



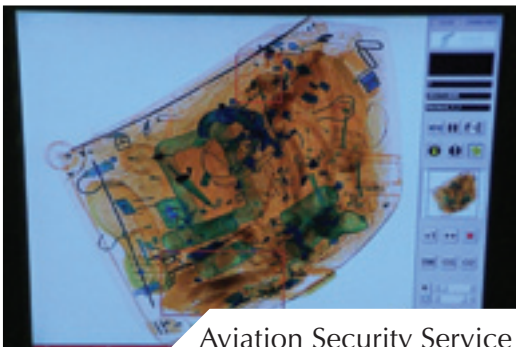
Aviation Security Service
Kaiwhakamaru Rerevangi

ANNUAL REPORT

2005-06



Civil Aviation Authority



Aviation Security Service



Grouped Outputs and Financials



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

This report covers the activities of the Civil Aviation Authority (including Aviation Security Service) of New Zealand for the financial year 01 July 2005 to 30 June 2006.

A handwritten signature in black ink, appearing to read 'Rick Bettle', with a long horizontal flourish extending to the right.

Rick Bettle
Chairman

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1. Glossary

ABBREVIATIONS

| | |
|-------------|--|
| ADB | Asian Development Bank |
| ACAG | Aviation Community Advisory Group |
| ACC | Accident Compensation Corporation |
| AC | Advisory Circulars |
| AIA | Aviation Industry Association |
| AL | Airlines group of CAA |
| APANPIRG | Asia-Pacific Air Navigation Planning and Implementation Regional Group |
| ATPL | Airline Transport Pilot Licences |
| ARI | Aviation Risk Interventions |
| AS/NZS 4360 | Australian / New Zealand Standard for Risk Management 4360 |
| Authority | Civil Aviation Authority of New Zealand, headed by a 5-member "Board" |
| Avsec | Aviation Security Service |
| BARNZ | Board of Airline Representatives in New Zealand |
| BASA | Bilateral Aviation Safety Agreement |
| BRG | Board Reference Group |
| CAA | Civil Aviation Authority of New Zealand (the organisation) |
| CA Act 1990 | Civil Aviation Act 1990 |
| CASA | Civil Aviation Safety Authority of Australia |
| CATSA | Canadian Air Transport Security Authority |
| CEA 2004 | Crown Entities Act 2004 |
| CNS/MET | Communication, Navigation Surveillance and Meteorology |
| CPL | Commercial Pilot Licences |
| CTAG | Combined Threat Assessment Group |
| Director | Director of Civil Aviation |
| DMS | Document Management System |
| EASA | European Aviation Safety Authority |
| FAA | Federal Aviation Administration (of the United States of America) |
| FRS | Financial Reporting System |
| FTE | Full-time equivalents |
| FY | Financial year, 01 July to 30 June |
| GA | General Aviation group of the CAA |
| GS | Government Relations group of the CAA |
| GST | Goods and Services Tax |
| ELT | Emergency Location Transmitters |
| ERMA | Environmental Risk Management Agency |
| HASNO 1996 | Hazardous Substances and New Organisms Act 1996 |
| HBS | Hold Baggage Screening |
| HOPS | Professional Standards group of the CAA |
| HSE 1992 | Health and Safety in Employment Act 1992 |
| HUMS | Health and Usage Monitoring Systems |
| ICAO | International Civil Aviation Organization |
| ISO | International Organization for Standardization |
| MFAT | Ministry of Foreign Affairs and Trade |
| MOT | Ministry of Transport |
| MOU | Memorandum of Understanding |
| Minister | Minister of Transport, Minister for Transport Safety |
| MSA 2004 | Maritime Security Act 2004 |

| | |
|---------|--|
| NPRM | Notices of Proposed Rule Making |
| NOHSAC | National Health and Safety Advisory Committee |
| NZAIP | New Zealand Aeronautical Information Publication |
| NZ GAAP | New Zealand Generally Accepted Accounting Principles |
| NZ IFRS | New Zealand Equivalents to International Financial Reporting Standards |
| NZTS | New Zealand Transport Strategy |
| OAG | Office of the Auditor General |
| PASO | Pacific Aviation Safety Office |
| PLAS | Personnel Licensing and Aviation Services group of CAA |
| PPL | Private Pilot Licences |
| PSF | Pacific Security Fund |
| PTF | Planning Task Force |
| RESA | Runway End Safety Areas |
| Rules | Civil Aviation Rules |
| SOI | Statement of Intent |
| SPA | Special Projects Action |
| States | ICAO member countries |
| TAIC | Transport Accident Investigation Commission |
| TSSD | Transport Sector Strategic Directions |
| UAV | Unmanned Aerial Vehicles |
| USOAP | Universal Safety Oversight Audit Programme (ICAO) |
| VOSL | Value of Statistical Life |
| VFR | Visual Flight Rules |

DEFINITION OF AVIATION TERMS USED IN THIS REPORT

| | |
|--|---|
| Airline operations – helicopters | All operations by Part 119 (air operator – certification) certificate holders using helicopters. |
| Airline operations – large aeroplanes | All operations using large passenger and freight aeroplanes with a passenger seating configuration of 30 seats or more, or a payload capacity of more than 3410 kg. |
| Airline operations – medium aeroplanes | All operations using medium passenger and freight aeroplanes with a passenger seating configuration of 10 to 30 seats, excluding any required crew member seats, or a payload capacity of 3410 kg or less and a MCATOW of greater than 5700kg, and any aeroplanes conducting SEIFR passenger operations. |
| Airline operations – small aeroplanes | All operations by Part 119 (air operator – certification) holders using small aeroplanes. |
| Aviation document | Means any licence, permit, certificate, or other document issued under the CA Act 1990 to or in respect of any person, aircraft, aerodrome, aeronautical procedure, aeronautical product, or aviation-related service. |
| Aviation security officer | Means a warranted person for the time being employed as such in Avsec. |
| Commercial operations | Non-public transport operations for hire or reward or as part of any commercial activity (includes “club members” flying in war bird aircraft). |
| Commercial operations - aeroplane | Other commercial operations aeroplane (all non-public transport operations for hire or reward or as part of any commercial activity). |
| Commercial operations - helicopter | Other commercial operations helicopter (all non-public transport operations for hire or reward or as part of any commercial activity). |
| Grouped | Referred to in this annual report as both the CAA and Avsec (e.g. financial statements). |
| ICAO Annexes | (1) personnel licensing; (2) rules of the air; (3) meteorological service for international air navigation; (4) aeronautical charts; (5) units of measurement to be used in air and ground operations; (6) operation of aircraft; (7) aircraft nationality and registration marks; (8) airworthiness of aircraft; (9) facilitation; (10) aeronautical telecommunication; (11) air traffic services; (12) search and rescue; (13) aircraft accident and incident investigation; (14) aerodromes; (15) aeronautical information services; (16) environmental protection; (17) security: safeguarding international civil aviation against acts of unlawful interference; and (18) the safe transport of dangerous goods by air. |
| Public transport operations | Any passenger or freight operation where a member of the public can buy the service “over the counter”. |

2. Authority's Overview

Both the Aviation Security Service (Avsec) and the Civil Aviation Authority (CAA) have good performance in differently trying circumstances during the year.

While Avsec has implemented significant new security initiatives in a tight timeframe, the CAA has been the subject of extended scrutiny by various government agencies and media over some of its safety oversight obligations.

Nevertheless, both organisations have achieved impressive milestones, with Avsec fully implementing the hold baggage screening (HBS) regime on 1st of January 2006 and the CAA achieving a milestone in the form of a new US/NZ Bilateral Aviation Safety Agreement.

Aviation Security Service (Avsec)

The financial year 2005-06 has been an extremely busy and challenging one for Avsec .

The organisation experienced rapid and substantial growth, resulting from the implementation of the HBS and other enhanced aviation security measures. The recruitment of staff, the development of policies and procedures and staff training has been particularly challenging.

The Authority is pleased with the professional manner in which the management team and staff responded to the challenge that this quantum leap in demand and complexity placed upon them. It acknowledges the excellent teamwork across the organisation and the friendly and disciplined manner in which operational staff undertake the security function at airport locations around the country.

A key objective for Avsec during FY 2005-06 was to continue the principle of quality improvement across its activities. This was achieved through intensive internal and external quality regimes, the constant review and update of its processes and exposition documentation and the organisation's focused risk analysis and risk management processes.

Avsec's financial result was a deficit of \$717,000 against a budgeted deficit of \$1,565,000, a favourable outcome of \$848,000. The organisation also made a net capital repayment to the Crown of \$1,639,000 during the period.

Civil Aviation Authority (CAA)

A very significant agreement was signed in June 2006 between the United States Federal Aviation Administration (FAA) and the CAA, wherein the FAA will accept repairs and certain modifications that have been approved by the CAA on large aircraft. This agreement positions New Zealand as one of four countries (with United Kingdom, Germany and Australia) with this kind of bilateral agreement with the US. It means that the largest aviation regulator in the world, FAA, has full confidence in the CAA's processes for aircraft certification and its oversight of design and repair.

The work carried out by the CAA in FY2004-05 in the development and formulation of a new set of aviation safety targets was further enhanced during the year. The new performance measures, set out in section 8.5 of this report, provide an overall target by which to measure performance and clearly show the operating sectors (or aviation safety outcome target groups) that should be attracting the closest interest from the CAA and the aviation community in improving safety performance.

In spite of difficulties and challenges over the year, CAA staff members have coped well. This is particularly apparent in the progress being made on three major projects namely: Surveillance Process, Risk Assessment and Intervention, Certification Policy and Procedures and enhancement of the information technology platform that is being developed and implemented to support the database systems.

These projects, initiated at the beginning of the calendar year, represent one of the most significant programmes of development work the CAA has undertaken in some time. When these projects are operational they will significantly satisfy the recommendations made by the Office of the Auditor General in its performance audit and the recommendations made by the Christchurch Coroner following the Air Adventures accident.

The CAA ended the year with a financial surplus of \$298,000 against a budgeted deficit of \$299,000. While the CAA has used, over recent years, surpluses to create a financial reserve to ensure it has the resources to deal with any major safety or security issue it may face in the future, the need to complete a number of capability development

projects in FY 2006-07 may result in a modest short term reduction of that reserve

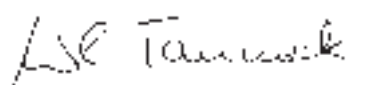
The Capacity and Resource Review Project in FY 2006-07 is aimed at ensuring that the organisation has the capacity and resource (capability and skills) to fully meet its obligations. This will be followed by another piece of work that will review the current funding arrangements to ensure that these are robust and adequate to implement the CAA strategic plan.

Collaboration with Transport Agencies

It is pleasing to see that collaborative analysis and planning is alive and well in the Government transport sector. Both CAA and Avsec executives and staff have been actively participating in the management and implementation of projects set out in the Transport Sector Strategic Directions document (TSSD), which will be updated later in 2006. The Chairman's attendance at the Board Representative Group (BRG) meetings keeps the Authority aware of the work being undertaken by the Planning Task Force (PTF). The Authority looks forward to seeing the cross-sectoral results materialising over the medium term.

Finally, the situation in which we find ourselves in with two distinctly different organisations essentially making up one Crown entity is not an easy governance situation but we believe that we have succeeded in ensuring that the Crown's interests are met.

The Authority acknowledges and thanks the management and staff of Avsec and the CAA for their dedicated work. In these times of increasing obligations and pressure to perform more than what is traditionally required, is a tribute to the professionalism of both organisations that they have achieved what they have and continue to develop and set standards that are increasingly recognised on the international scene. This is an added bonus for New Zealand and reflects its reputation as a world leader in aviation regulation and security.



Ron Tannock

Chairman (until 30 Sept 2006)



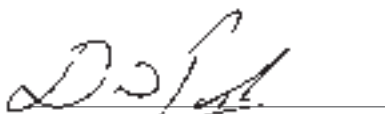
Rick Bettle

Chairman (from 01 Oct 2006)




Hazel Armstrong

Deputy Chair, CAA



Darryll Park

Deputy Chair, Avsec



Robyn Reid

Member



Susan Hughes

Member

3. Purpose of the Authority

The Authority is established by the Civil Aviation Act 1990 (CA Act 1990) and is a Crown entity for the purpose of section 7 of the Crown Entities Act 2004 (CEA 2004).

3.1 Objective

The objective of the Authority¹ is to undertake its safety, security and other functions in a way that contributes to the aim of achieving an integrated, safe, responsive, and sustainable transport system.



¹ Also referred to as the Civil Aviation Authority Board

² Specific statutory functions of the CAA and Avsec are set out in Parts 1 and 2 respectively of this Annual Report.

3.2 Functions²

The Authority has the following functions:

- Promote civil aviation safety and security in New Zealand;
- Promote civil aviation safety and security beyond New Zealand in accordance with New Zealand's international obligations;
- Establish and continue a service to be called the Aviation Security Service (Avsec);
- Investigate and review civil aviation accidents and incidents in its capacity as the responsible safety and security authority, subject to the limitations set out in section 14(3) of the Transport Accident Investigation Commission Act 1990;
- Notify the Transport Accident Investigation Commission (TAIC) in accordance with section 27 of the CA Act 1990 of accidents and incidents notified to the Authority;
- Maintain and preserve records and documents relating to activities within the civil aviation system, and in particular maintain the New Zealand Register of Aircraft and the Civil Aviation Registry;
- Ensure the collection, publication, provision of charts and any other aeronautical information, and to enter into arrangements with any other person or organisation to collect, publish, and distribute such charts and information;
- Provide to the Minister any information and advice as the Minister may require from time to time;
- Co-operate with, or provide advice and assistance to, any government agency or local government agency when requested to do so by the Minister, but only if the Minister and the Authority are satisfied that the performance of the functions and duties of the Authority will not be compromised;
- Provide information and advice with respect to civil aviation, and foster appropriate information education programmes with respect to civil aviation, that promote its objective; and
- Enter into technical or operational arrangements, or both, with civil aviation authorities of other countries.

4. Governance and Accountability Statement

4.1 Role of the Authority

The Minister of Transport has appointed the Authority as the governing board in accordance with part 6A (4) of the CA Act 1990. The Authority's responsibilities include:

- Communicating with the Minister and Government stakeholders to ensure that their views are reflected in the planning of the CAA and Avsec;
- Delegating responsibility for the achievement of specific objectives to the Director of Civil Aviation and the General Manager of Avsec;
- Monitoring organisational performance towards achieving these objectives;
- Accounting to the Minister on plans and progress of the CAA and Avsec; and
- Ensuring that internal systems control are maintained.

4.2 Structure of the CAA and Avsec

The Authority has appointed a Chief Executive (also known as the "Director of Civil Aviation") to manage the CAA, and a General Manager to manage Avsec. The Authority directs both officers by delegating responsibility and authority, establishing strategic directions, setting policies, and monitoring the achievement of objectives. The Authority is required to perform its functions, with respect to Avsec and the CAA, including the maintenance of separate accounts, records and reports.

Authority Committees

The Authority has established three standing committees to provide a more detailed level of focus on particular issues. Each committee has been delegated responsibility for establishing and monitoring the organisations progress toward meeting objectives prescribed by the Authority. The Authority's standing committees are:

- Audit Committee which meets at least four times a year and as required;
- Aviation Security Service Committee which meets monthly; and
- Remuneration Committee which meets at least four times a year and as required.

The Audit Committee covers the associated affairs of both the CAA and Avsec.

The Authority has assigned portfolios to its members to allow them to more effectively carry-out their duties. The portfolios include: safety targets, information technology, business planning, strategic planning, and safety investigation. This has enabled Authority members to bring to the CAA and Avsec their expertise and knowledge.

Quality Assurance

The Authority has a policy of maintaining quality assurance through the maintenance of quality management systems and certification to ISO 9001:2000 and its successors.

4.3 Governance Philosophy

Authority Membership

The Authority is composed of Members who have diverse business, legal and aviation industry skills and experience in order to bring a wide range of thought to bear on policy issues. Once appointed, all Members are required to act in the best interests of the Authority. Members acknowledge that the Authority must stand unified behind its decisions and that individual Members have no separate role outside the Authority.

Connection With Stakeholders

The Authority acknowledges its responsibility to keep in touch with stakeholders, in particular, to remain cognisant of the expectations of the MOT. As such, the Authority makes regular visits to the aviation community to be abreast with current situation and pro-actively rectify problem areas.

Responsibility Of The Authority, Director Of Civil Aviation and General Manager Of Avsec

A key to the efficient running of the CAA is the governance structure under the CA Act 1990 and CEA 2004. The Authority concentrates on setting high level policy, strategy and objectives, and then monitors progress. The Director

of Civil Aviation, General Manager of Avsec and their respective management teams are concerned with the implementation of policies and strategies.

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

However under the CA Act 1990, the Director is required to exercise independent judgement in relation to granting, suspension or revocation of aviation documents, the issuance of suspension or revocation of medical certificates, and the granting of exemptions or the enforcement of the provisions of the CA Act 1990. The Authority, in conjunction with the Director, has established an Office of the Director to provide back-up and assistance with this independent decision making process.

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

Accountability

The Authority holds monthly meetings to monitor the progress toward its strategic objectives and to ensure that the affairs of the CAA and Avsec are conducted in accordance with the Authority's policies.

Conflicts Of Interest

The Authority has implemented a Register of Interest Policy and ensures that its Members and staff of the CAA and Avsec are aware of their obligations to declare interests.

CAA's interest register was effective in late 2004, while Avsec's interest register will be effective on the 31st of December 2006.

Internal Audit

While many of the Authority's functions have been delegated, the overall responsibility for maintaining effective systems of organisational control remains with the Authority. The Authority has charged the Director of Civil Aviation and General Manager of Avsec with establishing and maintaining internal control systems including policy systems and procedures to provide assurance that specific

objectives of the Authority will be achieved. The Authority and Management acknowledge their responsibility by signing the Statement of Responsibility in Part 3 (Grouped Output Performance and Financial Statements) of this report.

An internal audit system monitors internal controls in each of the CAA and Avsec. 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 to executive management, its findings are however provided to the Audit Committee.

Risk Management

The Authority acknowledges that it is ultimately responsible for the management of risks. The Authority has charged the Chief Executive of CAA (the Director of Civil Aviation) and the General Manager of Avsec, through their risk management policies, with establishing and operating a risk management programme in accordance with the Australia/New Zealand Standard Risk Management 4360 (AS/NZS 4360).

Legislative Compliance

The Authority acknowledges its responsibility to ensure that the organisations comply with all legislation. The Authority has delegated responsibility to the Director of Civil Aviation and the General Manager of Avsec 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 Authority monitors the CAA and Avsec staff members' ethics or conduct such that they maintain a high standard of behaviour and practice the principles of "good corporate citizenship". The CAA is guided by its Code of Ethics while Avsec is guided by the Avsec Code of Conduct.

Monitoring compliance with ethical standards is achieved through means such as monitoring trends in complaints and disciplinary actions, internal audit reports, or any reports or indications that show non-conformance with the principles espoused in the code of ethics or conduct.

Good corporate citizenship involves this entity, including its employees, acknowledging that it is a member of many communities outside of itself and the industry it oversees.



