).

The net carrying amount of property, plant and equipment held under finance leases is \$5,221,000 (2009: \$2,162,000). Other than items of property, plant and equipment that are subject to finance leases, there are no title restrictions for any of the Authority's property, plant and equipment assets, nor are any items of property, plant and equipment pledged as security for liabilities or contingent liabilities.

## 15 INTANGIBLE ASSETS

Movements for each class of intangible asset are as follows:

	Assets under construction	AIS navigation database	Acquired software	Internally developed software	Software under development	Total \$000
<b>Cost</b>						
Balance at 1 July 2008	-	739	1,238	1,652	20	3,649
Additions	-	46	12	158	-	216
<b>Balance at 30 June 2009</b>	<b>-</b>	<b>785</b>	<b>1,250</b>	<b>1,810</b>	<b>20</b>	<b>3,865</b>
Balance at 1 July 2009	-	785	1,250	1,810	20	3,865
Additions	449	31	287	100	-	867
<b>Balance at 30 June 2010</b>	<b>449</b>	<b>816</b>	<b>1,537</b>	<b>1,910</b>	<b>20</b>	<b>4,732</b>
<b>Accumulated amortisation and impairment losses</b>						
Balance at 1 July 2008	-	-	(721)	(1,213)	-	(1,934)
Amortisation expense	-	-	(237)	(127)	-	(364)
<b>Balance at 30 June 2009</b>	<b>-</b>	<b>-</b>	<b>(958)</b>	<b>(1,340)</b>	<b>-</b>	<b>(2,298)</b>
Balance at 1 July 2009	-	-	(958)	(1,340)	-	(2,298)
Amortisation expense	-	-	(242)	(157)	-	(399)
Impairment losses	-	-	-	-	(20)	(20)
<b>Balance at 30 June 2010</b>	<b>-</b>	<b>-</b>	<b>(1,200)</b>	<b>(1,497)</b>	<b>(20)</b>	<b>(2,717)</b>
<b>Carrying amounts</b>						
<b>At 1 July 2008</b>	<b>-</b>	<b>739</b>	<b>517</b>	<b>439</b>	<b>20</b>	<b>1,715</b>
<b>At 30 June 2009</b>	<b>-</b>	<b>785</b>	<b>292</b>	<b>470</b>	<b>20</b>	<b>1,567</b>
<b>At 30 June 2010</b>	<b>449</b>	<b>816</b>	<b>337</b>	<b>413</b>	<b>-</b>	<b>2,015</b>

The total amount of intangibles in the course of construction is \$449,000 (2009:\$0) The amortisation expense for intangible assets is included within depreciation and amortisation expense in the Statement of Comprehensive Income. There are no title restrictions for any of the Authority's intangible assets, nor are any intangible assets pledged as security for liabilities or contingent liabilities.

#### ***Intangible assets with an indefinite useful life***

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

**16 CREDITORS AND OTHER PAYABLES**

	<b>2010 Actual \$000</b>	<b>2009 Actual \$000</b>
Creditors	4,031	1,693
Other payables	2,504	2,476
<b>Total creditors and other payables</b>	<b>6,535</b>	<b>4,169</b>

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

**17 EMPLOYEE ENTITLEMENTS**

	<b>2010 Actual \$000</b>	<b>2009 Actual \$000</b>
<b><i>Current employee entitlements are represented by:</i></b>		
Accrued salaries and wages	2,205	1,791
Annual leave	5,963	5,791
<i>Current portion of long-term employee entitlements</i>		
Sick leave	154	138
Retiring and long service leave	436	362
<b>Total current portion</b>	<b>8,758</b>	<b>8,082</b>
<b><i>Non-current employee entitlements are represented by:</i></b>		
<i>Long-term employee entitlements</i>		
Retiring and long service leave	3,721	3,021
Sick leave	270	290
<b>Total non-current portion</b>	<b>3,991</b>	<b>3,311</b>
<b>Total employee entitlements</b>	<b>12,749</b>	<b>11,393</b>

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

In determining the appropriate discount rate, the Authority considered the interest rates on New Zealand government bonds which have terms to maturity that match, as closely as possible, the estimated future cash outflows. The salary inflation factor has been determined after considering historical salary inflation patterns and after obtaining advice from an independent actuary. A weighted average discount rate of 5.5% pa (2009: 6.0% pa) and an inflation factor of 3.5% pa (2009 3.5% pa) were used.

***Actuarial estimate sensitivity analysis***

If the discount rate were to be 1% pa higher / lower than the Authority's estimates, with all other factors held constant, the carrying amount of the liability would be an estimated \$360,000 lower/\$421,000 higher respectively (2009 \$280,000 lower/\$323,000 higher respectively).