5. Senior Management Team and Directory

5.1 The Authority

| | |
|---------------------------|-----------------|
| Chairman of the Authority | Rick Bettle |
| Deputy Chair, CAA | Hazel Armstrong |
| Deputy Chair, Avsec | Darryll Park |
| Member | Robyn Reid |
| Member | Susan Hughes |

5.2 Civil Aviation Authority (the CAA)

| | |
|--|------------------|
| Director of Civil Aviation | John Jones |
| Chief Corporate Adviser | Peter Garnett |
| General Manager, Government Relations | Steve Douglas |
| General Manager, Airlines | Tim Allen |
| General Manager, General Aviation | John Lanham |
| General Manager, Personnel Licensing and Aviation Services | Graeme Harris |
| Chief Legal Counsel | Leslie MacIntosh |
| Head of Professional Standards | Rick Bulger |
| Head of Business Planning and Reporting | Peter Lechner |
| Chief Finance Officer | David Hyland |
| Chief Information Officer | Arthur Devitt |
| Manager Human Resources | Mel White |

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 E-mail: info@caa.govt.nz
 Web: www.caa.govt.nz

Airport offices:

Auckland and Christchurch

Auditor:

Audit New Zealand on behalf of the Auditor General

Solicitors:

Crown Law Office

Bankers:

Westpac Banking Corporation

Insurance Brokers:

Marsh Limited

5.3 Aviation Security Service (Avsec)

General Manager of Aviation Security Service
Chief Operating Officer
National Manager, Government Relations
Manager, People
Chief Finance and Information Officer
Executive Project Manager
Manager, Quality Assurance
Regional Manager – Northern
Regional Manager – Central
Regional Manager – Southern

Mark Everitt
Chris Tosswill
Helen Hanify
Lisa Ternent
Jeffery Bull
Noel Sundgren
Warren Tatham
(Appointment pending)
Mike Small
Chris Watkins

National Office:

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Tel: +64-4-495 2430
Fax: +64-4-495 2432
E-mail: reception@avsec.govt.nz
Web: www.avsec.govt.nz

Airport offices:

Auckland, Christchurch, Dunedin, Hamilton,
Palmerston North, Queenstown, Rotorua and Wellington

Auditor:

Audit New Zealand on behalf of the Auditor General

Solicitors:

Crown Law Office

Bankers:

Westpac Banking Corporation

Insurance Brokers:

Marsh Limited



Part 1: Civil Aviation Authority of New Zealand

Te Mana Rererangi Tūmatanui o Aotearoa



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6. Foreword from the Director of Civil Aviation

The aviation sector is a good barometer of the general state of the nation's economy and technological advancement. As a result, the CAA is exposed to a full spectrum of issues and challenges, and constantly needs to assess aviation safety and security risks and relate this to its routine and non-routine intervention work. The environment in which the CAA operates is becoming more complex with the advancement in technology, regulatory changes in New Zealand and overseas, and social, economic and political trends.

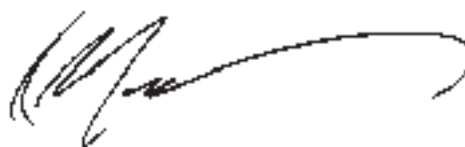
During the year the CAA has implemented its new social cost-based aviation safety outcome targets and consequently modified its database systems in accordance with these developments (refer to section 8.5). Complementing this change, the CAA has embarked on corresponding capability development projects covering risk intervention, surveillance and certification processes. Allied to these projects, is a review and update of the IT architecture.

The expected net result of this development work is that the CAA will be better equipped to continue to best perform its functions into the future with the effectiveness expected by its stakeholders. This expectation is only too well represented by the recommendations and observations made by external parties over the year (Office of the Auditor General, Coronial Recommendation following the Air Adventures crash). The ICAO Universal Safety Oversight Audit (USOAP) of New Zealand has also been invaluable in assisting the CAA focus on areas where it can improve its performance.

The CAA continued to participate in implementing the New Zealand Transport Strategy (NZTS) through its participation on the Transport Sector Planning Task Force (PTF) and on the working groups undertaking the collaborative projects defined in the Transport Sector Strategic Directions document (TSSD). This work continues to expand the perspective of the CAA and underscores the need to undertake the Capacity and Resource Review planned for FY2006-07.

Further, the CAA continues to participate in the development of international aviation policies through ICAO and other international bodies. Of milestone significance in New Zealand aviation, New Zealand is one of four States (along with United Kingdom, Germany and Australia) that has achieved recognition of its repair and modification approvals under an agreement with the US Federal Aviation Administration (FAA).

The succeeding pages contain an overview of our main achievements and challenges; our operational and capability report; and our output service performance set out in our FY2005-08 Statement of Intent (SOI).



John Jones
Director of Civil Aviation

7. Overview of the CAA

7.1 Who we are

The Civil Aviation Authority of New Zealand was established under the Civil Aviation Act 1990 (CA Act 1990) as a Crown entity on 10th of August 1992.

The objective of the Authority is to undertake its safety, security and other functions in a way that contributes to the aim of achieving an integrated, safe, responsive, and sustainable transport system.

Civil aviation international obligations of the Crown have been delegated to the CAA in respect of the International Civil Aviation Organization (ICAO) and the Convention on International Civil Aviation signed in Chicago on the 7th of December 1944. The CAA is designated as the:

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

The CAA ensures that New Zealand's ICAO obligations for aeronautical information services are undertaken.

It has an established 183 full-time equivalent (FTE) staff and is headed by the Director of Civil Aviation.

7.2 Our work

- Policy advice and rules development;
- Certification and licensing of aviation participants;
- Enforcement of civil aviation regulatory system;
- Surveillance and monitoring of compliance to aviation regulatory system rules;
- Education and promotion of aviation rules, advisory circulars and other safety-related information;

- Investigation and analysis of aviation accidents and incidents;
- Publication of aeronautical information; and
- Health and Safety in Employment Act 1992 (HSE 1992) and Hazardous Substances and New Organisms Act 1996 (HASNO 1996) administrator for the aviation sector.

7.3 Our vision

New Zealand aviation: free from safety and security failure and contributing to an integrated, safe, responsive, and sustainable transport system.

7.4 Our mission ³

- To take action that ensures people and property are not harmed or threatened by New Zealand civil aviation operations; and
- To ensure that New Zealand's international civil aviation obligations are met.

7.5 Our stakeholders

- Flying public - who want safe and secure air transport;
- Businesses - who depend on air transport;
- International organisations and State aviation authorities (especially those in the Pacific) - who want responsible technical and regulatory interaction and assistance;
- Ministry of Transport (MOT) and Government – who require good advice and value for money, support and contribution to achieving the objectives of NZTS;
- Public at large - who want confidence in New Zealand civil aviation;
- Staff of CAA - who want meaningful employment and also a safe and secure civil aviation system; and
- Civil aviation participants - who want appropriate and equitable regulation and security service.

³ Amended Mission Statement of the CAA beginning FY2006-07 is "To be an effective organisation, by taking regulatory and promotional actions to minimise any threat or harm to people and property from New Zealand civil aviation operations".

7.6 Our funding

A little less than three-quarters of the CAA's funding (73.8%) comes from passenger levies under the regime of Civil Aviation (Safety) Levies Order 2002. Crown-funding (6.4% of the CAA's budget) is limited to policy advice and the administration of Health and Safety in Employment for the aviation community.

| OUTPUT CLASS | OUTPUT | SOURCE OF FUNDING |
|-----------------------------------|--|---|
| POLICY ADVICE | Advice to Government, Legislation Development, and Maintenance of International Aviation Safety Related Agreements | Crown funded (through MOT) |
| | Rules development | Contracted services (MOT) |
| SAFETY ASSESSMENT & CERTIFICATION | Airlines sector safety risk management | Direct fees and charges and levy funding |
| | General Aviation sector safety risk management | Direct fees and charges and levy funding |
| | Personnel Licensing and Aviation Services sector safety risk management | Direct fees and charges and levy funding |
| | Health and Safety in Employment aviation community safety and health risk management | Crown funded (through the Department of Labour) |
| SAFETY ANALYSIS AND EDUCATION | Safety investigation | Levy funded |
| | Safety analysis | Levy funded |
| | Safety information and education | Levy funded |
| ENFORCEMENT | Responses to regulatory breaches | Levy funded |

About three quarters (68% in FY2005-06 and 2004-05) of the CAA's expenditure was spent on Output class: Safety assessment and certification.

| CAA REVENUE BY SOURCE | FY2005-06 ACTUAL | CAA EXPENDITURE BY OUTPUT CLASS | FY2005-06 ACTUAL | FY2004-05 ACTUAL |
|--------------------------|------------------|-------------------------------------|------------------|------------------|
| Levies | 73.8% | Safety assessment and certification | 67.9% | 68.2% |
| Fees, charges and others | 18.2% | Safety analysis and education | 17.4% | 17.4% |
| Crown funding | 6.4% | Policy advice | 11.6% | 11.2% |
| Interest | 1.6% | Enforcement | 3.1% | 3.2% |
| TOTAL REVENUE (\$000) | \$27,304 (100%) | TOTAL EXPENDITURE (\$000) | \$27,006 (100%) | 25,379 (100%) |

7.7 Our strategic objectives, 2005-06

Central Objective:

- (a) The CAA sought to ensure that the number and impact of adverse aviation related events on people and property were minimised.

Supporting Objectives:

- (b) Civil aviation rules and other regulatory measures were understood by the aviation community, the public and CAA staff;
- (c) Civil aviation community participants consistently met or exceeded regulatory requirements;
- (d) The CAA had all the relevant information it needed to support its operations and decisions;
- (e) All regulatory tools, including sanctions, were applied by the CAA in a fair and consistent manner;
- (f) The public and government were well-informed about New Zealand aviation safety and security; and
- (g) New Zealand's international civil aviation obligations were met.

7.8 Our major accomplishments

WIDER AVIATION COMMUNITY

Groundbreaking US/NZ Bilateral Aviation Safety Agreement

A milestone agreement was signed in June 2006 between the United States FAA and the CAA wherein the FAA will accept repairs and certain modifications that have been approved by the CAA on large aircraft. The agreement is a revision of the procedures under the existing US/NZ Bilateral Aviation Safety Agreement (BASA).

The agreement means that:

- The United States has endorsed the quality and skill of New Zealand-designed and certificated large transport aircraft repairs and modifications;
- It positions New Zealand as one of just four countries (along with the United Kingdom, Germany and Australia) that have earned this recognition in bilateral agreements with the United States;
- It will save a substantial amount of time and money

as repairs and modifications will no longer need to be revalidated by the FAA. That is, the certification received from the CAA will be considered equivalent to FAA certification; and

- It means that the largest aviation regulator in the world, FAA, has full confidence of CAA's processes for aircraft certification, and overseeing design and repair.

Pioneering Safety Targets

The CAA continued its work on the detailed implementation aspects of its new social cost safety target measures. These measures are intended to better understand the range of aviation safety failure and to assist in the accuracy of safety remedies. The new set of safety target measures is reported in section 8.5.

The CAA received an invitation from the Flight Safety Branch of the FAA to present its Social Cost Safety Targets for 2010 at the FAA 2006 Conference on Risk Analysis and Safety Performance in Aviation in Atlantic City, New Jersey in September 2006.

Enhanced Security Initiatives

As part of a global initiative and change of practice under the Chicago Convention (ICAO) Annex 17 standards, the CAA completed the regulatory implementation of Hold Baggage Screening (HBS) for international passenger flights on 1 January, 2006. Responsibility for the operational implementation rests with various stakeholders.

Increasing International Interaction

The CAA maintained its active involvement in international relations during the period with:

- Participation in the ICAO Asia-Pacific Region Directors General conference in Australia;
- Participation in the ICAO Communication, Navigation and Surveillance – Meteorology (CNS/MET) and Asia-Pacific Air Navigation Planning and Implementation Regional Group (APANPIRG) meetings in Bangkok;
- Chairing the ICAO International Airways Volcanic Ash Operations Group held in Lima, Peru;
- Attendance in the Global meeting of Directors General of Civil Aviation in Montreal in March 2006, including the first meeting of the Asia-Pacific consultative link partners;
- Participation in the FAA/Asia-Pacific Bilateral Partners meeting in Shanghai;
- Participation in the US/Europe International Aviation Safety Conference in Portland, Oregon, USA;

- Meetings, as part of its programme of development of agreements with other authorities, with the FAA to discuss a new maintenance agreement under the US/ NZ BASA, including participation in FAA audit of a US repair facility;
- Hosting of discussions with Civil Aviation Authority of Singapore on the CAA's rule development process; and
- Invitation for CAA's Manager Security as conference speaker in the AVSEC World 2006 held in Sydney on 17-19 October 2006.

Pacific Aviation Safety Office

The CAA continued to work on the establishment of the Pacific Aviation Safety Office (PASO) in conjunction with other members. The CAA participated in two council meetings of the new international office in 2005-06.

The General Manager of PASO has been appointed and all requirements have now been met to enable PASO to draw on a loan from the Asian Development Bank (ADB) to help set-up its operations.

PASO is now advertising for staff after a further meeting of the partners.

Aircraft Manufacturing Expansion

Of importance in the local aviation industry, the CAA certificated the production of the Alpha 2000 light aircraft in New Zealand. As such, the CAA accepted the responsibility of being the State of Design Authority for the aircraft which was previously produced in France. This development, along with the production of small helicopters in New Zealand, reflects the growing technical capability of the local industry and the need for the CAA to upgrade or update its technical capability in this area.

Rules Development Progress

With the completion in November 2005 of the Rules Review Implementation project which implemented the Scholterns Report recommendations on participation in the rules process, the CAA continues to provide the primary research and drivers for the development of Civil Aviation Rules. In this regard a programme of development is agreed each year under contract with the MOT.

The CAA made significant progress in the area of rules development this year with the signing of six rules packages and four more rules packages currently awaiting the Minister's signature. The CAA will continue to focus its efforts on clearing the backlog of longstanding rules and on progressing priority rules.

The following Final Rules and information documents developed by the CAA during the year and signed by the Minister:

- Part 61 Stage 1 Pilot Licences and Ratings;
- Omnibus Rule Fix Up;
- Part 108 Hold Baggage;
- Part 125 Health and Usage Monitoring Systems (HUMS) Fast Track;
- Part 93 Right Hand Circuits; and
- Part 67 Medical Certification (managed by MOT).

Draft Final Rules forwarded to the Ministry of Transport for review:

- Part 43 General Maintenance (3 final rule packages);
- Part 139 Runway End Safety Areas (RESA);
- Omnibus Rule Fix Up;
- Part 125 Health and Usage Monitoring Systems (HUMS) Fast Track; and
- Part 93 Right Hand Circuits.

Draft Notices of Proposed Rule Making (NPRM) forwarded to the MOT:

- Part 109 Air Cargo Security;
- 406 MHz Emergency Location Transmitters (ELT);
- Part 125 Health and Usage Monitoring Systems (HUMS) Fast Track; and
- Omnibus 2.

Policy work was completed on the introduction of Rules to provide oversight of Adventure Aviation (Part 115)

New Rules Advisory Group

The new Aviation Community Advisory Group (ACAG) was established under the Terms of Reference agreed with industry representatives. The eleven-member ACAG undertakes advisory and monitoring roles in the rules development process, and facilitates the development of aviation community views on rules issues. The inaugural ACAG/CAA meeting was held in December 2005, and at the first working meeting in February 2006 ACAG and the CAA discussed issues for inclusion in the draft 2006-07 rules programme.

Best Practices for Agricultural Operations

Further progress has been made in educating and informing aviation industry members of their responsibilities under the Health and Safety in Employment Act 1992 (HSE 1992). Stage one of an agricultural aviation

best practice guide is in the publication phase. This development was completed in association with a number of government departments, including Department of Labour, the Agricultural Health and Safety Council of the Federated Farmers and other interested rural and transport organisations. The guide covers the operation of agricultural aircraft from farm airstrips.

Training Initiatives

A CAA project, in conjunction with Aviation Services Limited, continued to review current standards of training for light twin private and commercial aircraft operations. The purpose is to review, establish, where necessary, and improve standards of light multi-engine aircraft type ratings issued by flight instructors and Part 135 operators and to establish a robust syllabus that has CAA approval.

Enhanced Meteorological Services for General Aviation

The CAA continues to sponsor the successful MetService web-based aviation meteorology product called Met-Flight-GA. The aim of the sponsorship is to reduce the weather-related risk of general aviation private operations of aircraft less than or equal to 10,000 feet. The product is also available to flight training organisations. As at June 2006 there were over 3,500 subscribers to the system.

Safety Initiatives for General Aviation

FIXED WING: Focus was brought to bear on all multi-engine aircraft operations both private and commercial; in particular aircraft serviceability, required avionics equipment for the type of flying being conducted, pilot licences, medicals, type ratings and proficiency, appropriate documentation, spot ramp checks at airports and any unapproved modifications or role equipment. The programme took place through November/December 2005.

ROTARY WING: This year's programme included high profile surveillance of night visual flight rules (VFR) frost protection operations. Because of the disproportionate number of accidents and incidents occurring in the "private" non commercial sector of the helicopter industry, the opportunity was also taken to contact with and visit helicopter owners who do not normally come under the certification or agricultural spot light. This was partly achieved by a spot check of helicopter activities at the Pukekohe V8 motor races, the Rally of New Zealand, the New Zealand Agricultural Field Days and the "Cardrona Race to the Sky". Although not necessarily all in the

summer months, these events attract both commercial and private helicopter activity.

Successful General Aviation Seminars, Courses and Workshops

During the period a number of workshops and seminar projects were completed and some initiated. The objectives of these programmes were to increase awareness of applied standards and to ensure that participants understand their practical and legal obligations. The programme included:

- For fixed wing: development of a course for Chief Pilots of Part 135, 137 and 141 operations;
- For rotary wing and agricultural operations: development of a course for Chief Pilots of Part 135, 137 and 141 operations;
- For airworthiness: completion of five Maintenance Controller's courses nationwide; and
- For sport and recreation: regulatory update seminar at Sportavex held at Tauranga, liaison with the US Experimental Aircraft Association, and the development and implementation of the CAA Maintenance Approval training course in conjunction with Sport Aircraft Association of New Zealand.

Commencement of General Aviation Advisory Circulars (AC) For Completion In 2006 To Improve Best Practice

- Mountain Flying Operations for fixed wing and rotary wing aircraft;
- Night Vision Goggles AC to Part 135 for rotary wing / agricultural operations;
- Possible AC to Part 137, a generic exposition for the agricultural industry;
- Development of an AC for balloon operations;
- Development of an AC for commercial hang gliding operations; and
- Airworthiness AC such as; AC43-5 General Maintenance - Engine and Propeller Overhaul and Testing, AC43-8 General Maintenance - Calibration of Test Equipment for Maintenance Purposes, AC43-15 General Maintenance - Light Aircraft Maintenance Programme - Aeroplanes, and AC43-16 General Maintenance - Light Helicopter Maintenance Programme - Helicopters.

WITHIN CAA ORGANISATION

Business Continuation And Readiness

The CAA completed its accelerated work on the preparation of avian influenza/ pandemic contingency plans, both internally and with various government agencies. This took precedence over the completion of the CAA's wider Business Continuity Plan development which is due for completion during the latter part of 2006.

Collaborative Planning

During the year, CAA executive management and the Authority reviewed the strategic plans of the organisation.

The process refined the CAA's strategic objectives and outcomes. A new mission statement was also adopted. These changes are reflected in the CAA's Business Plan for 2006-07 and the FY 2006-09 SOI.

Developing Our People

The development of leadership and communication skills continued in line with the development of the internal CAA culture. The aim is to ensure that employees recognise their responsibilities and carry them out in a professional and collegial manner and in a way that is easily recognisable to clients as progressive and helpful.

Further, the CAA introduced a new Personnel Performance and Development System for all employees that engages directly with the CAA Strategic and Business Plans.

7.9 Addressing our challenges

EXTERNAL CHALLENGES

Security Environment

At a global level, transportation and civil aviation in particular, remains a favoured target of terrorists. While there is no known specific threat to New Zealand's aviation interests either within New Zealand or overseas, the overall international threat against civil aviation is significant, and is expected to remain at that level for the foreseeable future.

The CAA remains concerned about the potential vulnerability of many smaller Pacific Islands States to terrorist infiltration and attack due to a range of capability

and capacity issues but at this stage they are not the subject of any known specific threat.

In partnership with other government agencies and the aviation community, the CAA has continued to monitor developments throughout the year in the domestic and international security environments to ensure that an appropriate level of security is applied to flights from and within New Zealand.

Australia/New Zealand Mutual Recognition Progress

The Civil Aviation Legislation Amendment (Mutual Recognition with New Zealand) Bill 2005 was introduced to the Australian Senate on 23 June 2005. The legislation, which mirrors legislation enacted in Part 1A (ANZA mutual recognition) of the CA Act 1990, provides for the mutual acceptance of air operator certificates issued by the CAA and Civil Aviation Safety Authority of Australia (CASA) for domestic operations in each others country⁴. The Bill was not passed at the Australian House of Representatives during the year but is expected to be passed later in 2006.

An operational agreement between the CAA and CASA has been developed to support new arrangements in the passage of the legislation in Australia.

(Note: The Bill was passed in the Australian House of Representatives on 11th of September 2006.)

Maintenance Base Changes

During the year Air New Zealand released its plan to contract off-shore the maintenance for part of its fleet. This caused job redundancy anxiety in the aircraft engineering department of the company, thus it required a close inspection by the CAA to ensure that safety standards were still being met.

The planned retrenchment of NZ's engineering services in Auckland, the establishment of its new Technical Operations Division and use of off-shore aircraft maintenance and engineering contractors will be closely monitored by the CAA.

Introduction Of New Aircraft

The previous year's intense activity continued in the airline sector with Air New Zealand's, and its subsidiaries, introduction of new aircraft types and modifications in its fleet such as:

- Retrofit of Boeing 747;

⁴ Australia New Zealand Aviation Air Operator Certificates ('ANZA' AOC's)

- Introduction of Boeing 777, Airbus 320, and Bombardier Q300; and
- The installation of simulators for Boeing B777 and Bombardier Q300.

These changes required significant demand on the resources of the CAA such that some routine surveillance programmes were delayed but without any impact on civil aviation safety.

Air New Zealand has also contracted Boeing to be a launch customer for the new Boeing 787, thus CAA maintenance and certification personnel have been closely involved in this project over the year.

Unmanned Aerial Vehicles

Unmanned aerial vehicles (UAV) are rapidly being deployed to various civilian operations overseas and in New Zealand. One local manufacturer is developing a 1,130kg unmanned rotorcraft.

The CAA continues to participate in various local and overseas forums looking at the nature of the technology and issues posed for regulators. The risks of UAV and their oversight will continue to be reviewed by the CAA. The CAA will continue to monitor the development of UAV International Rules and Standards so that they can be applied initially as conditions under the current Civil Aviation Rules and eventually be used to develop any new Rules specifically for UAV.

Law Enforcement

The CAA has been working with the Department of Justice regarding to the amendment of the comparatively lower levels of fines imposed on those who are successfully prosecuted under civil aviation legislation.

(Note: The Civil Aviation (Offences) Regulations were updated on 1st August 2006. The CAA is now implementing the Infringement Notice process for breaches of the Rules.)

INTERNAL CHALLENGES

ICAO Universal Safety Oversight Audit

In March 2006, New Zealand was audited by ICAO as part of their Universal Safety Oversight Audit Programme (USOAP).

The interim audit report had 64 findings in total ranging from high-level legislative and organisational matters to non-compliance with specific standards set out in the annexes (refer to Glossary for list) to the Chicago Convention.

The CAA has provided New Zealand response to the findings and is awaiting the ICAO's draft final report at which time the CAA has the opportunity to provide further comments prior to the report being finalised in December 2006.

Office Of The Auditor General

The Office of the Auditor-General (OAG) released its report on CAA Surveillance and Certification in June 2005 and made ten recommendations for improvements in the CAA processes. The CAA continues with its three major projects (Surveillance Process, Certification Processes,⁵ and Risk Assessment and Intervention⁶) that will result in improvements sought in the report. These two projects will be completed by end of 2006. The CAA's progress on its action plan covering the Coroner's recommendations is regularly updated on the CAA's web site (Public Documents)

Air Adventures – Coroner's Report

During the year the CAA was the focus of recommendations from the published Coroner's Report (30 May 2006) on the loss of the Air Adventures aircraft (ZK-NCA) on approach to Christchurch Airport in 2004. Questions from the media, Select Committee, and the Minister's Office about those recommendations and recommendations contained in the OAG 2005 report, were responded to by both the Chairman and the Director of Civil Aviation. Resolution of findings is jointly being addressed by the CAA, TAIC and MOT (updated progress on recommendations and actions can be accessed through [www.caa.govt.nz / what's new](http://www.caa.govt.nz/what's_new) section).

Internal Review

At the beginning of the year the Director established an internal enquiry with the main objective of determining the effectiveness and appropriateness of the CAA's policies and operations with emphasis on organisation, approach, responsibilities and the development area

5 Surveillance Process Project aims to develop and implement software and hardware that will support the earlier phase that reviewed and revised surveillance policy and procedures; and enhance the efficacy of the CAA'

6 Risk Assessment and Intervention Project aims to develop systems and procedures for the establishment of client specific safety risk measuring methodologies.

of Part 115, adventure aviation. Recommended action plans were received from consultants and were subsequently discussed with internal stakeholders. Final recommendations are expected in late September or early October 2006.

Joint Aircare Project

A Memorandum of Understanding (MOU) between the Aviation Industry Association (AIA), the Accident Compensation Corporation (ACC) and the CAA was signed in 2004 to facilitate the objective of reducing the number of accidents in general aviation, and to improve injury prevention (which will consequently reduce ACC levy for the sector).

The first DVD, Risk Management in Aviation, was released in December 2004. The second DVD, Aviation Decision Making, is due to be released in August 2006. The CAA is working with the Aircare Project to find means of continuing the programme of initiatives related to it.

Capability and Resource Review

Collaborative development of the necessary terms of reference for the CAA Capability and Resource Review (previously known as the Funding Review) continued with the MOT, Treasury and other agencies. This review was delayed to include results from internal and external reviews and audits of CAA operations.

The first phase of the review will define what is formally required of the organisation and identify any gaps between existing capability and what may be required to fulfill the defined obligations. The second phase will focus on the best means of providing any funding that may be required to meet the full extent of the CAA's obligations. The review is now expected to begin later in 2006 and is estimated to be completed by April 2007.

Review of the Civil Aviation Act 1990

The CAA and MOT have continued to work co-operatively in reviewing the CA Act 1990 with a view to amendments as necessary. It is anticipated that an amendment Bill would be tabled in Parliament in July 2007, following approval of the various components of the CA Act 1990 being reviewed presently.

Capability Development Projects

Capability development work continued on the review of the CAA risk intervention, surveillance and certification processes. These projects are due to be completed in FY 2006-07.

IT Systems Architecture Update

Work has begun during the period on the replacement of the CAA's IT architecture in order for the organisation to have updated software development and applications in its business systems.

HASNO 1996 Demarcation

The CAA continued its discussions with the Environmental Risk Management Agency (ERMA) regarding HASNO 1996 responsibilities and obligations in the aviation sector. A clear demarcation and acceptance of responsibilities is sought for the organisations involved.

7.10 Our collaborative work with transport agencies

The CAA has continued to implement changes to its internal and external planning documents to ensure that requirements and objectives of the NZTS, the amended CA Act 1990 and CEA 2004 are covered accordingly.

This iterative planning process continues between transport agencies and the MOT through the work of the PTF and BRG. The practical engagement mechanism to direct the cross-modal part of the work of the CAA is currently defined in the projects set out in the TSSD.

The CAA has actively participated in the TSSD collaborative planning projects covering:

- (a) Strategic transport futures;
- (b) Integrated approach to planning;
- (c) Research and information;
- (d) Cross-modal approach to safety;
- (e) Influencing demand for transport services;
- (f) Managing environmental and public health impacts; and
- (g) Monitoring and evaluation.

An updated TSSD, incorporating the progress report on the various projects, is expected to be released later in 2006.

8. Operational and Capability Report

8.1 Our capability profile

Our organisational structure has an established FTE of 183, with 179 currently filled. It is headed by the Director of the Civil Aviation whose position was established under section 72I of the CA Act 1990.

| CAA GROUPS | | ESTABLISHED FTE | FTE AS AT 30 JUN 2006 |
|------------------------|---|-----------------|--------------------------|
| Office of the Director | | 7.7 | 6.7 |
| Operations | Airline | 31 | 29 |
| | General Aviation | 29 | 29 |
| | Personnel Licensing and Aviation Services | 33 | 33 |
| | Government Relations | 16.8 | 15.8 |
| | Legal Counsel and Enforcement | 10 | 10 |
| | Professional Standards | 7 | 7 |
| | Safety Research, Education and Publishing | 23 | 23.6 |
| Support groups | Business Planning and Reporting | 3 | 3 |
| | Human Resources | 3 | 3 |
| | Management Information Services | 13 | 12 |
| | Finance | 6.5 | 6.5 |
| TOTAL FTEs | | 183 | 178.6* |

**includes full-time permanent employees (167), part-time permanent employees (5.6), fixed term employees (3.8), temporary agency staff (2) and contractors (0.2)*

The Safety Research, Education and Publishing group is currently split with Safety Analysis temporarily reporting to the Head of Business Planning and Reporting, while Safety Investigation and Safety Education report to the Head of the Professional Standards Group. The final domicile of these units is expected to be recommended in the Internal Review Report later in 2006.

PROFILE OF OUR STAFF

- For the last two years the average age of male staff remained at 51 years old, 42 for female and 48 for

operations staff.

- The current ratio of male to female staff is 7:3.
- More than 70% (125) of staff has been working at CAA for more than three years, with 5% (9) serving more than 20 years.
- Staff turnover was 18 FTEs for the year, 12 due to resignations and 6 to retirements.
- Because of the nature of CAA work, most staff members are from the aviation community. However for staff with no experience in aviation, an aviation briefing or orientation is conducted as part of their induction to the CAA.
- The current 179 total FTE is a mix of various nationalities

(e.g. New Zealand, British, Canadian, German, South African, Namibian, Irish, Indian, Chinese, Filipina, Pacific Islander, Malaysian, South African and Scots).

8.2 Overview of our operations

AIRLINES, GENERAL AVIATION AND PLAS

The CAA's operations groups are responsible for CAA functions of entry and exit control, and surveillance with their respective areas of operation (Airlines, General Aviation and PLAS).

These groups contribute to the civil aviation system's safety and security oversight responsibilities by providing the Director of Civil Aviation with confidence that their respective sectors are operating at or better than prescribed levels of acceptable risk. This is accomplished by ongoing certification and monitoring that ensures compliance with regulatory standards. In addition, they establish and maintain relationships with aviation participants to enable the free flow of data necessary to ensure that safety risks and other relevant information are proactively identified, analysed and, where necessary, remedied.

The CAA has long since adopted the "life-cycle approach to regulating civil aviation"⁷. The New Zealand civil aviation system is a closed system with its boundaries determined by established Civil Aviation Rules. The "life-cycle approach" has three stages, viz. entry, operation or participation, and exit.

- **ENTRY:** Aviation participants enter the civil aviation system when they have met the minimum standards and are issued the relevant aviation document(s).
- **OPERATION OR PARTICIPATION:** While they are in the system, aviation participants must continue to operate in compliance with civil aviation standards and conditions of their documents. Their adherence to those standards is checked, and any corrective actions necessary to bring their performance to the required standards are identified and rectified accordingly. The CAA conducts functional supervision of participants operating in the civil aviation system and this is called its surveillance function.

The CAA's safety philosophy is based on the premise that an acceptable level of safety is maintained only if participants comply with the acceptable standards, and their own documented systems. The standards are designed to be at minimum. Anything less than full compliance is considered unacceptable and requires attention by the participant.

When a document holder's performance falls below the standard, the CAA seeks compliance in regaining the required level of performance. The CAA identifies areas of non-compliance via findings from its audits and inspections, and that a return to an acceptable level of performance is managed via corrective actions and follow-up. Corrective actions are only effective when these address the cause of the finding and the operation of systems that were found to be deficient.

- **EXIT:** Aviation participants exit the civil aviation system, either voluntarily by surrendering their aviation documents or as a result of its action to suspend or revoke the document. The CAA takes exit actions in the interests of safety when other regulatory tools have failed or are unacceptable.

SAFETY INVESTIGATION

- Investigation of civil aviation accidents and incidents is carried-out in accordance with the CAA's capacity as the responsible aviation safety authority (subject to limitations set out in section 14(3) of the Transport Accident Investigation Commission Act 1990). This involves the establishment of causal factors, recommending corrective actions and the entering of relevant information into the CAA's occurrence database;
- Provision of safety information such as fatal accident reports, accident briefs and defect reports for publishing on the web and in the CAA's safety magazine, Vector, to provide feedback to the industry and to improve aviation safety;
- Notification to the TAIC of accidents and incidents reported to the CAA is made in accordance with section 27 of the CA Act 1990; and
- Co-ordination of CAA's response to safety recommendations made by the TAIC, the Coroner's and tracking of the implementation of any agreed CAA actions is carried-out.

⁷ As described in the Swedavia-McGregor Review of 1988. It has 3 stages of participant involvement in the civil aviation system – entry, operation or participation, and exit.

SAFETY ANALYSIS

- Analysis of collective data relating to safety failures and the preparation of recommendations for corrective action to be taken by participants in the civil aviation system and/or by the CAA;
- Review of the CAA occurrence database in terms of standards relating to what is to be recorded, and its quality and timeliness;
- Management of aircraft operating statistics;
- Preparation of Safety Reports summarising the safety performance of each industry sector; and
- Facilitation of CAAV Industry safety forums to establish safety problem areas and develop solutions.

COMMUNICATION AND SAFETY EDUCATION

- Promotion of safety by providing safety education information and advice, and fostering safety programmes such as safety seminars and Aviation Safety Co-ordinator training courses;
- Development, production and distribution of safety education resources, such as magazines, good-aviation practice booklets, posters, videos, accident briefs, etc, aimed at all sectors of the aviation community, but focused on general aviation;
- Co-ordination, editing, production and distribution of "Vector" magazine;
- Publication and distribution, or making arrangements for publication and distribution, of all of the CAA's external publications, including Rules, Advisory Circulars, Airworthiness Directives and other relevant aviation matters;
- Development and maintenance of the CAA's corporate identity programme;
- Management of the CAA Internet web site.
- Co-ordination of CAA information input into the New Zealand Aeronautical Information Publication (NZAIP);
- Management of the CAA's overall relationships with the aviation industry, the public and news media; and
- Enhancement of public perception of the role of the CAA and its achievements in assuring aviation safety.

LAW ENFORCEMENT UNIT

The enforcement of the CA Act 1990 and related Regulations and Rules by:

- Recording of complaints of alleged or suspected offences;

- Investigation of all allegations or complaints of breaches to Civil Aviation legislation;
- Taking appropriate action; such as providing education, issuance of warning letter, issuance of infringement notice, or commencing summary proceedings; and
- Following through prosecution matters by liaising with Crown solicitors on all evidential matters relating to the conduct of court proceedings.

GOVERNMENT RELATIONS

Policy Advice and International Relations

- Provision of advice to the Minister and government departments on aviation safety and security issues;
- Development and review of safety and security policies and management of the CAA's policy development programme;
- Development and review of civil aviation legislation proposals; and
- Development of the CAA's relationship with overseas authorities including the development and administration of mutual recognition and other safety agreements.

ICAO Co-ordination

- Administration of New Zealand's participation in the ICAO and management of New Zealand's obligations under the Convention relating to safety and security; and
- Co-ordination of the CAA's responses to ICAO State letters and the notification of differences from ICAO standards.

Government Services

- Co-ordination of the CAA's responses to Ministerial correspondence, Parliamentary questions and provision of regular and adhoc reports on aviation regulatory issues to the Minister and MOT; and
- Co-ordination of Authority's correspondence and the facilitation of Authority's industry visits.

Rules Development

- Management of the aviation rules development programme, under contract to the Secretary of Transport, and the provision of regular reports on activity and progress;
- Development and administration of procedures for the development of ordinary civil aviation rules, including petitions for rulemaking, emergency rules, Advisory Circulars (AC) and related rules activity;

- Liaison with overseas safety authorities on rules issues including the development of common technical standards and harmonisation of rule requirements; and
- Management and publication of the Rules Register.

8.3 Scope of our work

ORGANISATION CERTIFICATES

As at 30th June 2006, the CAA has a total of 594 certificated organisations with 28.8% certificated as air operators under Part 119, while a fifth (19.7%) are certificated under Part 137, agricultural aircraft operators.

| CERTIFICATE TYPE | COUNT | % | CERTIFICATE TYPE | COUNT | % |
|---|-------|-------|---|------------|-------------|
| Part 119 Air Operator | 171 | 28.8% | Part 171 Telecommunication service organisation | 3 | 0.5% |
| Part 129 Foreign air operator | 42 | 7.1% | Part 172 Air traffic service organisation | 1 | 0.2% |
| Part 137 Agricultural aircraft operator | 117 | 19.7% | Part 174 Meteorological service organisation | 2 | 0.3% |
| Part 139 Aerodrome certification | 26 | 4.4% | Part 175 Information service organisation | 2 | 0.3% |
| Part 140 Aviation Security Organisation | 1 | 0.2% | Part 19F Supply organisation | 55 | 9.2% |
| Part 141 Training organisation | 48 | 8.1% | Part 92 Dangerous goods packaging | 36 | 6.1% |
| Part 145 Maintenance organisation | 52 | 8.8% | Synthetic training device (airlines) | 6 | 1.0% |
| Part 146 Design organisation | 12 | 2.0% | Synthetic training device (general aviation) | 14 | 2.4% |
| Part 149 Recreation organisation | 6 | 1.0% | TOTAL CERTIFICATED ORGANISATIONS | 594 | 100% |



PILOT LICENCES⁸

Of the total 18,646 pilot licences as at 30th June 2006, 48.2% are potentially active. More than 47% (8,831) of total pilot licences are Private Pilot Licence (PPL) for aeroplane, however, only 35.2% (3,111) of these are active.

| LICENCE TYPE | % ACTIVE TO TOTAL LICENCES | TOTAL LICENCES | WITH ACTIVE CLASS MEDICAL | | |
|---|----------------------------|----------------|---------------------------|--------------|--------------|
| | | | TOTAL ACTIVE | CLASS 1 | CLASS 2 |
| Airline transport pilot licence (aeroplane) | 63.1% | 2,755 | 1,739 | 1,019 | 720 |
| Airline transport licence (helicopter) | 61.1% | 108 | 66 | 40 | 26 |
| Commercial pilot licence (aeroplane) | 57.6 | 4,465 | 2,571 | 1,363 | 1,208 |
| Commercial pilot licence (balloon) | 64.9 | 37 | 24 | 15 | 9 |
| Commercial pilot licence (glider) | 50.0 | 8 | 4 | 3 | 1 |
| Commercial pilot licence (helicopter) | 70.9 | 1,432 | 1,016 | 608 | 408 |
| Private pilot licence (aeroplane) | 35.2 | 8,831 | 3,111 | 346 | 2,765 |
| Private pilot licence (glider) | 100.0 | 1 | 1 | 0 | 1 |
| Private pilot licence (helicopter) | 45.7 | 958 | 438 | 77 | 361 |
| Senior Commercial pilot licence (aeroplane) | 19.6 | 51 | 10 | 3 | 7 |
| TOTAL PILOT LICENCES | 48.2 | 18,646 | 8,980 | 3,474 | 5,506 |

AIRCRAFT CLASSES

As at 30th June 2006, there are 3,988 total aircraft in New Zealand, 45.8% of which are aeroplanes and 16% are helicopters.

| AIRCRAFT CLASS | COUNT | % | AIRCRAFT CLASS | COUNT | % |
|--------------------------|-------|------|-----------------------|--------------|--------------|
| Microlight class 2** | 591 | 14.8 | Balloon | 58 | 1.4 |
| Amateur built helicopter | 12 | 0.3 | Gyroplane | 10 | 0.2 |
| Helicopter | 654 | 16.4 | Amateur built glider | 4 | 0.1 |
| Aeroplane | 1,828 | 45.8 | Microlight class 1* | 248 | 6.2 |
| Amateur built aeroplane | 231 | 5.8 | Glider | 310 | 8.0 |
| Power glider | 42 | 1.0 | TOTAL AIRCRAFT | 3,988 | 100.0 |

* Microlight aircraft with one seat requiring no flight permit.