If the salary inflation factor was 1% pa higher / lower than the Authority's estimates, with all other factors held constant, the carrying amount of the liability would be an estimated \$380,000 higher/ \$333,000 lower respectively (2009 \$234,000 higher/\$290,000 lower respectively).

## 18 PROVISIONS

	2010 Actual \$000	2009 Actual \$000
<b>Current provisions are represented by:</b>		
Leasehold refurbishment	210	-
<b>Total current portion</b>	<b>210</b>	<b>-</b>
<b>Non-current provisions are represented by:</b>		
HBS screening equipment decommissioning	233	210
Leasehold refurbishment	-	117
<b>Total non-current portion</b>	<b>233</b>	<b>327</b>
<b>Total provisions</b>	<b>443</b>	<b>327</b>

Movements for each class of provision are as follows:

	HBS screening equipment decommissioning \$000	Leasehold refurbishment \$000	Total \$000
<b>2010</b>			
Balance at 1 July	210	117	327
Additional provisions made	23	93	116
<b>Balance at 30 June 2010</b>	<b>233</b>	<b>210</b>	<b>443</b>
<b>2009</b>			
Balance at 1 July	164	99	263
Additional provisions made	46	18	64
<b>Balance at 30 June 2009</b>	<b>210</b>	<b>117</b>	<b>327</b>

#### **HBS screening equipment decommissioning**

The Authority has recognised a provision for the cost of decommissioning the HBS screening equipment at the end of its estimated useful life.

#### **Leasehold refurbishment**

In respect of leased office space in Wellington and Petone, the Authority is required at the expiry of the lease term to refurbish the premises. Information about the Authority's leasing arrangements is disclosed in Note 19.

## 19 BORROWINGS

	2010 Actual \$000	2009 Actual \$000
<b>Current borrowings are represented by:</b>		
Finance leases	1,446	1,645
<b>Total current portion</b>	<b>1,446</b>	<b>1,645</b>
<b>Non-current borrowings are represented by:</b>		
Finance leases	3,836	708
<b>Total non-current portion</b>	<b>3,836</b>	<b>708</b>
<b>Total borrowings</b>	<b>5,282</b>	<b>2,353</b>
<b>Analysis of finance leases</b>		
<b>Minimum lease payments payable:</b>		
Not later than one year	1,733	1,727
Later than one year and not later than five years	4,155	758
Later than five years	-	-
<b>Total minimum lease payments</b>	<b>5,888</b>	<b>2,485</b>
Future finance charges	(606)	(132)
<b>Present value of minimum lease payments</b>	<b>5,282</b>	<b>2,353</b>
<b>Present value of minimum lease payments payable:</b>		
Not later than one year	1,446	1,645
Later than one year and not later than five years	3,836	708
Later than five years	-	-
<b>Total present value of minimum lease payments</b>	<b>5,282</b>	<b>2,353</b>

**Description of leasing arrangements**

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

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

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

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

## 20 EQUITY

	2010 Actual \$000	2009 Actual \$000
<b>General funds</b>		
Opening balance at 1 July	30,744	25,235
Transfer from statement of comprehensive income	14,979	19,753
Transfer from passenger security charges reserve	489	-
Transfer to passenger security charges reserve	(14,938)	(20,205)
Capital contributions	2,981	7,347
Repayment of capital	-	(1,386)
<b>Closing balance at 30 June</b>	<b>34,255</b>	<b>30,744</b>
<b>Reserves</b>		
<b>Property, plant and equipment revaluation reserve</b>		
Opening balance at 1 July	640	640
Transfer from statement of comprehensive income	150	-
Transfer to general funds on disposal	-	-
<b>Closing balance at 30 June</b>	<b>790</b>	<b>640</b>
<b>Passenger security charges reserve</b>		
Passenger security charges reserve - Domestic	4,431	2,455
Passenger security charges reserve - International	23,432	10,922
Passenger security contingency reserve - Domestic	3,000	779
Passenger security contingency reserve - International	4,500	1,002
<b>Opening balance at 1 July</b>	<b>35,363</b>	<b>15,158</b>
<i>Transfer from General Funds to:</i>		
Passenger security charges reserve - Domestic	2,483	1,976
Passenger security charges reserve - International	12,455	12,510
Passenger security contingency reserve - Domestic	-	2,221
Passenger security contingency reserve - International	-	3,498
<b>Total transfers from General Funds</b>	<b>14,938</b>	<b>20,205</b>
<i>Transfer to General Funds from:</i>		
Passenger security charges reserve - Domestic	-	-
Passenger security charges reserve - International	(489)	-
Passenger security contingency reserve - Domestic	-	-
Passenger security contingency reserve - International	-	-
<b>Total transfers to General Funds</b>	<b>(489)</b>	<b>-</b>
Passenger security charges reserve - Domestic	6,914	4,431
Passenger security charges reserve - International	35,398	23,432
Passenger security contingency reserve - Domestic	3,000	3,000
Passenger security contingency reserve - International	4,500	4,500
<b>Closing balance at 30 June</b>	<b>49,812</b>	<b>35,363</b>

The *Crown Entities Act 2004* exempts the Authority from returning any part of the current or prior year's net surplus to the Crown. These funds are retained by the Authority to carry out its statutory functions within the aviation sector.