** Microlight aircraft with two or more seats and requiring a flight permit.

8 Notes: (1) Total licences means the total number of lifetime licences of each type, plus the number of pilots with active medical class 1 or an active class 2 medical (but no active class 1 medical). (2) Total active licences = class 1 + class 2, or the sum of active medicals represents the potential number of active pilots (3) The number with class 2 medical must only be exercising Private Pilot Licences (PPL) privileges

COMPONENT OVERVIEW

Further to the previous tables, following are the component overview of aviation documents. The components are grouped under Airlines (AL), General Aviation (GA) and Personnel Licensing and Aviation Services (PLAS) and by their corresponding Civil Aviation Rule Part. The work of these three groups is vital in the New Zealand civil aviation system.

Airline Group (AL)

Airline Operations is defined by the CAA as operations utilising aircraft of greater than 5,700 kg or with ten or more seats (e.g. Airbus 320,340; ATR 72; Boeing 737, 747, 767, 777, 787; British Aerospace Jetstream; Convair 440, 580; MD11), along with associated maintenance, training, design, manufacturing and supply organisations.

| COMPONENT | CIVIL AVIATION RULE PART | COMPONENT OVERVIEW, 30 JUNE 2006 |
|---------------------------------|--|--|
| Aircraft design and manufacture | 21 Certification of Products and Parts 146 Aircraft Design Organisations – Certification 148 Aircraft Manufacturing Organisations – Certification | There are 12 design organisations (11 under Airlines group and 1 overseen by General Aviation) and 21 manufacturing organisations (17 overseen by Airlines Group and 4 by General Aviation). |
| Aircraft maintenance | 43 General Maintenance Rules 145 Aircraft Maintenance Organisations – Certification | There are 54 Part 145 maintenance organisations operating across the full spectrum from upholstery work through to full aircraft overhaul of which 23 are overseen by the Airlines Group and 31 by General Aviation Group. |
| Aircraft operations | 91 General Operating and Flight Rules 119 Air Operator – Certification 121 Air Operations – Large Aeroplanes 125 Air Operations – Medium Aeroplanes | There are 163 organisations holding air operator certificates of which 18 hold certification for the operation of large or medium aeroplanes (3 of which are Pacific Islands organisations), are overseen by the Airlines group, and 142 overseen by the General Aviation group. |
| Aircraft registration | 47 Aircraft Registration and Marking | There are over 3,984 aircraft registered under the ZK (New Zealand) mark, approximately 164 are above 5,700kg, 143 are light twin engine aircraft (below 5,700 kg), 1,584 are smaller aircraft with less than 2,730 kg, 654 are helicopters and 1,439 are sport aircraft. |
| Foreign operators | 129 Foreign air transport operator - certification | There are 36 foreign registered airlines operating aircraft to or from New Zealand |

General Aviation Group (GA)

General Aviation operations is defined as operations utilising aircraft that weigh less than 5,670 kg and have nine seats or less; all helicopters, agricultural and balloon operations and all sport and recreation aviation (both commercial and private).

| COMPONENT | CIVIL AVIATION RULE PART | COMPONENT OVERVIEW, 30 JUNE 2006 |
|-------------------------------------|--|---|
| Adventure and recreational aviation | 101 Gyro gliders and parasail; unmanned balloons, kites, rockets and model aircraft 103 Micro light Aircraft – Certification and Operating Rules 104 Gliders – Operating Rules 105 Parachuting – Operating Rules 106 Hang Gliders – Operating Rules 149 Aviation Recreation Organisations – Certification | There are six aviation recreational organisations covering parachuting, gliding, hang-gliding and para-gliding, micro lights, ballooning and war bird/vintage operations in New Zealand. The Sport and Recreation Unit oversees the private and commercial use of some 2900 aircraft |
| Agricultural operations | 137 Agricultural aircraft operations | There are 115 agricultural aircraft operators employing fixed wing and/or rotary wing aircraft. |
| Aircraft Operations | 91 General operating and flight rules 119 Air operator – Certification 135 Air Operations – helicopters and Small Aeroplanes 133 Helicopter External Load Operations | There are 150 organisations holding air operator certificates of which 1 holds certification for the operation of medium aeroplane and 149 for the operation of small aeroplanes and helicopters. |
| Aircraft Maintenance | 43 General Maintenance Rules 145 Aircraft Maintenance organisations - Certification | There are 125 Part 43 and 145 maintenance providers operating across the full spectrum from upholstery work through to full aircraft overhaul of which 106 are overseen by the General Aviation Group. |

Personnel Licensing And Aviation Services Group (PLAS)

The PLAS group covers aspects of the aviation sector that can be considered infrastructural or of a personnel licensing nature.

| COMPONENT | CIVIL AVIATION RULE PART | COMPONENT OVERVIEW, 30 JUNE 2006 |
|-------------------------------|---|---|
| Aerodromes | 139 Aerodromes – certification, operation and use 157 Notice of construction, alteration, activation and deactivation of aerodromes 93 Special aerodrome traffic rules and noise abatement procedures | Certificated aerodromes (3 international, 5 domestic with international operations, 18 domestic) and published non-certificated aerodromes (99) and heliports (39). |
| Airspace | 71 Designation of airspace 77 Objects and activities affecting navigable airspace | Designation of airspace in the Auckland Oceanic and New Zealand Flight Information Regions. Objects and activities affecting navigable airspace. |
| Airways Service Organisations | 171 Aeronautical telecommunication service organisations – certification 172 Air traffic service organisations – certification 174 Aviation Meteorological Service organisations – certification 175 Aeronautical information services organisations – certification | Aeronautical telecommunications, air traffic aviation meteorological and aeronautical information services provided by Airways Corporation, Meteorological Service, and one small aeronautical telecommunications service provider. |
| Air Navigation Services | 19.155 Air navigation services - certification | Air navigation services and instrument flight procedures provided under delegation by Airways Corporation. Instrument flight procedures prescribed by the Director. |
| Dangerous goods | 92 Carriage of dangerous goods | Carriage of dangerous goods by air, dangerous goods packaging approvals, and dangerous goods training organisations. |
| Aviation security | 108 Air operator security programme 109 Air cargo security 140 Aviation security service organisations – certification Security elements of Parts 19,91, 139, 171 and 172 | Regulatory oversight of Aviation Security Service, national and foreign air operators (30). Security designated aerodromes (8), Airways Corporation. Security risk assessment and security advice, oversight of security issues – 4 foreign states. |
| Flight training organisations | 141 Aviation Training Organisations - Certification | Certification and monitoring of general aviation flight training organisations, and inspection of over 40 uncertificated flight training organisations. |

| COMPONENT | CIVIL AVIATION RULE PART | COMPONENT OVERVIEW, 30 JUNE 2006 |
|--|--|---|
| Pilot licensing | 61 Pilot licenses and ratings | <p>Issue and amendment of PPL, CPL and ATPL licences.</p> <p>Provision of advice. Syllabus maintenance for all licences and development of flight test standards guides. Certification and monitoring of examination service providers. Assessment of GA flight examiners. Specialist training and conducting of investigations as required.</p> |
| Aircraft maintenance engineers licensing | 66 Aircraft maintenance personnel licensing | <p>Issue and amendment of aircraft maintenance engineer licenses and other Part 66 certificates. Provision of advice. Syllabus maintenance for all licences and ratings. Monitoring of engineers with inspection authorisation privileges. Specialist training and conducting of investigations as required.</p> |
| Air traffic services licensing | 65 Air traffic services personnel licences and ratings | <p>Issue amendment of air traffic service licences for air traffic controllers and flight service operators. Provision of advice. Syllabus maintenance for all licences and ratings. Assessment of air traffic service examiners. Specialist training and conducting of investigations as required.</p> |
| Medical certification | 67 Medical standards and certification | <p>Issue of Class 1, 2 and 3 medical certificates to pilots and air traffic controllers. About 18,000 medical certificates held by about 13,000 people. 8,000-9,000 medical certificates issued per annum.</p> <p>Management of regulatory medical system, including 120 medical examiners responsible for the issue of medical certificates.</p> <p>Surveillance of certificate holders.</p> |

Law Enforcement

The following is a comparative summary of the Law Enforcement Unit's activities over the previous two financial years. The reduction in the number of detailed investigations carried out is a result of change in process and the introduction of an improved filtering system. This has been devised to ensure that the unit's resources are utilised appropriately. Of all the cases investigated in FY2005-06, 31% resulted in prosecution action, compared to 24% in FY2004-05.

| ACTIVITY | FY2005-06 | FY2004-05 |
|--|-----------|-----------|
| Unruly passenger infringement notices issued | 54 | 62 |
| Complaints received | 177 | 194 |
| Investigations commenced | 81 | 119 |
| Investigations closed | 91 | 111 |
| a) prosecutions commenced | 25 | 27 |
| b) written warnings | 21 | 31 |
| c) no offences disclosed | 21 | 17 |
| d) no further action taken | 22 | 27 |
| e) requests for infringement hearing | 1 | 5 |
| f) closed, referred to other agencies | 1 | 4 |

8.4 Progress with our strategic objectives, intermediate goals and strategies

PROGRESS WITH OUR STRATEGIC OBJECTIVES AND INTERMEDIATE GOALS

The CAA's SOI 2005-08 sets out that the CAA focuses on seven strategic objectives and six intermediate goals. As at 30 June 2006, our strategic objectives and intermediate goals have not been achieved, but progress was being made.

The CAA has identified new aviation safety outcome target groups and defined the new social cost measuring regime. As such, the CAA will be able to optimise its scarce CAA resources to mitigate the identified safety risk.

| STRATEGIC OBJECTIVES | PERFORMANCE TARGET (On-track, Delayed, Achieved) | PROGRESS REPORT |
|---|--|--|
| <p>CENTRAL OBJECTIVE</p> <p>(a) The number and impact of adverse aviation related events on people and property were minimised.</p> | On-track | Compared to the previous years, rates of aviation accidents and incidents dropped. Social cost of accidents for 7 of the 13 aviation safety target groups were achieved since its introduction this FY2005-06 (refer to section 8.5). |
| SUPPORTING OBJECTIVES: | | |
| <p>(b) Civil aviation rules and regulatory measures were understood by the aviation community, the public and CAA staff.</p> | On-track | Any changes in civil aviation rules and regulatory measures are punctually disseminated to all stakeholders through the CAA web site, Vector magazine, road shows, brochures and other means. |
| <p>(c) Civil aviation community participants consistently met or exceeded regulatory requirements.</p> | On-track | Efforts had been put in place to ensure that aviation participants understand that they have to deal with corrective actions by due date. Also a number of changes in the CAA database systems have been implemented to ensure that actions are promptly and accurately reflected and corrected. |
| <p>(d) The CAA had all the relevant information it needed to support its operations and decisions.</p> | On-track | The CAA continued to engage stakeholders and utilised administrative aviation data and records to support its operations and decisions. Work is under way on securing further operational information from the aviation community. |
| <p>(e) All regulatory tools, including sanctions, were applied by the CAA in a fair and consistent manner.</p> | On-track | Assessment of audit findings during an audit or surveillance processes consistently follow CAA procedures. Reported occurrences are investigated and addressed based on CAA policies and court proceedings lodged when necessary. |
| <p>(f) The public and government were well-informed about New Zealand aviation safety and security.</p> | On-track | Stakeholders of the CAA are well-informed through quarterly reports to the Minister, annual report, SOI, weekly briefings, press releases, and community liaison. |
| <p>(g) New Zealand's international civil aviation obligations were met.</p> | On-track | In March 2006, New Zealand was audited by ICAO and is currently addressing the ICAO findings as set out in the work programme included in the CAA's FY2006-09 SOI. |

| INTERMEDIATE GOALS | PERFORMANCE TARGET (On-track, Delayed, Achieved) | PROGRESS REPORT |
|---|--|--|
| (a) The identification of aviation community safety target groups and the most appropriate safety and security measures and targets for these groups. | Achieved | 13 aviation safety outcome target groups were identified and safety targets set for 2010. The CAA's FY2006-09 SOI included 11 ARI as appropriate initiatives to address specific issues of underperformance in some of these groups. |
| (b) The review and improvement of aviation accident and incident investigation processes. | Achieved | The accident investigation process was reviewed as part of the ICAO USOAP audit in March 2006. The CAA process was found to be sound with no material findings. |
| (c) The continuing development of civil aviation rules to fulfill the needs of an effective safety and security regulatory system. | On-track | Increased collaboration and consultation took place, with external and internal stakeholders (including MOT) to keep the civil aviation rules updated and relevant. |
| (d) Implementation of "whole Government" strategies such as the NZTS and the New Zealand Injury Prevention Strategy (NZIPS). | Achieved - NZTS On-track - NZIPS | The CAA actively participates in the various TSSD core working groups. During FY2005-06, collaborative work with other transport agencies had started on Strategic Transport Futures, Integrated Approach to Planning, Research and Information and Cross-modal Approach to Safety. With regard to the NZIPS, the CAA's work is ongoing. |
| (e) The development of an effective strategy for communication with the aviation community and the public. | Achieved | The CAA communicates any changes based on the specific requirements of stakeholders. A Communications Strategy was finalised and introduced in July 2006. |
| (f) The implementation of new operational oversight systems on behalf of government agencies (viz. HSE 1992 responsibilities for aviation). | Achieved – HSE Delayed - HASNO | The CAA continues work with the airlines and general aviation sectors on the enforcement of HSE 1992, specifically for aircraft while in operation. The CAA's HSE unit is now operational with 2 FTE. Discussion continues on transferring HASNO 1996 responsibilities for aerodromes to the Department of Labour. |

PROGRESS WITH OUR STRATEGIES

During the past financial year, the CAA implemented, or continued with, five strategies that addressed its strategic objectives and intermediate goals. These strategies are:

Regulatory Oversight Strategy

The enhanced Regulatory Oversight Strategy continued with the CAA's compliance enforcement of the CA Act 1990, the Civil Aviation Rules and HSE 1992 for the aviation sector. Specifically the CAA;

| | |
|---|----------|
| Maintains standards in the development of legislation and exercised discretion in the application of legislative powers; | On-track |
| Performs entry control on demand for organisations and individuals; | On-track |
| Monitors industry safety and security performance through surveillance and implements appropriate remedial action, both pro-active and reactive; | On-track |
| Enforces safety and security performance through surveillance and promotion; | On-track |
| Undertakes law enforcement in the public interest; | On-track |
| Carries-out exit control on non-performance through suspension and revocation of aviation documents; | On-track |
| Makes regulatory decisions appropriately and in accordance with legal requirements set out in legislation and common law; | On-track |
| Carries-out New Zealand's obligations and responsibilities to international civil aviation and international bodies to which New Zealand is a signatory as delegated by the Minister of Transport; | On-track |
| Works with MOT, other government agencies and aviation community to ensure that legislation and rules prevailing on civil aviation are appropriate and current; | On-track |
| Continues to monitor the development of new technology in aviation and ensure that it is updated and appropriate regulations to ensure safety and security are applied such that corresponding risks are managed; and | On-track |
| Ensures that legal and legislative compliance risks are accordingly managed. | On-track |

System Measurement, Monitoring, Analysis and Feedback Strategy

System measurement, monitoring, analysis and feedback were enhanced during the financial year. As such, the CAA was able to:

| | |
|--|----------|
| Identify significant aviation problem areas that were previously not dealt with; | On-track |
| Identify measures for improvement; and | On-track |
| Focus on implementing specific and targeted cost effective solutions. | On-track |

With the implementation of the new aviation safety target groups, the next step for the CAA is to re-classify its historical safety aviation data for comparative data analysis.

The CAA also commenced the Risk Assessment and Intervention Project in 2005 which is designed to develop safety risk measurement methodology of a specific client or risk profiling of a client. This project will enable the CAA to determine the risk level of a specific client and its corresponding effect to an aviation outcome safety target group. The risk analysis will feed into the surveillance process.

Informing and Educating the Aviation Community and the Public Strategy

Informing and educating the aviation community and the public were enhanced. This focused on securing beneficial culture change in the aviation community through the introduction of good safety and security practices. This included:

| | |
|---|----------|
| On-going work on “Just Culture ⁹ ” to the New Zealand aviation community while ensuring that the CAA continues to meet its regulatory obligations; | On-track |
| Inclusion of the ‘responsible industry’ concept in the CAA safety oversight system; | On-track |
| Prompt delivery of safety and educational materials and collaterals; and | On-track |
| Active engagement with the aviation community, the public and other stakeholders when appropriate. | On-track |

Organisational Development Strategy

Organisational development was enhanced to ensure that the CAA maintains a level of capability that meet the dynamic needs of the organisation. It ensured that resources were focused on operations that brought most progress towards the goals of the government and to the CAA.

The CAA focused on:

| | |
|--|----------|
| Improving cost efficiency through the right mix of resource management, productivity and evaluation of costs and charges; | On-track |
| Optimising services and support systems through the development of quality management systems, communication skills and maintenance of its ISO accreditation; | On-track |
| Ensuring that the CAA has the expertise to meet its obligations; | On-track |
| Being flexible in meeting international and national changes to address the needs of its stakeholders; | On-track |
| Proposing effective solutions to improve civil aviation outcomes in the future; | On-track |
| Improving its credibility such that it earns the respect of the aviation community in New Zealand and overseas; | On-track |
| Conducting dialogues with the aviation community and other stakeholders; | On-track |
| Applying results from national and international researches and administrative aviation data analysis on any regulatory changes and other decisions affecting New Zealand aviation; | On-track |
| Acknowledging that its people are its most important asset and that they have a working environment wherein there is collaboration and cooperation. That the CAA Senior Management Team understands their responsibility and accountability. And that integrity, fairness and consistency, and enjoyment at work are qualities that are prevailing in the CAA; and | On-track |
| Ensuring that in people management it does proactive recruitment, performance appraisal, on-going training, secondment within the aviation community and succession planning. | On-track |

⁹ Our perspective on Just Culture is: Development of a Just Culture requires than an organisation rethink its disciplinary policies. For a just culture, human error is not an automatic reason to take disciplinary action; rather, the standard for taking disciplinary action involve the intentional violation of established safe practices and/or conduct that stems from reckless behaviour with disregard for risk. In contrast to a punitive culture, the just culture will recognize that rule violations occur, provide a “just” and therefore safe reporting environment, and further the goal of learning from events.

As set out in the CAA's FY2005-08 SOI, the CAA will have an organisational review wherein it will give the right mix of capability (systems, operating policies and procedures, FTEs) to support its strategies. The review was intended to identify the optimal allocation of appropriate human resources required by the CAA's strategies and ensure a balance in terms of pro-active core business and developmental initiatives. However, the implementation of this review was not achieved during the FY2005-06. Instead, it will be initiated in FY2006-07 and is re-named as the Capability and Resource Review programme.

Internal Knowledge Management Strategy

Internal knowledge management strategy was improved to manage the wealth of aviation information that CAA has. It ensured that its management and information systems meet the changing requirements of the organisation. As such, it implemented the following:

| | |
|---|----------|
| Facilitate interest among staff through in-house trainings of new or current systems; | On-track |
| Review the Document Management System (DMS) and other file management systems; | Delayed |
| Review the Library Management system; and | On-track |
| Develop its Business Information Systems (ASMS) and Intranet (Cirrus). | On-track |

8.5 Progress against our outcome measures

HIGH-LEVEL OUTCOME MEASURE

Definition

The CAA's high-level outcome performance measure is the social cost of accidents per unit of passenger exposure. The measure represents the portfolio outcome of the implementation of strategies, aviation risk initiatives (ARI), special projects action (SPA), capability development projects (CDP) and management of internal and external risks. It is assumed that if the social cost is equal to or lower than the 2010 safety targets, then the CAA has achieved its strategic objectives and intermediate goals.

Social cost of accident per unit of passenger exposure is defined as an economic measure of the cost of accidents to the nation. It assigns a value of statistical life (VOSL) to any deaths, rehabilitation costs from injuries, cost of property damaged or lost in the accident, and other specific external cost. The gross social cost calculated from accidents is pro-rated over the volume of aviation activity in any specified sector of the aviation community. Re-evaluation of the parameters or variables in the calculation of this measure continues.

The volume of aviation activity, the unit of passenger exposure, is per seat flying hour. For target groups that are not predominantly passenger carrying, a surrogate of 500 kg of aircraft weight is assessed as being the equivalent of an occupied seat.

There are thirteen aviation safety outcome target groups (refer to succeeding table) that were identified in early 2005. These groups are distinguished by type of aircraft, weight of the aircraft, and type of operation being carried out. These are further grouped to public air transport, other commercial operations and non-commercial operations.

Social cost of accident per unit of passenger exposure is analysed by aviation safety outcome target groups. This measure was developed to better inform the government, the public and other stakeholders while providing a dollar value on accidents from which the CAA can focus its activities and resources. Consultation with the aviation community and administrative historical aviation safety data were considered in developing social cost targets.

| AVIATION SAFETY OUTCOME TARGET GROUPS ¹⁰ | SOCIAL COST OF ACCIDENT PER UNIT OF PASSENGER EXPOSURE (NZ\$) | | |
|---|---|-----------------------|-----------------------------------|
| | AS AT 30 JUNE 2006 | 2010 TARGETS (< OR =) | PROGRESS AGAINST TARGET |
| PUBLIC AIR TRANSPORT | | | |
| 1. Airline operations – large aeroplanes | 0.03 | 0.10 | Achieved |
| 2. Airline operations – medium aeroplanes | 0.04 | | Achieved |
| 3. Airline operations – small aeroplanes | 0.0 | 6.50 | Achieved |
| 4. Airline operations – helicopters | 0.0 | | Achieved |
| 5. Sport transport | 16.53* | 13.00 | Not yet achieved |
| OTHER COMMERCIAL OPERATIONS | | | |
| 6. Other commercial operations – aeroplane | 21.50 | 6.50 | Not yet achieved |
| 7. Other commercial operations – helicopter | 0.14 | | Achieved |
| 8. Agricultural operations – aeroplane | 327.15 | 14.00 | Not yet achieved |
| 9. Agricultural operations – helicopter | 0.75 | | Achieved |
| 10. Agricultural operations – sport aircraft | Data not available ¹¹ | 28.00 | Data not available for comparison |
| NON-COMMERCIAL OPERATIONS | | | |
| 11. Private operations – aeroplane | 48.77 | 10.00 | Not yet achieved |
| 12. Private operations – helicopter | 464.26 | | Not yet achieved |
| 13. Private operations – sport aviation | 33.81* | 20.00 | Not yet achieved |

*Note: Agreed standard exposure estimates used for calculation.

The most critical areas of concern are that of fixed wing Agricultural (category 8) and Private Helicopter (category 12) operations. Less critical are categories of sport transport (5), other commercial operations (6), private aeroplanes and sport operations (11, 13 respectively). Various work initiatives have started to be implemented to address these categories as set out in the CAA's FY 2006-09 SOI.

It is notable that aviation safety target groups for Public Air Transport Group, is achieving the 2010 target. This group represents more than 96% of total air passenger carriage on the New Zealand fleet.

INTERMEDIATE OUTCOME MEASURES

In its FY2005-08 SOI, the CAA established that aircraft accidents, non-compliance, risk assessment and corrective actions were its intermediate outcome measures. These measures are indicators of the latent safety risk of the aviation community and are factors in determining the social cost of accidents.

The CAA assumes that there is a direct relationship between aircraft accidents per 100,000 flying hours, non-compliance rate, risk assessment level, rate of corrective action implementation and social cost of accidents.

¹⁰ See Glossary for definition of terms.

¹¹ Part 12, Accidents, Incidents and Statistics, excludes collection of data on Agricultural Operations – Sport aircraft. This will be made available subsequent to amendment of Part 12.

Aircraft Accidents

As stipulated in section 2 of the CA Act 1990, "accident" is defined as an occurrence that is associated with the operations of an aircraft in which a person is fatally or seriously injured or the aircraft sustains damage or structural failure, or the aircraft is missing or completely inaccessible.

Measure: Aircraft accident rate are recorded by the number of accidents per 100,000 flight hours (actual as reported)

Target: A decreasing trend in the rate of aircraft accidents

| AVIATION SAFETY OUTCOME TARGET GROUP | AIRCRAFT ACCIDENT RATE PER 100,000 HOURS ¹² | | | | | |
|--|--|--------------|--------------|--------------|------------------------------------|-------------------------------|
| | 30 SEP 05 | 31 DEC 05 | 31 MAR 06 | 30 JUN 06 | 4 QUARTER TREND IN FY2005-06 | PROGRESS AGAINST TARGET |
| PUBLIC AIR TRANSPORT | | | | | | |
| 1. Airline operations – large aeroplanes | 0.22 | 0.22 | 0.22 | 0.22 | Static | On-track |
| 2. Airline operations – medium aeroplanes | 1.89 | 1.87 | 1.72 | 1.86 | Static | On-track |
| 3. Airline operations – small aeroplanes | 10.66 | 7.43 | 5.90 | 4.40 | Decreasing | Achieved |
| 4. Airline operations – helicopters | 3.06 | 2.98 | 2.96 | 2.95 | Static | On-track |
| 5. Sport transport | (Data not available) | | | | | |
| OTHER COMMERCIAL OPERATIONS | | | | | | |
| 6. Other commercial operations – aeroplane | 3.80 | 3.71 | 3.68 | 4.27 | Slightly Increasing | Not achieved |
| 7. Other commercial operations – helicopter | 6.08 | 8.90 | 8.84 | 11.72 | Increasing | Not achieved |
| 8. Agricultural operations – aeroplane | 17.52 | 19.53 | 16.97 | 12.05 | Decreasing | Achieved |
| 9. Agricultural operations – helicopter | 10.90 | 7.09 | 5.28 | 10.50 | Erratic | Not achieved |
| 10. Agricultural operations – sport aircraft | (Data not available) | | | | | |
| NON-COMMERCIAL OPERATIONS | | | | | | |
| 11. Private operations – aeroplane | 33.12 | 25.84 | 19.25 | 19.14 | Decreasing | Achieved |
| 12. Private operations – helicopter | 37.47 | 54.81 | 66.53 | 54.14 | Erratic | Not achieved |
| 13. Private operations – sport aviation | (Data not available) | | | | | |

Note: On-track means that during the 4 quarters of FY2005-06, aircraft accident rates have a static trend but still on-track compared to the performance target.

Category 9 and 12 (Agricultural and Private helicopter operations respectively) registered an erratic trend during the four quarters of FY2005-06. Category 6 and 7 are increasing slightly during the four quarters of FY2005-06 due to the decrease in the number of total flight hours logged by these categories rather than in the number of accidents that occurred during the period.

¹² Year-to-date data

NON-COMPLIANCE

A surveillance finding is defined as “the act of identifying and concluding from objective evidence, a failure by a person or organisation to comply with a specified standard or a condition attached to an aviation document”.

Non-compliance means failure to comply with Civil Aviation Rule, or a condition attached to an aviation document.

Measure: The median level of non-compliance detected during entry, audit, and safety investigation weighted for severity and divided by routine CAA audit hours as a measure of “organisational size” and calculated across all document holders.

Target: A decreasing trend (consistently negative variance) in the weighted level of detected non-compliance with aviation legislative requirements.

| PERIOD (FINANCIAL YEAR) | NON-COMPLIANCE INDEX | % inc/(dec) compared to previous year | PROGRESS AGAINST TARGET |
|-------------------------|----------------------|---------------------------------------|--|
| 2005-06 | 23.44 | (37.84) | Erratic trend since FY1997-98 but target achieved this FY2005-06. Collectively, there is an overall higher compliance level among document holders this FY. |
| 2004-05 | 37.71 | +43.38 | |
| 2003-04 | 26.30 | +15.25 | |
| 2002-03 | 22.82 | (11.69) | |
| 2001-02 | 25.84 | +76.02 | |
| 2000-01 | 14.68 | (27.07) | |
| 1999-00 | 20.13 | (35.27) | |
| 1998-99 | 31.10 | +38.10 | |
| 1997-98 | 22.52 | - | |

Risk Assessment

CAA assesses the risk associated with an aviation activity in terms of the probability of failure and the consequences of failure.

Measure: The median level of risk assessment results triggered by standard changes detected through or consequent to entry, audit, and safety investigation or from other information.

Target: Less than or equal to a risk assessment level of 25.0 for it to be considered low risk.

| AVIATION SECTOR | RISK ASSESSMENT LEVEL ¹³ | | | | | PROGRESS AGAINST TARGET |
|------------------|-------------------------------------|-----------|-----------|-----------|--------------|---|
| | 30 SEP 05 | 31 DEC 05 | 31 MAR 06 | 30 JUN 06 | TARGET < / = | |
| Airline | 25.25 | 23.00 | 23.33 | 23.07 | 25.0 | Achieved |
| General aviation | 24.23 | 23.45 | 22.21 | 22.47 | 25.0 | The safety risk for most document holders is below the level at which the CAA would take specific intervention. |

¹³ Year-to-date data

CORRECTIVE ACTIONS

The CAA conducts functional supervision of participants operating in the civil aviation system through the checking of their adherence to civil aviation rules and any corrective actions are identified to bring the performance of an aviation document holder to the standards required. The checking part is the CAA's surveillance function.

Surveillance findings are identified according to their severity, viz. critical, major or minor. The finding is:

- Critical: if an occurrence or deficiency that caused, or on its own had the potential to cause loss of life or limb;
- Major: if an occurrence or deficiency involving a major system that caused, or had the potential to cause, significant problems to the function or effectiveness of that system; and
- Minor: if an isolated occurrence or deficiency not indicative of a significant system problem.

Measure: Rate of implementation of corrective actions identified in CAA audit reports.

| SEVERITY OF CORRECTIVE ACTIONS' IMPLEMENTED AT DUE DATES | PERCENTAGE OF CORRECTIVE ACTIONS IMPLEMENTED AT DUE DATES | | |
|--|---|--------|--|
| | AS AT 30 JUNE 2006 | TARGET | PROGRESS AGAINST TARGET |
| Critical actions implemented by due date | 25% | 100% | Comparative results are not conclusive due to erroneous recording of data in the CAA data base system. |
| Major actions implemented by due date | 23% | 80% | |
| Minor actions implemented by due date | 28% | 70% | |

The measure shows a low level of performance or unachievement of targets. This is because the prevailing corrective action status systems and data management procedures produced anomalous results. For example, all (100%) of the critical actions were actually implemented but notification was received or recorded late. A similar situation existed with major and minor corrective actions. Manual analysis yielded an overall respective 97.4% and 99.5% closure rate by the end of the period.

The manner in which the data are collected and entered in the database have been put under considerable scrutiny during the period. As a result, a number of changes in the database systems have been implemented to ensure that actions are promptly and accurately recorded in CAA database and users promptly notify the CAA of its implementation. This is expected to make a significant difference in the management of corrective actions in the aviation community and accurate results are expected in FY2006-07.

Further targets for corrective actions, regardless of severity, is 100% implementation at due dates effective 01 July 2007 (reflected in the CAA's FY2006-09 SOI).

8.6 Progress with our work programmes

In addition to the strategies identified, the CAA has listed aviation risk initiatives (ARI), special projects action (SPA) and organisational risks that it would do in FY2005-06. Following is a report on its progress.

PROGRESS WITH OUR AVIATION RISK INTERVENTIONS (ARI)

The CAA has listed the non-routine application of resources intended to affect a specific change in operations in a defined part of the aviation community – Aviation Risk Interventions. This work is an integral part of the CAA's safety approach.

| AVIATION RISK INTERVENTIONS | DESCRIPTION | ACTIONS UNDERTAKEN | OBJECTIVE | PROGRESS AGAINST OBJECTIVE |
|---------------------------------|--|--|---|----------------------------|
| Non-performing industry sectors | The safety targets for commercial heavy twin engine aircraft and helicopters are not being met or are not likely to be met without additional intervention. | Specific operational ARI to address non-performing sectors are currently being done. This project is continued in FY 2006-07 where 11 ARI are implemented according to social cost performance of safety target groups against the 2010 safety targets. | To achieve the 2010 safety targets in each of the categories. | On-track |
| Standards of airworthiness | Standards of general aviation sector aircraft airworthiness are unacceptably low. | Development projects on airworthiness include: general aviation airworthiness project; development and provision of targeted maintenance, engineering and re-currency courses; maintenance controllers training, ACAG/ TSG consultation; and implementation of Safety Forum Results. | To raise the standard of airworthiness in the general aviation sector to acceptable levels. | On-track |
| Aging aircraft | Growing fleet of aging aircraft in the register are being used on air transport operations, e.g. turbojet and turboprop, beyond their originally planned design life of typically 20 to 25 years and up to 90,000 flights. There is an increasing concern that this gives rise to an unacceptable level of latent safety risk. | Identified aircraft where risk is present and implemented appropriate mitigations to address risk, such as: harmonisation with international standards on the maintenance of aging aircraft and codification of aging aircraft maintenance requirements into civil aviation rules. | To remove the latent safety risks posed by aging aircraft. | On-track |

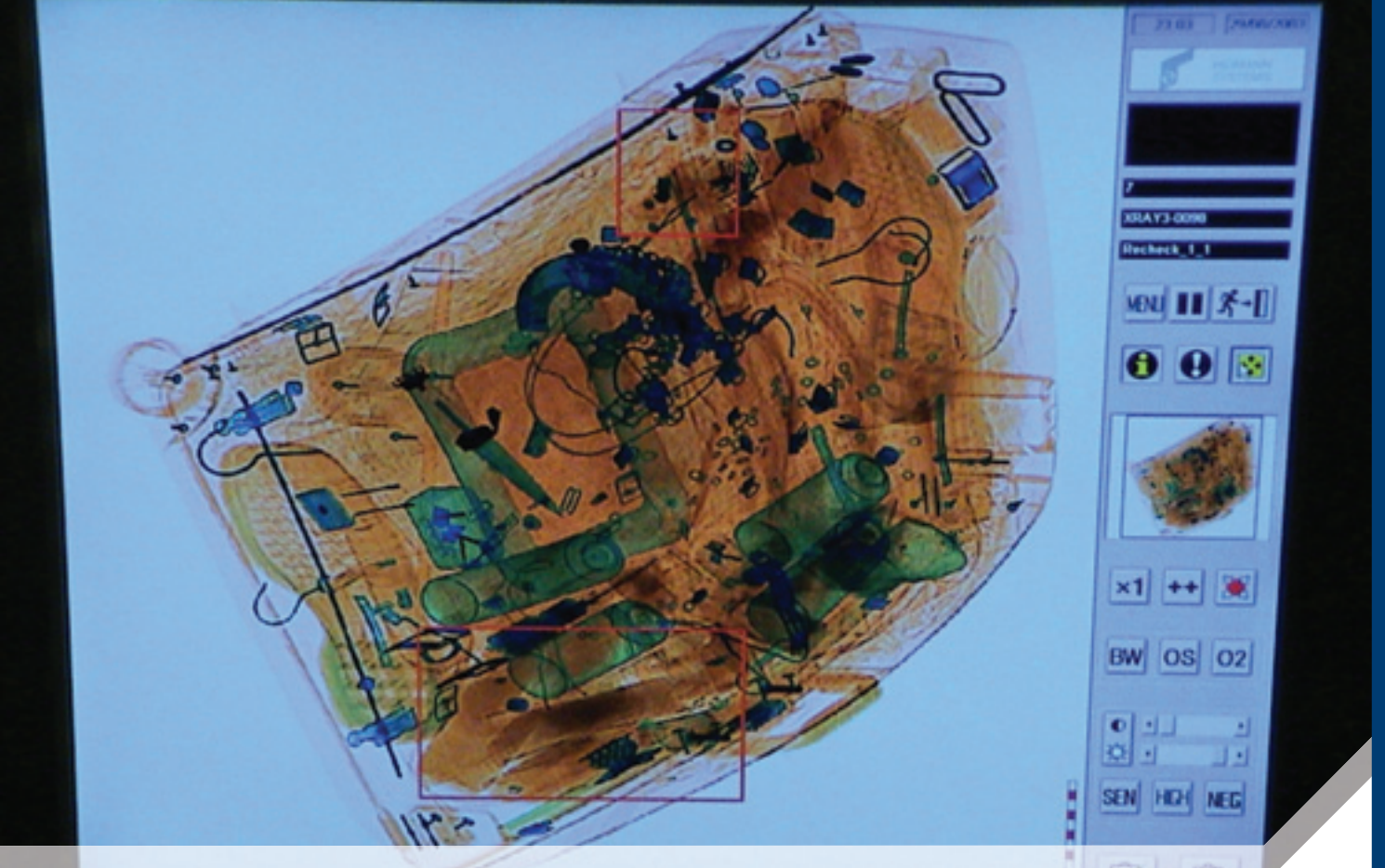
| AVIATION RISK INTERVENTIONS | DESCRIPTION | ACTIONS UNDERTAKEN | OBJECTIVE | PROGRESS AGAINST OBJECTIVE |
|---|---|---|---|----------------------------|
| Commercial sport and recreation operations | The increasing use of sport and recreation aircraft for the carriage of passengers or goods for hire or reward poses significant safety risk. | Development of Part 115 (adventure aviation rules). | To ensure that the safety risk in the sector is minimised through the implementation of appropriate regulation. | On-track |
| High technology sport and recreation aircraft | The introduction of high performance sport and recreation aircraft, using leading edge technology, is dramatically increasing in popularity. These aircraft pose a new area of safety risk. | Assessed and evaluated safety risks introduced by these aircraft and recommended regulations to the development of Part 115. | To ensure adequate management of high technology sport and recreation aircraft. | On-track |
| Industry skills | The skills and experience of people in the aviation community is declining. | Beginning FY 2006-07, the CAA will monitor the technical capacity of aviation workforce in New Zealand. In case of a critical (continuous decline) status, the CAA will consult with the government and other organisations (e.g. Dept. of Labour, Tertiary Education Commission, Aviation Tourism and Travel Training Organisation) for alternatives in the recruitment of skilled aviation workforce. | To successfully assist in raising skills and experience levels throughout the aviation community. | On-track |

| SPECIAL PROJECTS ACTION | DESCRIPTION | ACTIONS UNDERTAKEN | OBJECTIVE | PROGRESS AGAINST OBJECTIVE |
|-----------------------------------|--|--|---|-----------------------------------|
| International role of CAA | The CAA's current obligations with respect to providing functions for foreign civil aviation regulatory authorities are unclear. | The CAA is working with MOT, MFAT and other agencies to develop a strategy for engagement with Pacific Island states. | To ensure that the CAA and government has a clear understanding of the CAA's obligations with respect to foreign civil aviation regulatory authorities. | On-track |
| Stakeholder relationships | The CAA's policy on interaction and consultation with stakeholders needs updating. | Reviewed the existing documentation regarding the Rules Review System. Compiled new consultation policies and informed internal and external stakeholders. | An improved relationship with stakeholders. | On-track |
| Corporate risk management | The continued development and application of business risk assessment methodologies to ensure minimal CAA business risk. | Reviewed business risk management culture within the CAA and evaluated potential measurement and reporting systems. Selection and implementation of preferred system expected later in 2006. | To manage CAA business risk at defined levels. | On-track |
| Rules development and maintenance | The CAA contracts with the MOT to undertake civil aviation rules development program. The Rules development work is an integral part of the CAA regulatory role. | Prepared a program of rules development and negotiated these with MOT. The recently completed procedures for consultation with stakeholders were implemented as part of the process. | To ensure that Rules are current, applicable and provide demonstrable impact on aviation safety risk. | On-track |

PROGRESS WITH MANAGING OUR ORGANISATIONAL RISKS

| ORGANISATIONAL RISKS | DESCRIPTION | ACTIONS UNDERTAKEN | OBJECTIVE | PROGRESS AGAINST OBJECTIVE |
|----------------------|--|---|--|----------------------------|
| Financial | The CAA is heavily dependent on the revenue from passenger safety levy imposed on domestic and international operators through the Civil Aviation Charges Regulations. In recent years this income has been at risk due to security and health episodes and there have also been fluctuations in the flow of income due to changing external tourism and business factors. The CAA has no control over these fluctuations. | A Capability and Resource Review to identify reliable alternative sources of funding and other capability requirements will commence in FY 2006-07. | To ensure that our finances and organisational structure are properly managed. | Delayed |
| Plant and equipment | In late 2003, the CAA shifted its offices to rented premises on the Petone foreshore. This location is a reasonable compromise between cost and accessibility to staff and visitors. The lease for the current premises will expire in 2009. The building offers a good working environment and provides a marginal space for any necessary expansion in staff numbers. | Any necessary action on buildings, plant and equipment will be considered in the Capability and Resource Review in FY 2006-07. | To optimise (maximise usage and minimise cost) usage of plant and equipment. | Delayed |

| ORGANISATIONAL RISKS | DESCRIPTION | ACTIONS UNDERTAKEN | OBJECTIVE | PROGRESS AGAINST OBJECTIVE |
|---------------------------|--|---|---|----------------------------|
| Personnel | Due to the nature of the CAA's operations, its people have been traditionally drawn from the more experienced and older part of the aviation community. This poses issues of turnover and succession. A significant issue is the CAA's inability to attract specialist staff from an international pool of expertise due to strong recruitment competition. As a result, there are times when the CAA does not have full-compliment of experienced staff it needs. | <p>The CAA has started to monitor the number of applicants for each vacancy and the length of time it takes to hire the right person for the position.</p> <p>An internal review of the CAA's organisational structure was completed and implementation of recommended actions will take place before 2007.</p> | To ensure that we have the right mix and expertise of staff such that our work will not be delayed. | On-track |
| Governance and management | The CAA's management structure remains stable with a focus on each of the aviation sectors. | <p>Collaborative planning is being undertaken between the Board, MOT and the Senior Management Team of the CAA on a regular basis.</p> <p>Audit NZ regularly audits CAA's financial and non-financial management and reporting systems.</p> | To ensure excellence in governance and management. | On-track |



Part 2: Aviation Security Service

Kaiwhakamaru Rererangi



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9. Foreword from the General Manager of Avsec

Introduction

At the outset I wish to acknowledge the significant contribution that management and staff have made to the organisation over the past twelve months.