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

	2010 Actual \$000	2009 Actual \$000
<b>Net surplus/(deficit)</b>	<b>14,979</b>	<b>19,753</b>
<b>Add/(less) non-cash items:</b>		
Depreciation and amortisation expense	6,007	6,233
Impairment of receivables	3	2
Net foreign exchange (gains) / losses	(123)	134
Discount unwind on employee entitlements	247	193
Non-current employee entitlements	(75)	(108)
<b>Total non-cash items</b>	<b>6,059</b>	<b>6,454</b>
<b>Add/(less) items classified as investing or financing activities:</b>		
Grant for Intangible Asset	-	(80)
(Gains) / losses on disposal of property, plant & equipment	(281)	(236)
Impairment losses -- property, plant & equipment	29	-
<b>Total items classified as investing or financing activities</b>	<b>(252)</b>	<b>(316)</b>
<b>Add/(less) movements in working capital items:</b>		
Debtors & other receivables (increase)/decrease	919	1,224
Inventories (increase)/decrease	(12)	(63)
Creditors & other payables increase/(decrease)	2,502	(1,003)
Current Employee entitlements increase/(decrease)	1,356	1,305
Provisions increase/(decrease)	41	64
<b>Net movements in working capital items</b>	<b>4,806</b>	<b>1,527</b>
<b>Net cash from operating activities</b>	<b>25,592</b>	<b>27,418</b>

## 22 CAPITAL AND OPERATING COMMITMENTS

	2010 Actual \$000	2009 Actual \$000
<b>Capital commitments</b>		
Property, plant and equipment	6,879	4,561
Intangible assets	519	127
<b>Total capital commitments</b>	<b>7,398</b>	<b>4,688</b>
<b>Non-cancellable operating leases</b>		
Not later than one year	5,521	2,537
Later than one year and not later than five years	23,267	21,297
Later than five years	30,463	33,819
<b>Total non-cancellable operating leases</b>	<b>59,251</b>	<b>57,653</b>

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

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

	2010 Actual \$000	2009 Actual \$000
<b>Other non-cancellable operating commitments</b>		
Not later than one year	1,356	1,082
Later than one year and not later than five years	2,734	4,011
Later than five years	-	-
<b>Total non-cancellable operating leases</b>	<b>4,090</b>	<b>5,093</b>

## 23 CONTINGENCIES

### Contingent liabilities

#### Legal actions

The Authority has taken, or is responding to, legal actions involving one (2009: one) aviation participant and one (2009: none) staff member. The Authority has relied on advice from legal counsel in forming the view that contingent liabilities with an estimated value of \$33,000 (2009:\$12,000) exist in relation to these proceedings. The final amount of any settlement cost is dependent on the outcome of ongoing matters or court cases and is expected to be known within 12 months of the balance date. These matters relate to an appeal against a decision made by the Director of Civil Aviation and a personal grievance. The Civil Aviation Levies order (2002) was amended in December 2009 to introduce a new domestic levy. As a result, the contingent liability recognised by the Authority for the year ending 30 June 2009 did not materialise.

#### Contingent assets

The Authority has no contingent assets (2009: \$nil).

## 24 RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT PERSONNEL

### Related party transactions

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

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

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

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

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

Transactions	Ref	Transaction value year ended 30 June		Balance outstanding year ended 30 June	
		2010 \$	2009 \$	2010 \$	2009 \$
<b>Income</b>					
R Crawford - Authority member	(i)	133	559	-	-
Philips Search & Rescue Trust	(ii)	6,650	13,439	-	2,893
<b>Expense</b>					
Philips Search & Rescue Trust	(ii)	-	8,784	-	-
Revera Limited	(iii)	90,254	91,672	-	-

(i) R Crawford, an Authority member, paid a fee to CAA for a flight examiner seminar. The fee paid was on normal commercial terms at the usual rate for the services provided.

(ii) E Millar, an Authority member, is the Chairman of Philips Search & Rescue Trust. Philips Search & Rescue Trust paid CAA fees and charges for audit and aircraft registration. CAA paid Philips Search & Rescue Trust for the hire of helicopters for winch training. The fee paid was on normal commercial terms at the usual rate for services provided.

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

No provision has been required, nor any expense recognised, for impairment of receivables from related parties (2009 nil).

### Key management personnel compensation

	2010 Actual \$000	2009 Actual \$000
Salaries and other short-term employee benefits	3,313	2,978
Post-employment benefits	298	56
Other long-term benefits	46	24
Termination benefits	-	-
<b>Total key management personnel compensation</b>	<b>3,657</b>	<b>3,058</b>

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

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

## 25 AUTHORITY MEMBER COMPENSATION

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

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

\*Did not receive any remuneration during the period.

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

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

**26 EMPLOYEE REMUNERATION**

	<b>2010</b>	<b>2009</b>
	<b>Actual</b>	<b>Actual</b>
Total remuneration paid or payable	<b>number</b>	<b>number</b>
\$100,000 - \$109,999	21	16
\$110,000 - \$119,999	9	9
\$120,000 - \$129,999	7	5
\$130,000 - \$139,999	11	13
\$140,000 - \$149,999	6	6
\$150,000 - \$159,999	7	5
\$160,000 - \$169,999	4	1
\$170,000 - \$179,999	-	-
\$180,000 - \$189,999	4	5
\$190,000 - \$199,999	2	3
\$200,000 - \$209,999	4	2
\$210,000 - \$219,999	1	2
\$220,000 - \$229,999	-	1
\$230,000 - \$239,999	-	-
\$240,000 - \$249,999	-	-
\$250,000 - \$259,999	-	-
\$260,000 - \$269,999	-	-
\$270,000 - \$279,999	-	-
\$280,000 - \$289,999	-	-
\$290,000 - \$299,999	1	-
\$300,000 - \$309,999	-	1
\$310,999 - \$319,999	-	1
\$320,000 - \$329,999	-	-
\$400,000 - \$409,999	1	-
<b>Total number of employees</b>	<b>78</b>	<b>70</b>

During the year ended 30 June 2010, 12 (2009: 15) employees and no Authority members (2009: 0) received compensation and other benefits in relation to cessation totalling \$298,000 (2009: \$415,794). No authority members received compensation or other benefits in relation to cessation (2009:nil).

**27 EVENTS AFTER THE BALANCE SHEET DATE**

On 23 August 2010 Cabinet approved a loan to the Authority in an amount not to exceed \$4.34m, to be repaid by June 2015. The loan is to fund the hard fit-out at 55 Featherston St, Wellington.

The Authority is undergoing a support services review. The outcome of this review is currently not known.

## 28 CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

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

	2010 Actual \$000	2009 Actual \$000
<b>Financial assets</b>		
<i>Loans and receivables</i>		
Cash and cash equivalents	66,373	61,908
Debtors and other receivables	8,639	9,558
Investments - term deposits	14,750	-
<b>Total loans and receivables</b>	<b>89,762</b>	<b>71,466</b>
Investments consist of 150 day term deposits with ASB Bank Ltd and Westpac New Zealand Ltd.		
<b>Financial liabilities</b>		
<i>Financial liabilities measured at amortised cost</i>		
Creditors and other payables	6,535	4,169
Finance lease liabilities	5,282	2,353
<b>Total financial liabilities measured at amortised cost</b>	<b>11,817</b>	<b>6,522</b>
<i>Fair value through profit and loss</i>		
Derivative financial instrument assets	8	-
Derivative financial instrument liabilities	-	116

### Fair value hierarchy disclosures

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

## 29 FINANCIAL INSTRUMENT RISK

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

These policies do not allow the Authority to enter into any transactions that are speculative in nature. There have been no changes from the previous reporting period in either the types of financial instrument held, the type of risk exposure, or the way in which these financial instrument risks are managed.

### Market risk

#### Price risk

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

#### Interest rate risk

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

As the Authority's short-term deposits are invested at fixed interest rates, any change in interest rates prior to deposit maturity has no impact on net surplus / (deficit). As these

financial assets are carried at amortised cost, rather than at fair value, there is no direct impact on equity from any change in interest rates.

### **Currency risk**

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

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

### **Credit risk**

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

The Authority holds a credit enhancement via the Crown Retail Deposit Guarantee Scheme (CRDGS) for funds held with banks that have opted into the scheme. There is a cap on the size of the deposit that is covered by the guarantee of \$1 million per depositor per guaranteed institution. From 12 October 2010, a coverage limit of \$500,000 per eligible depositor per institution applies.

Apart from the CRDGS, the Authority holds no collateral or other credit enhancements for financial instruments that give rise to credit risk.

<b>Concentrations of credit risk</b>	<b>2010</b>		<b>2009</b>	
	<b>\$000</b>	<b>%</b>	<b>\$000</b>	<b>%</b>
<i>Loans &amp; receivables</i>				
New Zealand registered banks	81,123	90.3%	61,908	86.6%
New Zealand airports	6	0.0%	4	0.0%
Domestic and International passenger airlines	8,011	9.0%	7,068	9.9%
Other	622	0.7%	2,486	3.5%
<b>Total</b>	<b>89,762</b>	<b>100.0%</b>	<b>71,466</b>	<b>100.0%</b>

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

### **Liquidity risk**

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

Contractual maturity analysis of financial liabilities, excluding derivatives.