Avsec is operating in an increasingly complex and changing environment since 11 September 2001, and the introduction of hold baggage screening, has seen our staff numbers increase from about 180 to around 700 in mid 2006.

Public expectation requires our staff to maintain a very high standard of professionalism and discipline in their tasks, quality management, training, responsiveness, adaptability and general focus.

The ongoing rapid staff increase has placed pressure on all facets of people management over the last year, and I am very privileged in having a dedicated and committed team of people across the organisation who have responded in a very professional and focused manner in undertaking their tasks.

Ongoing Threats to Aviation

The events of 11 September 2001, and their aftermath, continue to impact significantly on international and domestic aviation, both in terms of security and viability.

The reality of this situation was again evidenced post 30 June 2006 with the thwarted attempt by terrorists to attack trans-Atlantic flights. This incident had significant repercussions for Avsec and airlines, as United States bound air-carriers were subject to new security measures within hours of the plot being made public.

Substantial changes to international aviation security practices have already been implemented. However to effectively detect and deter terrorism the aviation industry must always strive to remain several steps ahead of new terrorism trends and tactics and to adopt policies and procedures accordingly.

Avsec is very strategic in its planning. It is also very proactive and responsive in devising and implementing

operational measures that, significantly address emerging security threats.

Human Resources and Capability Development

Avsec has experienced a significant increase in staff over recent years as it implemented new aviation security measures. This growth has tested the organisation's resources and in particular its ability to recruit and retain personnel in a competitive market, especially in Auckland. The organisation has responded proactively to these issues over the last twelve months, including the following action and initiatives:

- Appointment of a major recruitment agency using bulk recruitment techniques;
- Adopting a different approach to recruitment advertising;
- Introducing psychometric testing for screeners and officers into the bulk recruitment process;
- Providing remuneration parity with employees in like agencies;
- Reviewing the organisation structure to facilitate improved efficiencies, communications, responsibilities and accountabilities; and
- A review of the organisation's training processes.

The 'people' side of the business will continue to be a major focus of attention over the coming years as Avsec continues to develop leadership concepts and seeks to have pragmatic leadership demonstrated at all levels of the organisation. This will require proactive and strategic planning to meet further anticipated growth with the introduction of new aviation security measures.

We remain committed to ensuring our people undertake their responsibilities in a professional, disciplined and efficient manner, enhancing individual capacity.

Hold Baggage Screening

The most significant activity for Avsec during the 2005-06 financial year was the implementation of Hold Baggage Screening (HBS) for all international services from 1 January 2006. This security measure was mandated from this date

by the International Civil Aviation Organisation (ICAO) Annex 17 document.

This significant project had a major impact on the organisation in terms of procurement of equipment, recruitment of new personal, staff training and in ensuring our policies, procedures and processes were fully documented and in place. The project also had a significant impact on airport companies as they provided reconfigured terminal space for the HBS equipment.

I am very pleased to report that HBS screening was successfully up and running at all New Zealand international airports, with minimal disruption to airport companies, airlines and passengers, by 1 January 2006.

Pacific Activity

An element of Avsec's approach to the management of New Zealand's aviation security risks involves aviation security training and equipment assistance to certain States in the South Pacific. Such activity is generally funded through the Ministry of Foreign Affairs and Trade (MFAT) Pacific Security Fund (PSF).

During 2005-06 Avsec was sponsor for seven PSF projects which included the development of aviation security training at our Auckland training centre, and the installation of security equipment at various Pacific airports, in particular support to ensure HBS met the 1 January 2006 deadline.

Any under-performance or failure of the foreign aviation security agencies and airlines in the South Pacific represents a very real threat to the management of New Zealand aviation security risk because of their proximity to New Zealand and direct links to New Zealand's three main airports.

The services we continue to provide to South Pacific countries assist them to achieve compliance with the aviation security requirements set by their own regulators, the US Department of Homeland Security, the New Zealand CAA and the Australian Department of Transport and Regional Services.

Quality Processes and Risk Management Strategies

Avsec is certificated under Civil Aviation Rules Parts 140 and 141, and is also ISO certificated under ISO standard 9001:2000 quality management systems.

The organisation is committed to conducting its business

based on a quality management systems approach. A key objective during 2005-06 was to focus on applying the philosophy of continual quality improvement across all of our activities.

This was achieved through a comprehensive internal audit programme across the whole organisation, maintaining our ISO 9001: 2000 quality management systems certification and the ongoing surveillance audit programme conducted by the CAA.

In addition, Avsec's exposition documentation has been reviewed and is subject to an on going process of updating and revision to better reflect the needs of a large organisation which has undergone significant growth in both its size and range of responsibilities.

Avsec is also much focused on risk analysis and risk management processes. The organisation has developed a comprehensive National risk management profile and this is being extended to airport locations. Our risk management profile enables us to identify current risks and mitigation measures. It is an important planning tool in our business planning process.

Financial Result for the Year

Avsec has successfully managed its budgeted deficit position for FY2005-06. The actual result was a deficit of \$717,000 compared to a budgeted deficit of \$1,565,000, a favourable outcome of \$848,000.

We also report that a net capital repayment of \$1,639,000 was made to the Crown during the year.

Benchmarking

I am pleased to report that we initiated a reciprocal relationship with our counterpart aviation security organisation in Canada, the Canadian Air Transport Security Authority (CATSA).

CATSA is a Crown entity responsible for the provision of special aviation security service in Canada and is highly respected internationally.

Two of our executive management team recently visited CATSA and have reported very favourably on CATSA's professional approach to aviation security. Both our organisations acknowledge that the exchanging of knowledge will be to our mutual benefit and we are in the process of cementing the relationship further. In particular we are keen to benchmark our performance



against CATSA and exchange ideas that will enhance New Zealand's aviation security.

Our Stakeholders

Avsec is very focused on providing excellent service to all stakeholders. In particular all our decisions are aimed at the ultimate objective of providing safe and secure air transport and for the public to have 100% confidence in the security of New Zealand civil aviation.

Our aim is to ensure that in the event of a security event our response is such that there is minimal disruption to the public, airlines and airports. Disruptions to airline schedules represent substantial lost income to airlines and airports in particular and as an organisation it is essential that services are restored promptly and that public safety is assured.

We are mindful that many new security measures, such as Hold Baggage Screening introduced during 2005-06, impacted heavily on airport companies, especially through the planning and implementation phases and we are pleased to have had their support and goodwill, throughout New Zealand, in meeting a very stringent international deadline.

We also acknowledge our relationship with airlines, through the Board of Airlines Representatives in New Zealand (BARNZ). Our operating costs are substantially met through a levy on airlines based on the numbers of fare paying passengers and we will continue to deliver our overall services in a most cost effective manner. We will also continue to consult with airlines, particularly BARNZ, regarding any proposed changes in the extent, quality and price of our service and developments in aviation security services in New Zealand.

Our Board

In closing I would like to thank the Chairman and the Board Members for their dedication, hard-work, support and their pragmatic advice and input, all of which has contributed in making Avsec a leading and respected organisation both in New Zealand and internationally.

MARK T EVERITT
General Manager

10. Overview of Avsec

10.1 Who we are

The Aviation Security Service (Avsec) is a separate service of the Civil Aviation Authority of New Zealand (the Authority).

The Authority was established under the CA Act 1990 (CA Act 1990) as a Crown entity on 10 August 1992. It has a five member board, appointed for terms up to three years and it reports to the Minister of Transport.

Avsec carries out the Authority's obligations to provide an aviation security service pursuant to the Act. Avsec is required to perform its functions separate from the CAA regulatory organisation, through its own General Manager, including the maintenance of separate accounts, records and reports.

The functions and duties of Avsec are set out in Section 80 of the CA Act 1990. In addition, the Maritime Security Act 2004 (MSA 2004) provides the Minister with the power to designate Avsec as a Maritime Security Organisation.

Avsec is an operational unit of almost 700 full-time and part-time employees. It operates at eight New Zealand airports and has a small National Office based in Wellington.

10.2 Our functions

- Carry out passenger and baggage screening of all international aircraft passenger services and domestic passenger services (aircraft of 90+ seats) and of such other services where the service or the screening is judged advisable by the Director and, where necessary, to undertake searches of passengers, baggage, cargo, aircraft, aerodromes, and navigation installations;
- Carry out aerodrome security patrols and patrols of navigation installations;
- Review, inquire into, and keep itself informed on security techniques, systems, devices, practices, and procedures related to the protection of civil aviation and persons employed in or using it;
- Undertake, encourage or supervise such experimental or research work in respect of any aspect of aviation security as the Director may specify;
- For the purpose of better carrying out any of its functions under the Act, to co-operate with the Police, Government Departments, airport authorities, operators, and authorities administering the airport security services of other countries, and with any appropriate international organisation;
- Provide security support services to the Police when requested by the Commissioner of Police, but only subject to the following conditions:
 - i. The Commissioner of Police is satisfied that the provision of those services to the New Zealand Police is necessary to carry out its security duties; and
 - ii. Avsec is satisfied that the provision of those services to the New Zealand Police will not compromise aviation security.
- Co-operate with, or to provide advice to, any government agency or local government agency when requested to do so by the Minister, but only if the Minister and Avsec are satisfied that the performance of the functions and duties of Avsec will not be compromised;
- Exercise and perform such other functions and duties as may be conferred upon it by any enactment. (Section 80 of the CA Act 1990);
- Perform the function of a Maritime Security Organisation in a high level threat situation at a New Zealand port.
- Control access and prevent unauthorised entry to security areas on aerodromes and navigation installations and maintain a constant response to remove from such areas any unauthorised persons who enter therein, and maintain vigilance to ensure the security and safety of all persons using the aerodromes or navigation installations;
- Operate the National Airport Identity Card System and maintain the database pertaining to it;
- Carry out such other security services as may be requested by airline operators; and
- Collect evaluate and analyse information which may be potentially significant to aviation security planning.

10.3 Our vision

The Aviation Security Service will be a recognised leader in the provision of aviation security expertise, with the capability to provide specialist security services to governments.

10.4 Our mission

To improve the safety of aviation by the application of specific security measures.

10.5 Our stakeholders

Avsec is mindful that in undertaking its activities there are important stakeholders who have an interest in civil aviation safety and security:

- The Minister and Government who require good advice, value for money, support and contribution to achieving the New Zealand Transport Sector (NZTS) objectives and development goals for the State Service sector and the comfort that Avsec is fulfilling its statutory functions;
- The flying public who want safe and secure air transport;
- The public at large who want to have confidence in New Zealand civil aviation;
- Our employees who want meaningful employment;
- Commercial enterprises that depend on reliable and efficient air transport;
- The civil aviation community, which wants appropriate and equitable regulation and security services; and
- International organisations and State aviation authorities (especially those in the Pacific) who want responsible technical and regulatory interaction and assistance.



10.6 Our funding

| OUTPUT CLASS | OUTPUT | SOURCE OF FUNDING |
|----------------------------|---|--|
| AVIATION SECURITY SERVICES | Prevention of in-flight security incidents; Prevention of airside security incidents; and Dangerous goods screening. | Regulated levies on airlines based on passenger numbers and charges for additional aviation security activities that are in addition to the core function. |
| MARITIME SECURITY SERVICES | Maritime security | Crown appropriation – Vote Transport (Non-departmental Output Class "Maritime Security"). |

| AVSEC REVENUE | FY2005-06 ACTUAL (\$000) | % | AVSEC EXPENDITURE | FY2005-06 ACTUAL (\$000) | % |
|---|-----------------------------|-------------|--------------------------|-----------------------------|-------------|
| Levies | 40,911 | 88.6 | Personnel | 35,370 | 75.4 |
| Fees, charges and other contracted services | 3,927 | 8.5 | Capital charges | 1,594 | 3.4 |
| Crown funding | 132 | 0.3 | Depreciation | 3,188 | 6.8 |
| Interest | 1,183 | 2.6 | Operating | 6,718 | 14.4 |
| TOTAL REVENUE | \$46,153 | 100% | TOTAL EXPENDITURE | \$46,870 | 100% |

10.7 Our strategic and intermediate goals 2005-06

| STRATEGIC GOALS | | INTERMEDIATE GOALS |
|-----------------|---|--|
| (a) | <p>Avsec Quality</p> <p><i>Avsec delivers best practice world standard aviation security</i></p> | <ul style="list-style-type: none"> • Avsec's quality framework is in place and working effectively, strategically and operationally; • Avsec's quality and training strategies are well aligned with its operation; and • Avsec has in place a measurable and relevant benchmarking system that assists it in delivering a quality service. |
| (b) | <p>Avsec Strategic Staffing</p> <p><i>Avsec attracts, identifies and retains capable people</i></p> | <ul style="list-style-type: none"> • Avsec has appropriate skilled, trained and satisfied staff in the right place at the right time; • Avsec has an effective strategic human resource planning process; and • Avsec's human resource management policies support and facilitate its future development. |
| (c) | <p>Avsec Risk Management</p> <p><i>Effective, consistent and co-ordinated risk management frameworks are in place across Avsec</i></p> | <ul style="list-style-type: none"> • Avsec's has risk management strategies in place (operational, legislative, and personnel) and anticipates and mitigates risks before they occur. |
| (d) | <p>Avsec Stakeholder Relationships</p> <p><i>Avsec works co-operatively with its partners</i></p> | <ul style="list-style-type: none"> • Avsec's consultative structures work effectively whereby it anticipates issues and change by working with its stakeholders at a strategic level. |
| (e) | <p>Avsec Communications</p> <p><i>Avsec implements communication systems that support its strategic goals</i></p> | <ul style="list-style-type: none"> • Avsec works within an effective, pro active communications strategy that is structured and focused domestically and internationally. |
| (f) | <p>Application of New Zealand Transport Strategy</p> <p><i>Avsec's contribution to the NZ Transport Strategy enhances the services that Avsec delivers</i></p> | <ul style="list-style-type: none"> • Avsec demonstrates to key stakeholders that its NZTS focus enhances the management of aviation security risks |

10.8 Our major challenges during 2005-06

- (1) Rapid change within the aviation environment has resulted in a considerable expansion of Avsec's mandate and operations and in turn the expectation from stakeholders has increased. The changes have challenged the organisation in meeting very tight time-lines and in ensuring that the required resources and competencies have been available as and when required.
- (2) Following the events of 11 September 2001, ICAO Annex 17 mandated full implementation of 100 percent Hold Baggage Screening (HBS) of all international departures from 1 January 2006. This move to enhance hold baggage screening requirements has had substantial resource implications for Avsec, in terms of equipment, staffing and finances.
- (3) Avsec continues to be exposed to the financial risks associated with funding being linked to passenger traffic. Avsec management is conscious of this risk and continues to maintain and manage its financial structure commensurate with the financial risk. Passenger and revenue trends are closely monitored and adjustments to resources are made where appropriate to reflect any downward trend in revenue.
- (4) The changing international aviation threat requires Avsec to be constantly planning ahead and developing

scenario plans in anticipation of new security requirements and legislative changes.

- (5) A significant challenge during the year has involved the retention and recruitment of operational staff, especially in the Auckland area. The rapid staff increase to date has placed pressure on all facets of people management. Anticipated future growth in staff numbers will place still further expectations, and associated risks, on this resource. To counter the increased risk Avsec is strongly focused on capability development.

10.9 Our major accomplishments during 2005-06

- (1) Hold Baggage Screening (HBS) was fully implemented at all international airports in New Zealand by 1 January 2006. This significant project was completed with only minor problems. Critical milestones were met and there is general acknowledgment from key stakeholders that the process and outcome have been highly successful.
- (2) Avsec has successfully managed its budgeted deficit position for 2005-06. The actual result was a deficit of \$717,000 compared to a budgeted deficit of \$1,565,000, a favourable variance of \$848,000.
- (3) Avsec has embraced the goals and direction of the NZTS in its strategic and business planning processes. It has also continued to be actively involved in contributing to the development of the next Transport Sector Strategic Directions (TSSD) document. The first document was released in December 2005 and the next review document is due in November 2006.
- (4) Avsec has continued to contribute to assisting Pacific Island countries in the sustainable development of their aviation security services (the activity is primarily funded through the Ministry of Foreign Affairs and Trade Pacific Security Fund).
- (5) Avsec has developed and implemented a formal risk management plan, modelled on Risk Management Standard AS/NZ 4360:2004. The plan focuses on both external (operations and legislative) and internal (predominantly personnel related) risks arising from the rapid organisational growth of the organisation. The risk plan also identifies key mitigation strategies which are incorporated in the business planning process.
- (6) During the year Avsec initiated a reciprocal industry relationship with its Canadian counterpart, CATSA. It is intended to further develop this relationship over coming months with a view to benchmarking against the organisations. Both organisations are Crown Entities, both have similar core functions, with an emphasis on delivery of quality services, and both are willing to share information.
- (7) In December 2004 an Independent Review of Avsec's activities was undertaken by Rutherford and Sloan. In the past 18 months 73 of the 86 recommendations have been completed, ten are close to completion and three were not proceeded with as Avsec decided to not adopt the recommendations.
- (8) During the year there were no in-flight or airside security incidents or incidents involving dangerous goods on board aircraft that had been screened by Avsec.
- (9) Senior staff continued to provide input into the new draft aviation security legislation to the Ministry of Transport and the Civil Aviation Authority. The Bill is expected to be introduced into the House in late 2006, for implementation by mid 2007.