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

	Less than 1 month \$000	Between 1 month & 6 months \$000	Between 6 months & 1 year \$000	Between 1 year & 5 years \$000
<b>2010</b>				
Creditors and other payables (Note 16)	4,386	2,149	-	-
Borrowings (Note 19)	144	722	867	3,549
Total contractual undiscounted cash flows	<b>4,530</b>	<b>2,871</b>	<b>867</b>	<b>3,549</b>
<b>2009</b>				
Creditors and other payables (Note 16)	3,320	849	-	-
Borrowings (Note 19)	280	1,400	353	320
Total contractual undiscounted cash flows	<b>3,600</b>	<b>2,249</b>	<b>353</b>	<b>320</b>

Contractual maturity analysis of derivative financial instrument liabilities:

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

	Less than 1 month \$000	Between 1 month & 6 months \$000	Between 6 months & 1 year \$000	Between 1 year & 5 years \$000
<b>2010</b>				
Derivative financial liabilities	-	-	-	-
Total contractual undiscounted cash flows	-	-	-	-
<b>2009</b>				
Derivative financial liabilities	-	116	-	-
Total contractual undiscounted cash flows	-	<b>116</b>	-	-

### Sensitivity analysis

At year end, a movement of one percentage point interest rates would affect the Authority's surplus and equity by \$768,000 (2009: \$597,000).

### 30 CAPITAL MANAGEMENT

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

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

**31 AVIATION SECURITY MEMORANDUM ACCOUNTS**

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

<b>2010</b>	<b>International Passenger Security Charges</b>	<b>Domestic Passenger Security Charges</b>	<b>Other Fees / Charges</b>	<b>2010 Actual</b>	<b>2010 Budget</b>	<b>2009 Actual</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Aviation Security:</b>						
Revenue	54,680	23,251	4,429	82,360	77,435	84,152
Expenditure	(42,225)	(20,768)	(4,323)	(67,316)	(76,021)	(64,351)
Net surplus / (deficit)	12,455	2,483	106	15,044	1,414	19,801
Opening balance at 1 July	27,443	7,431	(1,215)	33,659	30,082	13,858
<b>Closing balance at 30 June</b>	<b>39,898</b>	<b>9,914</b>	<b>(1,109)</b>	<b>48,703</b>	<b>31,496</b>	<b>33,659</b>

<b>2009</b>	<b>International Passenger Security Charges</b>	<b>Domestic Passenger Security Charges</b>	<b>Other Fees / Charges</b>	<b>2009 Actual</b>	<b>2009 Budget</b>	<b>2008 Actual</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Aviation Security:</b>						
Revenue	57,501	23,282	3,369	84,152	89,577	77,138
Expenditure	(41,982)	(19,085)	(3,284)	(64,351)	(78,200)	(62,701)
Net surplus / (deficit)	15,519	4,197	85	19,801	11,377	14,437
Opening balance at 1 July	11,924	3,234	(1,300)	13,858	12,094	(579)
<b>Closing balance at 30 June</b>	<b>27,443</b>	<b>7,431</b>	<b>(1,215)</b>	<b>33,659</b>	<b>23,471</b>	<b>13,858</b>

**32 EXPLANATION OF SIGNIFICANT VARIANCES AGAINST BUDGET**

Revenue is higher than expected due to the economic recovery occurring earlier than forecast following the Global Financial Crisis. Competitive pricing of international and domestic airfares provided impetus for overall passenger growth, which also saw the entry of Jetstar, withdrawal of Qantas, and the restart of international flights from Hamilton, Rotorua and Dunedin.

- Levies Revenue:

Levies revenue exceeded budget due to the 2009/10 budget excluding passenger volumes relating to international carriers operating under the Australia, New Zealand Aviation (ANZA) operators' mutual recognition scheme. International and Domestic passenger numbers were ahead of budget by 548,046 (14%) and 2,451,788 (36%) respectively. From 4 December 2010, the Civil Aviation (Safety) Levies Order 2002 was amended to provide for levy payment from those carriers operating in New Zealand.

- Passenger Security Charges and Other Services:

International and Domestic passenger numbers exceeded budget by 525,526 (13.39%) and 589,164 (11.42%) respectively. Security services revenue also exceeded budget reflecting unbudgeted cargo screening services provided to Air NZ and Menzies Aviation. Secondary screening also had to be introduced for international carriers operating services to the United States following the Boxing Day 2009 incident.

- Other income:

Other income exceeded budget due to interest revenue on higher than expected cash balances, together with a foreign exchange gain on an aviation liability insurance policy.

○ Personnel cost:

Personnel costs were less than budget due to management's response to contain expenditure due to the economic downturn. However, this has been offset by Avsec having to incur higher overtime costs for providing secondary screening of U.S. bound flights.

○ Depreciation and Amortisation expense:

Depreciation and amortisation expenses was below budget due to Avsec incurring a delay in the importation and commissioning of operational vehicles and screening equipment, and the later than budget completion of both the new Auckland Operations Base and the National Office Accommodation in Wellington. Existing hold stow baggage (HBS) screening equipment, planned for replacement, was instead, refurbished.

○ Other cost of services:

Other costs of services were lower than budget for the following key reasons:

- Reduced Information and Technology costs resulted from a rolling desktop replacements programme for Avsec not fully completed by year end, coupled with deferred software maintenance and software application support costs due to a longer than expected commissioning period for both a rostering system and incident reporting system which are under warranty.
- Reduced travel and accommodation costs for Avsec resulted from the start-up of International flights out of Rotorua and recommencement of international flights out of Hamilton and Dunedin Airports which negated the redeployment of staff to Auckland & Queenstown respectively (to cover staff shortages and retain regional capacity), coupled with lower running costs of fleet patrol vehicles.
- Reduced equipment maintenance costs for Avsec. In 2009 a decision was taken to renew and refurbish the HBS screening equipment, This replacement/refurbishment programme resulted in a significant under-spend in equipment maintenance as scheduled (non critical) maintenance was concurrently carried out with the refurbishment programme, coupled with this, x-ray maintenance items are of high value, have an unpredictable life expectancy being environment dependant.

## 20. Additional financial information

### 20.1 ADDITIONAL FINANCIAL INFORMATION: STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2010

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

Group 2009 Actual \$000		Aviation Safety		Security Service		Elimination		Group	
		2010 Actual \$000	2010 Budget \$000	2010 Actual \$000	2010 Budget \$000	2010 Actual \$000	2010 Budget \$000	2010 Actual \$000	2010 Budget \$000
	<b>Income</b>								
21,729	Levies revenue	21,051	16,891	-	-	-	-	21,051	16,891
87,481	Revenue from passenger security charges and other services	3,797	4,072	81,780	76,833	(22)	-	85,555	80,905
2,417	Crown funding revenue	2,261	2,261	145	145	-	-	2,406	2,406
2,129	Ministry contract revenue	1,541	1,418	435	457	-	-	1,976	1,875
2,865	Other income	264	90	2,676	2,153	-	-	2,940	2,243
<b>116,621</b>	<b>Total income</b>	<b>28,914</b>	<b>24,732</b>	<b>85,036</b>	<b>79,588</b>	<b>(22)</b>	<b>-</b>	<b>113,928</b>	<b>104,320</b>
	<b>Expenditure</b>								
71,602	Personnel costs	19,235	19,494	54,399	58,550	-	-	73,634	78,044
6,233	Depreciation and amortisation expense	915	721	5,092	6,762	-	-	6,007	7,483
2,019	Capital charge	290	565	1,721	1,546	-	-	2,011	2,111
446	Finance costs	21	-	384	113	-	-	405	113
16,568	Other cost of services	8,518	8,451	8,396	11,203	(22)	-	16,892	19,654
<b>96,868</b>	<b>Total expenses</b>	<b>28,979</b>	<b>29,231</b>	<b>69,992</b>	<b>78,174</b>	<b>(22)</b>	<b>-</b>	<b>98,949</b>	<b>107,405</b>
<b>19,753</b>	<b>NET SURPLUS / (DEFICIT)</b>	<b>(65)</b>	<b>(4,499)</b>	<b>15,044</b>	<b>1,414</b>	<b>-</b>	<b>-</b>	<b>14,979</b>	<b>(3,085)</b>
	<b>Other comprehensive Income:</b>								
-	Gain on revaluation of land and buildings	-	-	150	-	-	-	150	-
<b>19,753</b>	<b>Total comprehensive income</b>	<b>(65)</b>	<b>(4,499)</b>	<b>15,194</b>	<b>1,414</b>	<b>-</b>	<b>-</b>	<b>15,129</b>	<b>(3,085)</b>