11. Progress with our Outcomes and Strategic Goals

11.1 Progress against our outcome measures

NUMBER OF IN-FLIGHT SECURITY INCIDENTS

| PERFORMANCE TARGET: To achieve a nil rate of in-flight security incidents involving offences against the Aviation Crimes Act 1972 on board aircraft which have been screened by the Aviation Security Service. | | | | |
|---|------------------------------|------------------|----------------------------|------------------|
| MEASURE: Number of in-flight security incidents | | | | |
| FY2005-06 ACTUAL | FY2004-05 ACTUAL | FY2005-06 TARGET | % inc/dec FY2005-06 vs. | |
| | | | TARGET | FY2004-05 ACTUAL |
| Nil | Nil | Nil | - | - |
| PROGRESS AGAINST TARGET | Achieved performance target. | | | |

NUMBER OF AIRSIDE SECURITY INCIDENTS

| PERFORMANCE TARGET: To achieve a nil rate of airside incidents involving offences against the Aviation Crimes Act 1972 on board aircraft which have been screened by the Aviation Security Service. | | | | |
|--|------------------------------|------------------|----------------------------|------------------|
| MEASURE: Number of airside security incidents | | | | |
| FY2005-06 ACTUAL | FY2004-05 ACTUAL | FY2005-06 TARGET | % inc/dec FY2005-06 vs. | |
| | | | TARGET | FY2004-05 ACTUAL |
| Nil | Nil | Nil | - | - |
| PROGRESS AGAINST TARGET | Achieved performance target. | | | |

NUMBER OF INCIDENTS INVOLVING DANGEROUS GOODS

| PERFORMANCE TARGET: To achieve a nil rate of incidents involving the introduction of dangerous goods into aircraft that have been screened by the Aviation Security Service. | | | | |
|---|------------------------------|------------------|----------------------------|------------------|
| MEASURE: Number of incidents involving dangerous goods. | | | | |
| FY2005-06 ACTUAL | FY2004-05 ACTUAL | FY2005-06 TARGET | % inc/dec FY2005-06 vs. | |
| | | | TARGET | FY2004-05 ACTUAL |
| Nil | Nil | Nil | - | - |
| PROGRESS AGAINST TARGET | Achieved performance target. | | | |

11.2 Progress with our strategic and intermediate goals

AVSEC QUALITY GOAL: *AVSEC DELIVERS BEST PRACTICE, WORLD STANDARD AVIATION SECURITY.*

| INTERMEDIATE GOALS | PROGRESS REPORT |
|---|---|
| <ul style="list-style-type: none"> Avsec's quality framework is in place and working effectively, strategically and operationally. | <ul style="list-style-type: none"> Review of Avsec's quality programme completed. Review of Avsec's quality framework completed. Progress is underway to implement changes arising from the quality programme review. Review of Avsec's Explosive Detector Dog Unit policies and procedures, and alignment with Avsec broader strategies completed. |
| <ul style="list-style-type: none"> Avsec quality and training strategies are well aligned with its operation. | <ul style="list-style-type: none"> Review of Avsec's mix of quality and training functions, resources and structure completed. Progress is underway to implement changes arising from the training review. Development and implementation of certification standards for Hold Baggage Screening operators completed. |
| <ul style="list-style-type: none"> Avsec has in place a measurable and relevant benchmarking system that assists it in delivering a quality service. | <ul style="list-style-type: none"> A reciprocal industry relationship has been progressed with Avsec's Canadian counterpart, CATSA. It is intended to further develop this relationship during 2006-07 with a view to benchmarking against the organisation and sharing information. |

AVSEC STRATEGIC STAFFING GOAL: *AVSEC ATTRACTS, IDENTIFIES AND RETAINS CAPABLE PEOPLE.*

| INTERMEDIATE GOALS | PROGRESS REPORT |
|--|--|
| <ul style="list-style-type: none"> Avsec has appropriate skilled, trained and satisfied staff in the right place at the right time. | <ul style="list-style-type: none"> The recruitment and training of Hold Baggage Screening operators and additional Explosive Detector Dog handlers in all stations completed. Implementation of a Screener occupational class in Auckland completed. Review of Avsec's specialist resource support requirements completed. |
| <ul style="list-style-type: none"> Avsec has an effective strategic human resource planning process. | <ul style="list-style-type: none"> Review of Avsec's succession planning framework completed and changes implemented. Review of Avsec's technology/people mix and supporting strategy completed. |
| <ul style="list-style-type: none"> Avsec's human resource management policies support and facilitate its future development. | <ul style="list-style-type: none"> Strategy completed for negotiations for the new Collective Agreement, to be negotiated early 2006-07. Review of Avsec's management training programmes progressed with implementation of changes to occur mid 2006-07. Development and implementation of a recruitment communication strategy completed. Review of Avsec's performance management and development programmes, and implementation of changes progressed with completion rescheduled for mid 2006-07. |

AVSEC RISK MANAGEMENT GOAL: *EFFECTIVE, CONSISTENT AND CO-ORDINATED RISK MANAGEMENT FRAMEWORKS ARE IN PLACE ACROSS AVSEC.*

| INTERMEDIATE GOAL | PROGRESS REPORT |
|--|---|
| <ul style="list-style-type: none"> Avsec has risk management strategies in place (operational, legislative, and personnel) and anticipates and mitigates risks before they occur. | <ul style="list-style-type: none"> Development and implementation of programme for ongoing legislative compliance monitoring completed. Review and redesign of Avsec's risk management plan completed. Implementation of strategies to manage risks associated with HBS operations completed. Review and revision of Avsec's business continuation plans rescheduled for completion mid 2006-07. Review of Avsec's information management structure, including intelligence gathering and dissemination rescheduled for completion during 2006-07, following admission to CTAG as an Associate Member. Development of models for changes to the key drivers of business, including regulatory policy changes, completed. Assessment of Independent Review report completed. Of the 86 recommendations, three were rejected by Avsec and the ten outstanding will all be completed by mid 2007. |

AVSEC STAKEHOLDER RELATIONSHIP GOAL: *AVSEC WORKS COOPERATIVELY WITH ITS PARTNERS.*

| INTERMEDIATE GOAL | PROGRESS REPORT |
|--|---|
| <ul style="list-style-type: none"> Avsec's consultative structures work effectively whereby it anticipates issues and change by working with its stakeholders at a strategic and operational level. | <ul style="list-style-type: none"> Review of Avsec's arrangements, frameworks and protocols for liaison with key stakeholders completed. Review of structure of Avsec's formal relationships with key stakeholders completed and changes implemented. Review of Avsec's industry consultative framework completed. Review of Board procedures and protocols progressed in consultation with Board and Ministry of Transport and rescheduled for completion during first quarter of 2006-07. Development and implementation of some customer satisfaction surveys completed. Further surveys planned for 2006-07. |

AVSEC COMMUNICATION GOAL: *AVSEC IMPLEMENTS COMMUNICATIONS SYSTEMS THAT SUPPORT ITS STRATEGIC GOALS.*

| INTERMEDIATE GOAL | PROGRESS REPORT |
|--|---|
| <ul style="list-style-type: none"> Avsec works within an effective, pro-active communications and marketing strategy that is structured and focused domestically and internationally. | <ul style="list-style-type: none"> Development and implementation of a communications plan for Avsec's national and international reputation, products and services completed. Review of Avsec's communication resources completed. Development and implementation of a communications strategy, to support changes to New Zealand's relinquished items regime completed. Development and implementation of a communication strategy for the implementation of HBS completed. Development and implementation of a communications / marketing strategy for the activities of Avsec ICAO sub-regional training centre rescheduled for completion July 2006, following completion of Aintree training facility. |

AVSEC APPLICATION OF THE NEW ZEALAND TRANSPORT STRATEGY: *AVSEC'S CONTRIBUTION TO THE NEW ZEALAND TRANSPORT STRATEGY ENHANCES THE SERVICES THAT IT DELIVERS.*

| INTERMEDIATE GOAL | PROGRESS REPORT |
|---|---|
| <ul style="list-style-type: none"> Avsec demonstrates to key stakeholders that its New Zealand Transport Strategy (NZTS) focus enhances the management of aviation security risks. | <ul style="list-style-type: none"> Development of strategy and process for stakeholder communication on Avsec's contribution to the NZTS completed. Review of the initiatives and policies to ensure compliance with the objectives and priorities of the NZTS completed. Alignment of Avsec strategies and business planning processes, timetables and outputs with those agreed for the transport sector completed. Development of process for Avsec's contribution to the development of the supporting Transport Sector Strategic Directions (TSSD) document completed. |



Part 3:
Grouped Output Performance
and Financial Statements
2005-06

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GROUPED FINANCIAL STATEMENTS, 01 JULY 2005 TO 30 JUNE 2006

These Financial Statements have been prepared pursuant to the requirements contained in the Public Finance Act 1989 and section 198 of the CEA 2004.

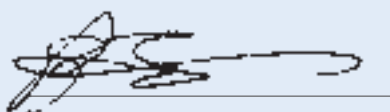
The Financial Statements cover the grouped financial performance of the Civil Aviation Authority of New Zealand in respect of the responsibilities of the Authority under section 72B of the CA Act 1990 for:

- 1) the regulation of civil aviation safety in New Zealand; and
- 2) the provision of aviation security services in New Zealand.

12. Statement of responsibility

Pursuant to the Public Finance Act 1989, we acknowledge that:

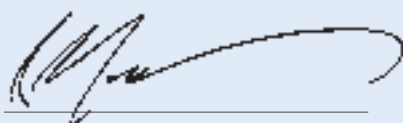
- a) The preparation of the grouped financial statements of the Civil Aviation Authority of New Zealand and judgements used therein are our responsibility;
- b) The establishment and maintenance of an internal control system designed to provide reasonable assurance as to the integrity and reliability of the grouped financial statements for the financial year ended 30 June 2006 are our responsibility; and
- c) In our opinion the grouped financial statements for the financial year ended 30 June 2006 fairly reflect the service performance, financial performance, financial position and cash flows of the Authority.



RICK BETTLE

Chairman (from 01 Oct 2006)

26 Oct 2006



JOHN JONES

Director of Civil Aviation

26 Oct 2006



MARK EVERITT

General Manager
Aviation Security Service

26 Oct 2006

13. Grouped Statement of Output Performance

The grouped financial statements comprise the following Output Classes:

| | |
|---------------------------|---|
| Civil Aviation Authority | Output Class 1: Policy Advice |
| | Output Class 2: Safety assessment and certification |
| | Output Class 3: Safety analysis and information |
| | Output Class 4: Enforcement |
| Aviation Security Service | Output Class 1: Aviation security services |
| | Output Class 2: Maritime security services |

Our performance during FY2005-06 in each output class is set out in the succeeding pages:

13.1 Civil Aviation Authority

OUTPUT CLASS 1: POLICY ADVICE

Description

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

1. Administration of New Zealand's participation in ICAO and of New Zealand's compliance with the Chicago Convention and related protocols, annexes and standards relating to aviation safety and security which have been ratified by New Zealand;
2. Development and administration of bilateral aviation safety and security related agreements with the civil aviation safety regulatory authorities of other countries;
3. Provision of advice to Government on all aspects of civil aviation safety and security;
4. Development and review of civil aviation safety and security policies;
5. Ministerial servicing, including ministerial correspondence, Parliamentary Questions, and reports to the Minister; and
6. Rules Development services under contract to the MOT.

Impacts and Consequences

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 by:

1. Keeping the Minister fully informed of the present state of the aviation participants in terms of safety and security levels and overall levels of operation, including developments within the aviation sector and the actual or potential impacts of these developments;
2. Providing the Minister and other government agencies, particularly the MOT, with advice to allow government policies affecting aviation safety and security to be developed within the transport sector in a collaborative and informed manner;
3. Keeping the Minister fully advised on the operation of the CAA and progress on the achievement of its statutory functions, including matters affecting or likely to affect operations or achievement of these functions; and
4. Enabling the Minister to answer correspondence and queries, including Parliamentary Questions, on matters relating to aviation safety and the operation of the CAA.

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

1. Government's obligations in respect of international aviation safety and security agreements and protocols assigned to the CAA are developed and administered in a competent manner;
2. International requirements relating to civil aviation safety and security are reflected in the New Zealand environment where applicable; and
3. Potential for accidents or incidents is reduced by ensuring that a safer and more secure interface is achieved between international and domestic aviation operations.

Impacts and consequences of the Rules Development services is to ensure that the provision of rules development services to the MOT contributes to the achievement of the CAA objectives as stipulated in the CA Act 1990 and to align the civil aviation system with the transport sector as set out in the NZTS.

POLICY ADVICE OUTPUTS

| OUTPUT CLASS 1: POLICY ADVICE | | | |
|-------------------------------|--|--|--------------------------------|
| OUTPUTS | PERFORMANCE MEASURES 2005-06 | FY2005-06 | |
| | | ACTUAL | TARGET |
| Ministerial Servicing | 1. Draft responses to Ministerial correspondence (demand-driven number) | 23 | 20 – 50 estimated range |
| | 2. Provide reports and briefings to the Minister (demand-driven number) | 65 | 70 – 90 estimated range |
| | 3. Provide responses to Parliamentary Questions (demand-driven number) | 7 | 30 – 100 estimated range |
| | 4. Provide reports and responses to Select Committees (demand-driven number) | 7 | 4 – 8 estimated range |
| | 5. Percentage of draft replies to Ministerial correspondence forwarded to the MOT within 10 working days of receipt by CAA | 100% | 100% completed by due date |
| | 6. Draft responses to Ministerial correspondence and to Parliamentary questions accepted by the Minister's advisers | 97% | Minimum of 95% acceptance |
| | 7. Percentage of draft replies to Parliamentary questions supplied within the required time frame | 100% | 100% completed by due date |
| Policy advice | 8. Completion of agreed programme set out in Annex A of the SOI – FY2005-06. (See next table for progress report.) | See table on progress with our policy and international work programmes. | |
| | 9. Provision of advice and comment on government policy initiatives that impact on the aviation community | 100% provided as required | As required (100% of the time) |
| Legislation development | 10. Provide support and advice to the development or amendment of civil aviation related legislation, such as CA Act 1990, Civil Aviation Charges Regulation 1991, Civil Aviation (Aeronautical Information Service) Levies Order 2001 and the Civil Aviation Safety Levies Order 2002 | 100% provided as required | As required (100% of the time) |

| OUTPUT CLASS 1: POLICY ADVICE | | | |
|--|---|--|--------------------------------|
| OUTPUTS | PERFORMANCE MEASURES 2005-06 | FY2005-06 | |
| | | ACTUAL | TARGET |
| International aviation and safety related agreements | 11. Provide responses on behalf of New Zealand to ICAO State letters on aviation safety and security matters (demand-driven number) | 100% provided as required | As required (100% of the time) |
| | 12. Review ICAO decisions notified to New Zealand, including amendments to Annexes, and file acceptances or differences as necessary (demand driven number) | 37 | 10-15 assessments |
| | | Actual is higher than target due updates and reviews were done and differences were filed accordingly in preparation for ICAO audit in March 2006. | |
| | 13. Provide aviation safety and security policy advice to Samoa, Niue, Tonga and the Cook Islands | 100% provided as required | As required (100% of the time) |
| | 14. Provide advice and representation in support of international agreements, projects and other forums | 100% provided as required | As required (100% of the time) |
| | 15. Promote the development of technical arrangements and agreements with other aviation authorities where this will have demonstrable benefits for the New Zealand aviation system | 100% provided as required | As required (100% of the time) |

RULES DEVELOPMENT

| | | |
|----------------------------|---|---|
| Rules development services | <p>The Authority undertakes Rules Development services under a separate contract to the MOT. This includes:</p> <ol style="list-style-type: none"> Reviewing international standards, aviation community petitions for rule amendment, and all existing legislation and rules relating to the regulation of New Zealand civil aviation safety and security including the evaluation of effectiveness and requirements; Research and development of appropriate safety standards; Publishing notices of intention to make or amend ordinary rules; Giving interested parties a reasonable time to make submissions on the proposed rules or amendments; Consulting with such persons as in each case are considered appropriate on the proposed rules or amendments; and Drafting and publishing rules and rule amendments required by the Minister. | <p>ACHIEVED</p> <p>Final Rules and information documents developed by the CAA and signed by the Minister:</p> <ol style="list-style-type: none"> Part 61 – Stage 1 Pilot Licences and Ratings Omnibus Rule Fix Up Part 108 – Hold Baggage Part 125 – HUMS Fast Track Part 93 – Right Hand Circuits Part 67 – Medical Certification (managed by MOT) |
|----------------------------|---|---|

| PROGRESS WITH OUR POLICY AND INTERNATIONAL WORK PROGRAMMES | | | |
|--|--|------------------------|--|
| OUTPUT NUMBER | DESCRIPTION | TARGET COMPLETION DATE | PROGRESS STATUS |
| 8.0 | POLICY ADVICE | | |
| 8.1 | Safety Management Systems Policy (A review of the provisions of the CA Act 1990 and Rules in relation to requirements for operator safety management systems. It is to ensure these reflect current best practice.) | 30 June 2006 | DELAYED A paper outlining the proposals will be submitted to the CAA's operations executives in August 2006. <i>(Note: The paper was submitted to the operations executives in Aug 2006.)</i> |
| 8.2 | Airspace Policy (Phase 2) (On-going work in relation to the Airspace review begun in 2000.) | 30 June 2006 | DELAYED This project is delayed due to the need to complete 2 significant rule-related projects (Adventure Aviation and the proposed introduction of the Recreational Pilots Licence) and to undertake other work outside of the agreed programme (e.g. Privacy Act). |
| 8.3 | ICAO obligations policy (Phase 2) (Review of arrangements and responsibilities for the discharge of New Zealand's obligations under the Chicago Convention.) | 30 June 2006 | DELAYED This project was put on hold due to the need to focus on preparation for the ICAO Universal Safety Oversight Audit of NZ, and other initiatives. |
| 8.4 | Policy input to Rules Programme 2005-06 | 30 June 2006 | ACHIEVED |
| 8.5 | Develop NZTS implementation framework for the aviation sector | 30 June 2006 | ON-TRACK CAA is working with MOT on a range of NZTS-related issues. |
| 10.0 | LEGISLATION DEVELOPMENT | | |
| 10.1 | CA Act 1990: Drugs and Alcohol Policy and Just Culture Policy | 30 June 2006 | ON-TRACK The Drugs and Alcohol Policy Project is led by MOT and CAA is a contributor. The Just Culture Policy is underway. |
| 10.2 | Civil Aviation Charges regulations (Policy issues concerning Aviation Services Ltd application to increase its charges.) | 30 June 2006 | ACHIEVED |
| 12.0 | ICAO OBLIGATIONS | | |
| 12.1 | Preparation for ICAO Safety Oversight Audit, 07-16 Mar 2006 | 17 March 2006 | ACHIEVED |

| | | | |
|------|--|----------|---|
| 15.0 | INTERNATIONAL SAFETY AGREEMENTS | | |
| 15.1 | USA: Bilateral Aviation Safety Agreement (BASA)/ Maintenance Implementation Plan (MIP) | On-going | ACHIEVED / ON-TRACK Agreement has been reached with respect to airworthiness design procedures. Work is on-going in relation to maintenance organisations. |
| 15.2 | Canada: Technical arrangement | On-going | ON-TRACK A limited agreement is in place. Further development in the signing of amendments to Civil Aviation Rule Part 43. |
| 15.3 | Australia: Mutual Recognition project covering the acceptance of airline Air Operator Certificates | On-going | ON-TRACK Awaiting passage at the Australian House of Representatives. <i>(Note: The Bill was passed on 11 Sept 2006.)</i> |
| 15.4 | Europe: Mutual recognition agreement/ technical arrangement (design and production approvals) | On-going | ON-TRACK Awaiting report from the European Aviation Safety Authority. <i>(Note: Report was received by the CAA in Aug 2006.)</i> |

FINANCIAL PERFORMANCE OF OUTPUT CLASS 1

| FY2004-05 ACTUAL (\$000) | MEASURE | FY2005-06 ACTUAL (\$000) | FY2005-06 BUDGET (\$000) |
|-----------------------------|--------------------------------|-----------------------------|-----------------------------|
| 1,321 | Crown revenue | 1,321 | 1,321 |
| 1,422 | Ministry | 1,418 | 1,418 |
| 7 | Other revenue | - | - |
| 2,750 | Total revenue | 2,739 | 2,739 |
| 2,832 | Total expenses | 3,132 | 2,739 |
| (82) | Net surplus / (deficit) | (393) | - |

OUTPUT CLASS 2: SAFETY AND SECURITY ASSESSMENT AND CERTIFICATION

Description

Output Class 2, safety assessment and certification, covers the following outputs and associated activities and services:

1. Entry control – The exercise of control over entry into the New Zealand civil aviation system through the issuance or amendment of aviation documents and approvals to organisations, individuals and products (refer to section 7 of the CA Act 1990);
2. Exit control – The 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;
3. Monitoring of adherence to safety and security standards by participants in the civil aviation system including the carrying out or requiring of inspections and audits;
4. Identification and follow-up of corrective actions that need to be taken by participants and holders of aviation documents to ensure adherence to safety and security standards and compliance with the conditions of their documents;
5. Updating of entry, exit and monitoring information in the CAA database, including maintenance of the New Zealand Register of Aircraft;
6. Provision of information and advice to applicants for aviation documents and approvals, plus support and advice to participants to assist them achieve compliance with the Civil Aviation Rules;
7. Maintenance of an effective Field Safety Advisor presence;
8. Assessment of overseas information such as airworthiness directives and manufacturer's service information, and adoption in New Zealand if applicable;
9. Development and review of New Zealand airworthiness directives;
10. Assessment and approval of alternative means of compliance with airworthiness directives;
11. Pursuant to the CA Act 1990 and rule making procedures, assessment of petitions for and the granting of exemptions from requirements prescribed in the Civil Aviation Rules; and

12. Management of inspections and audits under the HSE 1992.

Impacts and Consequences

The impacts and consequences of activities under this output are to minimise the risk of accident and incidents and their socio-economic effects, ensure combined compliance with civil aviation rules and standards, and improve overall performance within the context of the CAA legislative mandate. These include:

1. Participants who wish to enter the civil aviation system comply with the required standards for the type of activities and operations concerned as set out in the civil aviation legislation and rules;
2. That when participants in the civil aviation system no longer meet the necessary standards or cease operations, they either retire voluntarily or be required to cease aviation activities for which they no longer meet the relevant standards;
3. Certificated organisations are required to re-qualify for continued operation within the system after a period of 5 years to ensure appropriate standards are maintained;
4. Regular monitoring of all persons, certificated organisations and equipment that have been allowed entry into the civil aviation system;
5. Focus, where appropriate, on the management systems that control certificated organisations' day-to-day operations;
6. Identification of instances and areas of non-compliance and safety risk through data analysis, requiring consequent corrective action to be taken, and checking that it has been taken;
7. Adjustment of surveillance methods, frequency and focus on the basis of data analysis to concentrate on problem areas or individuals;
8. The "exemption process" is expected to ensure that overall safety levels are maintained while any exemptions that may be granted are exercised. Information on the nature of exemptions requested and granted is expected to be used in the development and maintenance of civil aviation rules; and
9. Work in the Health and Safety in Employment area is expected to mitigate safety and health risks for personnel employed in the aviation community.