## 20.2: ADDITIONAL FINANCIAL INFORMATION: STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2010

Group 2009 Actual \$000		Aviation Safety		Security Service		Elimination		Group	
		2010 Actual \$000	2010 Budget \$000	2010 Actual \$000	2010 Budget \$000	2010 Actual \$000	2010 Budget \$000	2010 Actual \$000	2010 Budget \$000
	<b>Equity</b>								
	<b>Opening balance of equity at 1 July</b>								
25,235	General funds	9,042	9,284	21,702	21,558	-	-	30,744	30,842
640	Property, plant and equipment revaluation reserve	-	-	640	640	-	-	640	640
15,158	Passenger security charges reserve	-	-	35,363	31,304	-	-	35,363	31,304
<b>41,033</b>	<b>Total opening balance of equity at 1 July</b>	<b>9,042</b>	<b>9,284</b>	<b>57,705</b>	<b>53,502</b>	<b>-</b>	<b>-</b>	<b>66,747</b>	<b>62,786</b>
19,753	Total comprehensive income for the year	(65)	(4,499)	15,194	1,414	-	-	15,129	(3,085)
7,347	Capital contributions	-	-	2,981	7,055	-	-	2,981	7,055
(1,386)	Repayment of capital	-	-	-	-	-	-	-	-
-	Transfer to passenger security reserves	-	-	-	1,563	-	-	-	1,563
-	Transfer from passenger security reserves	-	-	-	(1,563)	-	-	-	(1,563)
<b>25,714</b>	<b>Total changes in equity during the year</b>	<b>(65)</b>	<b>(4,499)</b>	<b>18,175</b>	<b>8,469</b>	<b>-</b>	<b>-</b>	<b>18,110</b>	<b>3,970</b>
	<b>Closing balance of equity at 30 June</b>								
30,744	General funds	8,977	4,785	25,278	28,464	-	-	34,255	33,249
640	Property, plant and equipment revaluation reserve	-	-	790	640	-	-	790	640
35,363	Passenger security charges reserves	-	-	49,812	32,867	-	-	49,812	32,867
<b>66,747</b>	<b>Total closing balance of equity at 30 June</b>	<b>8,977</b>	<b>4,785</b>	<b>75,880</b>	<b>61,971</b>	<b>-</b>	<b>-</b>	<b>84,857</b>	<b>66,756</b>

## 20.3 ADDITIONAL FINANCIAL INFORMATION: STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010

Group 2009 Actual \$000		Aviation Safety		Security Service		Elimination		Group	
		2010 Actual \$000	2010 Budget \$000	2010 Actual \$000	2010 Budget \$000	2010 Actual \$000	2010 Budget \$000	2010 Actual \$000	2010 Budget \$000
	<b>CURRENT ASSETS</b>								
61,908	Cash and cash equivalents	6,986	326	59,387	56,442	-	-	66,373	56,768
9,558	Debtors and other receivables	2,509	3,500	6,168	7,967	(330)	-	8,347	11,467
334	Inventories	255	300	90	44	-	-	345	344
-	Investments - term deposits	-	-	14,750	-	-	-	14,750	-
-	Derivative financial instruments	-	-	8	-	-	-	8	-
<b>71,800</b>	<b>TOTAL CURRENT ASSETS</b>	<b>9,750</b>	<b>4,126</b>	<b>80,403</b>	<b>64,453</b>	<b>(330)</b>	<b>-</b>	<b>89,823</b>	<b>68,579</b>
	<b>NON-CURRENT ASSETS</b>								
11,738	Property, plant and equipment	2,000	2,646	16,028	15,366	-	-	18,028	18,012
1,567	Intangible assets	1,238	1,447	777	615	-	-	2,015	2,062
<b>13,305</b>	<b>TOTAL NON-CURRENT ASSETS</b>	<b>3,238</b>	<b>4,093</b>	<b>16,805</b>	<b>15,981</b>	<b>-</b>	<b>-</b>	<b>20,043</b>	<b>20,074</b>
<b>85,105</b>	<b>TOTAL ASSETS</b>	<b>12,988</b>	<b>8,219</b>	<b>97,208</b>	<b>80,434</b>	<b>(330)</b>	<b>-</b>	<b>109,866</b>	<b>88,653</b>
	<b>CURRENT LIABILITIES</b>								
4,169	Creditors and other payables	1,854	1,634	5,011	2,270	(330)	-	6,535	3,904
8,082	Employee entitlements	1,705	1,350	7,053	6,303	-	-	8,758	7,653
-	Provisions	75	-	135	-	-	-	210	-
1,645	Borrowings	-	-	1,446	1,678	-	-	1,446	1,678
116	Derivative financial instruments	-	-	-	-	-	-	-	-
<b>14,012</b>	<b>TOTAL CURRENT LIABILITIES</b>	<b>3,634</b>	<b>2,984</b>	<b>13,645</b>	<b>10,251</b>	<b>(330)</b>	<b>-</b>	<b>16,949</b>	<b>13,235</b>
	<b>NON-CURRENT LIABILITIES</b>								
3,311	Employee entitlements	377	450	3,614	3,960	-	-	3,991	4,410
327	Provisions	-	-	233	-	-	-	233	-
708	Borrowings	-	-	3,836	4,252	-	-	3,836	4,252
<b>4,346</b>	<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>377</b>	<b>450</b>	<b>7,683</b>	<b>8,212</b>	<b>-</b>	<b>-</b>	<b>8,060</b>	<b>8,662</b>
<b>18,358</b>	<b>TOTAL LIABILITIES</b>	<b>4,011</b>	<b>3,434</b>	<b>21,328</b>	<b>18,463</b>	<b>(330)</b>	<b>-</b>	<b>25,009</b>	<b>21,897</b>
<b>66,747</b>	<b>NET ASSETS</b>	<b>8,977</b>	<b>4,785</b>	<b>75,880</b>	<b>61,971</b>	<b>-</b>	<b>-</b>	<b>84,857</b>	<b>66,756</b>
	<b>EQUITY</b>								
30,744	General funds	8,977	4,785	25,278	28,464	-	-	34,255	33,249
640	Property, plant and equipment revaluation reserve	-	-	790	640	-	-	790	640
35,363	Passenger security charges reserves	-	-	49,812	32,867	-	-	49,812	32,867
<b>66,747</b>	<b>TOTAL EQUITY</b>	<b>8,977</b>	<b>4,785</b>	<b>75,880</b>	<b>61,971</b>	<b>-</b>	<b>-</b>	<b>84,857</b>	<b>66,756</b>

## 20.4 ADDITIONAL FINANCIAL INFORMATION: STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2010

Group 2009 Actual \$000		Aviation Safety		Security Service		Elimination		Group	
		2010 Actual \$000	2010 Budget \$000	2010 Actual \$000	2010 Budget \$000	2010 Actual \$000	2010 Budget \$000	2010 Actual \$000	2010 Budget \$000
	<b>Cash Flows from Operating Activities</b>								
22,316	Receipts from levies	20,701	16,891	-	-	-	-	20,701	16,891
87,869	Receipts from Passenger security charges and other services	3,971	3,867	82,855	76,831	-	-	86,826	80,698
4,535	Receipts from Crown funding and Ministry contracts	3,802	3,679	580	602	-	-	4,382	4,281
2,663	Interest received	258	90	2,277	1,992	-	-	2,535	2,082
(66,670)	Payments to employees	(18,078)	(18,926)	(51,624)	(54,257)	-	-	(69,702)	(73,183)
(20,775)	Payments to suppliers	(9,348)	(9,553)	(7,607)	(16,041)	-	-	(16,955)	(25,594)
(418)	Interest paid	-	-	(158)	(113)	-	-	(158)	(113)
(2,086)	Payments to capital charge to the Crown	(290)	(565)	(1,721)	(1,546)	-	-	(2,011)	(2,111)
(16)	Goods and Services Tax (net)	(17)	(140)	(9)	(192)	-	-	(26)	(332)
<b>27,418</b>	<b>Net Cash Flows from Operating Activities</b>	<b>999</b>	<b>(4,657)</b>	<b>24,593</b>	<b>7,276</b>	<b>-</b>	<b>-</b>	<b>25,592</b>	<b>2,619</b>
	<b>Cash Flows from Investing Activities</b>								
274	Sale of property, plant and equipment	41	-	385	220	-	-	426	220
-	Placement of investments	-	-	(14,750)	-	-	-	(14,750)	-
(5,088)	Purchase of property, plant and equipment	(732)	(1,124)	(11,160)	(11,845)	-	-	(11,892)	(12,969)
(216)	Purchase of intangible assets	(125)	(275)	(736)	-	-	-	(861)	(275)
<b>(5,030)</b>	<b>Net Cash Flows from Investing Activities</b>	<b>(816)</b>	<b>(1,399)</b>	<b>(26,261)</b>	<b>(11,625)</b>	<b>-</b>	<b>-</b>	<b>(27,077)</b>	<b>(13,024)</b>
	<b>Cash Flows from Financing Activities</b>								
7,348	Capital contributions	-	-	2,981	7,055	-	-	2,981	7,055
-	Proceeds from external borrowings	-	-	5,231	6,916	-	-	5,231	6,916
(1,386)	Repayment of capital	-	-	-	-	-	-	-	-
(1,864)	Repayment of external borrowings	-	-	(2,262)	(2,403)	-	-	(2,262)	(2,403)
<b>4,098</b>	<b>Net Cash Flows from Financing Activities</b>	<b>-</b>	<b>-</b>	<b>5,950</b>	<b>11,568</b>	<b>-</b>	<b>-</b>	<b>5,950</b>	<b>11,568</b>
26,486	Net increase/(decrease) in cash and cash equivalents	183	(6,056)	4,282	7,219	-	-	4,465	1,163
35,422	Opening cash and cash equivalents at 1 July	6,803	6,382	55,105	49,223	-	-	61,908	55,605
<b>61,908</b>	<b>CLOSING CASH AND CASH EQUIVALENTS AT 30 JUNE</b>	<b>6,986</b>	<b>326</b>	<b>59,387</b>	<b>56,442</b>	<b>-</b>	<b>-</b>	<b>66,373</b>	<b>56,768</b>

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