Safety Assessment And Certification Outputs

| OUTPUT CLASS 2: SAFETY ASSESSMENT AND CERTIFICATION | | | |
|---|---|--|-------------------------------|
| OUTPUT | PERFORMANCE MEASURES 2005-06 | FY2005-06 | |
| | | ACTUAL | TARGET |
| Airline sector safety risk management | 16. Routine audits and inspections (number of hours) | 6,577 | 4,000 hours |
| | 17. Spot checks (number of hours, issue-driven) | 35 | 200 hours |
| | | FTE hours were allocated on the more urgent routine audits and inspections of new aircraft types and modifications which required significant resources from the Airline group of the CAA. | |
| | 18. Special purpose audit (number of hours, issue-driven) | 466 | 100 hours |
| | 19. Percentage of scheduled audit and inspection modules completed by due date set in the audit programme | 99% | 80% completed by due date |
| | 20. Airworthiness directives to be developed and published (issue driven number) | 327 | 120 – 150 estimated range |
| | 21. Airline Certification work requests (demand-driven number) | 663 | 200 – 500 estimated range |
| | 22. Aircraft Certification work requests (demand-driven number) | 925 | 800 – 1,000 estimated range |
| | 23. Aircraft Registration work requests (demand-driven number) | 1,782 | 1,200 – 2,000 estimated range |
| General aviation sector safety risk management | 24. Routine audits and inspections (number of hours) | 3,291 | 3,066 hours |
| | 25. Spot checks (number of hours, issue-driven) | 1,483 | 2,320 hours |
| | | Spot checks are carried-out based on findings gathered from routine audit or inspection. | |
| | 26. Special purpose audit (number of hours, issue-driven) | 45 | 100 hours |
| | | Special purpose audit are carried-out based on findings gathered from routine audit or inspection. | |
| | 27. Percentage of scheduled audit and inspection modules completed by the due date set in the audit programme | 63 % | 80% completed by due date |
| Audit work requests are not accurately reflected as "closed" due to limitations of the reporting system of the current database. In reality, this should be 85% instead of 63%. | | | |
| 28. Operator Certification work requests (demand-driven number) | 1,141 | 800 – 900 estimated range | |

| OUTPUT CLASS 2: SAFETY ASSESSMENT AND CERTIFICATION | | | |
|--|---|---|--|
| OUTPUT | PERFORMANCE MEASURES 2005-06 | FY2005-06 | |
| | | ACTUAL | TARGET |
| Personnel Licensing and Aviation Services Sector Safety Risk Management | 29. Routine audits and inspections (number of hours) | 1,367 | 1,500 hours |
| | 30. Spot checks (number of hours, issue-driven) | 128 | 200 hours |
| | 31. Special purpose audit (number of hours, issue-driven) | 7 | 20 hours |
| | 32. Percentage of scheduled audit and inspection modules completed by the due date set in the audit programme | 91% | 80% completed by due date |
| | 33. Personnel licensing work requests (demand-driven number) | 4,822 | 2,500 – 3,000 estimated range |
| | 34. Process requests for accredited medical conclusions | 70% | 80% processed within 5 days |
| | 35. Release General Directions for consultation (demand-driven number) | 4 | 4 |
| | 36. Petitions for rule exemptions processed – all sectors (demand-driven number) | 104 | 100 – 120 estimated range |
| Aviation community Health and Safety in Employment | 37. Respond to HSE concerns, enquiries and complaints within 5 working days | 100% | 100% completed by due date |
| | 38. Respond to accidents within 2 working days | 92 % | 80% responded to within 2 working days |
| | 39. HSE inspections of selected clients (number) | 11 | 60 |
| | | Only 1 FTE for more than 7 months in HSE unit. Time of 1 FTE was allocated on the more urgent National Health and Safety Advisory Committee (NOHSAC) project. | |
| | 40. Provision of information and education to clients and stakeholders (demand-driven number) | 9 | 25 |

FINANCIAL PERFORMANCE OF OUTPUT CLASS 2

| FY2004-05 ACTUAL \$000 | MEASURE | FY2005-06 ACTUAL \$000 | FY2005-06 BUDGET \$000 |
|---------------------------|--------------------------------|---------------------------|---------------------------|
| 440 | Crown revenue | 440 | 440 |
| 18,291 | Other revenue | 18,515 | 17,823 |
| 18,731 | Total revenue | 18,955 | 18,263 |
| 17,298 | Total expenses | 18,349 | 18,898 |
| 1,433 | Net surplus / (deficit) | 606 | (635) |

OUTPUT CLASS 3: SAFETY ANALYSIS AND EDUCATION

Description

Output Class 3, safety analysis and education, covers the following outputs and activities:

1. Investigation and identification of causes to a civil aviation safety and security occurrences, received by way of occurrence information and complaints;
2. Publishing of feedback information to the industry in the form of accident briefs, defect summaries, and accident and incident trends;
3. Investigation and review of civil aviation accidents and incidents in accordance with the Authority's capacity as the responsible aviation safety authority (subject to the limitations stipulated in section 14, paragraph 3 of the TAIC);
4. Notification to the TAIC of accidents and incidents reported to the Authority in accordance with section 27 of the CA Act 1990;
5. Responses to safety and security recommendations made by the TAIC and Coroner's inquests, and taking appropriate actions, tracking and reporting progress on a quarterly basis;
6. Advice on the safety and security performance of the civil aviation system;
7. Assessment and solution to any problems that may arise regarding overseas information, aircraft reliability data and flight operations information;
8. Establishment of safety planning to clearly describe the CAA's intended safety and security actions and priorities;
9. 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;
10. Provision and maintenance of an Internet web site; and
11. Provision of information for the New Zealand Aeronautical Information Service.

Impacts and Consequences

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

Work on the analysis of data on accident, injury and incident, trends, causal factors, aviation community safety and security levels and the results of the CAA's monitoring activities is intended to minimise the future risk of accidents or incidents and maximise compliance with civil aviation rules. The work will identify whether:

1. A greater focus is needed on the management systems that control certificated organisations' day-to-day operations;
2. Civil aviation policies, rules and standards be adjusted to where data on trends, risk and causal factors indicate that this is necessary or desirable;
3. Entry control and/or monitoring activities be adjusted to concentrate on problem areas or sectors, or be relaxed where appropriate;
4. Surveillance and enforcement activities be targeted; and
5. Specific safety programmes or research be initiated.

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 Rules by:

1. Increasing aviation community knowledge and understanding of civil aviation safety;
2. Encouraging voluntary compliance with aviation safety standards and requirements through sound knowledge of the relevant legislation and rules, and their purpose;
3. Targeting issues and sectors indicated as problems from the results of the CAA's monitoring activities, accident and incident trends, risk and causal factors, and enforcement activities;
4. Encouraging compliance by publicising significant enforcement actions; and
5. Assisting the public and persons within the aviation community and wider transport sector to make informed choices.

SAFETY ANALYSIS AND EDUCATION OUTPUTS

| OUTPUT CLASS 3: SAFETY ANALYSIS AND EDUCATION | | | |
|---|--|-----------|----------------------------------|
| OUTPUT | PERFORMANCE MEASURES 2005-06 | FY2005-06 | |
| | | ACTUAL | TARGET |
| Safety investigation | 41. Number of investigations carried out (demand-driven number) | 2,296 | 1,700 – 2,200 estimated range |
| | 42. Percentage of investigations closed that meet the specified accuracy and completeness requirements in CAA procedures | 95% | 90% of all investigations closed |
| | 43. Percentage of all investigations of occurrences completed within 6 months of registration | 74% | 70% completed by due date |
| | 44. Percentages of all investigations of occurrences completed within 12 months of registration | 95% | 90% completed by due date |
| | 45. Percentages of all investigations of occurrences completed within 2 years of registration | 99% | 100% completed by due date |
| Safety analysis | 46. Number of Aviation Safety summary reports | 4 | 4 quarterly reports |
| Safety education and information | 47. Number of Vector Periodicals released | 6 | Minimum of 6 |
| | 48. Number of CAA Safety Videos | 2 | 2 |
| | 49. Number of Safety Seminars conducted | 25 | Minimum of 10 |

FINANCIAL PERFORMANCE OF OUTPUT CLASS 3

| FY2004-05 ACTUAL | MEASURE | FY2005-06 ACTUAL | FY2005-06 BUDGET |
|------------------|-------------------------|------------------|------------------|
| \$000 | | \$000 | \$000 |
| 4,394 | Other revenue | 4,541 | 4,716 |
| 4,427 | Total expenses | 4,703 | 4,716 |
| (33) | Net surplus / (deficit) | (162) | - |

OUTPUT CLASS 4: ENFORCEMENT

Description

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

1. Recording of public complaints of alleged or suspected offences;
2. Investigation of allegations of breaches of Civil Aviation legislation; and
3. Taking appropriate action such as providing education, issuance of warning letter, issuance of infringement notice, or commencing summary proceedings.

Impacts and Consequences

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, when 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:

1. Attempt to modify aviation participants' behaviour, and/or generate an improvement of safety management systems, and/or generate greater understanding of the Civil Aviation Rules;
2. Ensure fair and consistent treatment of all participants in the civil aviation system;
3. Prosecute offenders when it is in the public interest to do so; and
4. Deter future incidents of non-compliance.

ENFORCEMENT OUTPUTS

| OUTPUT CLASS 4: ENFORCEMENT | | | |
|-----------------------------|---|-----------|----------------------------|
| OUTPUT | PERFORMANCE MEASURES 2005-06 | FY2005-06 | |
| | | ACTUAL | TARGET |
| Enforcement | 50. Number of complaints received including unruly passenger infringement notices issued (demand-driven number) | 231 | 200 – 240 estimated range |
| | 51. Number of detailed investigations undertaken (demand-driven number) | 81 | 130 – 160 estimated range |
| | 52. Percentage of detailed investigations completed in the period within 6 months of commencement | 96% | 90% completed by due date |
| | 53. Percentage of detailed investigations completed in the period within 12 months of commencement | 100% | 100% completed by due date |

FINANCIAL PERFORMANCE OF OUTPUT CLASS 4

| FY2004-05 ACTUAL \$000 | MEASURE | FY2005-06 ACTUAL \$000 | FY2005-06 BUDGET \$000 |
|---------------------------|-------------------------|---------------------------|---------------------------|
| 711 | Other revenue | 593 | 845 |
| 823 | Total expenses | 822 | 845 |
| (112) | Net surplus / (deficit) | (229) | - |

13.2 Aviation Security Service

OUTPUT CLASS 1: AVIATION SECURITY SERVICE

Description

The output class covers the following key aviation security services provided by Avsec:

- i. All departing international passengers and baggage will be screened at all international airports in New Zealand, to the standards laid down in the relevant legislation, regulations or rules;
- ii. All departing domestic passengers and baggage will be screened at airports within New Zealand, where the passenger and baggage are travelling on aircraft with seats for 90 plus regular air passengers, to the standards laid down in the relevant legislation, regulations or rules;
- iii. The security screening process will ensure that no unlawful interference takes place in-flight, while at the same time creating no flight delays or passenger complaints. Any complaints received will be handled in accordance with the Avsec's procedures;
- iv. The provision of perimeter patrols at security designated aerodromes, together with aircraft guards and searches, will result in the prompt interception of persons unlawfully in security areas and an increased level of safety for the flying public; and
- v. By delegated authority from the Director of Civil Aviation, Avsec will issue Airport Identity Cards.

AVIATION SECURITY SERVICES OUTPUTS

| OUTPUT | PERFORMANCE MEASURES 2005-06 | FY2005-06 | |
|--------------------------------------|--|----------------------|--|
| | | ACTUAL | TARGET |
| Passenger and hold baggage screening | 1. Forecast international passenger numbers. | 4,322,582 | 4,425,000(+ or – 3%) |
| | 2. Forecast domestic passenger numbers. | 4,906,473 | 4,970,000 (+ or – 3%) |
| | 3. Number of corrective requests issued by auditors. | 3 | 100% compliance with the National Aviation Security Programme as audited |
| | 4. Percentage of test objects detected in hand luggage . | 99.11% | 100% detection rate in recurrent testing programme. |
| | 5. Percentage of international hold baggage screened from Jan 1, 2006 (date of introduction of international standard). | 100% | 100% |
| | 6. Number of unauthorised or prohibited items discovered post screening points. | 1 | Nil |
| | 7. Average passenger waiting time at international departure screening points. (To be tested 6 monthly at Auckland and Christchurch international airports. Also note that airport infrastructure can have a direct impact on waiting time.) | Less than 55 seconds | No more than 2 minutes |
| | 8. Percentage of Aviation Security Officers trained in key aviation security functions (e.g. searching, wandng, x-ray proficiency). | 100% | 100% |

| | | | |
|---|---|--|--|
| | 9. Percentage of Aviation Security Officers covertly tested every 150 working days against key aviation security functions (e.g. searching, wandling, x-ray proficiency). | 100% | 100% |
| | 10. Number of complaints against Aviation Security Officers. | One per 1,845,811 passengers | No more than one formal complaint per 250,000 passengers |
| | 11. Number of flight delays attributable to screening activities (due to an Avsec system failure). | Nil | Nil |
| Aircraft search | 12. Forecast number of aircraft searched. | 2,255 | 2,150 (+ or – 5%) |
| | 13. Number of Corrective Action Requests issued by Auditors. | 100% compliance with the National Security Programme | 100% compliance with the National Aviation Security Programme. |
| | 14. Percentage of test objects detected in aircraft search. (Results will generally be under 100%) | 99.40% | 100% detection rate in recurrent testing programme. |
| | 15. Number of complaints. | Nil | No more than five airline complaints per annum. |
| | 16. Number of flight delays attributable to search activities. | Nil | Nil |
| Patrols | 17. Number of patrol hours. | 119,270 | 98,000 hours |
| | 18. Number of incidents attended. | 3,366 | 2,680 |
| | 19. Percentage of incidents attended within three minutes of coming to notice. | 100% | 100% |
| Access Control | 20. Forecast number of Airport identity cards issued: (a) Permanent: 7,500 (b) Temporary: 42,000 | 7,433 39,786 | 7,500 (+ or – 5%) 42,000 (+ or – 5%) |
| | 21. Number of incidents of unauthorised access (as defined in Aviation Crimes Act 1972). | 1 | Nil |
| | 22. Percentage compliance by Airport Identity Cardholders with Civil Aviation Rule 19.357. | 98.44% | 100% |
| | 23. Percentage of checked Airport Identify Cards replaced by expiry date. | 99.43% | 95% |
| Promotion of Security Awareness within Airports | 24. Number of training courses for staff of other agencies at airports. | 68 | 68 |
| | 25. Level of customer satisfaction. | 100% | Needs of customers met based on course evaluations. |
| | 26. Percentage of training requests responded to within one week. | 100% | 100% |

FINANCIAL PERFORMANCE OF OUTPUT CLASS 1

| FY2004-05 ACTUAL \$000 | MEASURE | FY2005-06 ACTUAL \$000 | FY2005-06 BUDGET \$000 |
|---|--------------------------------|---|---|
| 31,555 | Other revenue | 46,021 | 45,930 |
| 31,555 | Total revenue | 46,021 | 45,930 |
| 33,994 | Total expenses | 46,733 | 47,495 |
| (2,439) | Net surplus / (deficit) | (712) | (1,565) |

OUTPUT CLASS 2: MARITIME SECURITY SERVICES

Description

The output class covers the provision of maritime security services following the declaration of a high level threat situation at the port of Auckland, affecting cruise ships or their passengers.

| OUTPUT CLASS 2: MARITIME SECURITY SERVICES | | | |
|---|---|------------------|---------------|
| OUTPUT | PERFORMANCE MEASURE 2005-06 | FY2005-06 | |
| | | ACTUAL | TARGET |
| Maritime security | 27. Avsec responds within 4 hours to any requests from the Minister of Transport or the Director of Maritime Safety to a Level Two threat situation at the Port of Auckland affecting cruise ships or their passengers. | 100% | 100 % |

FINANCIAL PERFORMANCE OF OUTPUT CLASS 2

| FY2004-05 ACTUAL \$000 | MEASURE | FY2005-06 ACTUAL \$000 | FY2005-06 BUDGET \$000 |
|---|--------------------------------|---|---|
| 145 | Crown revenue | 132 | 145 |
| 145 | Total revenue | 132 | 145 |
| 145 | Total expenses | 137 | 145 |
| - | Net surplus / (deficit) | (5) | - |

14. Grouped Statement of Accounting Policies

Reporting Entity

The grouped financial statement for the year ended 30 June 2006 have been prepared to comply with the Public Finance Act 1989 and section 72B (3B) of the Civil Aviation Act 1990 (CA Act 1990).

All grouped financial statements have been prepared in accordance with the accounting policies set out in the Statements of Standard Accounting Practice and Financial Reporting Standards approved by the Accounting Standards Review Board published by the New Zealand Institute of Chartered Accountants.

In accordance with the CA Act 1990, certain functions are performed by persons outside the Authority operating under delegated authority. The financial statements exclude external transactions performed by these persons operating under delegated authority.

Statutory Base

These financial statements have been prepared in accordance with section 44 and 411 of the Public Finance Act 1989 and section 152 of the Crown Entities Act 2004.

Measurement Base

The financial statements have been prepared on a historical cost basis, modified by the revaluation of an Auckland building.

Basis of Grouping

The financial statements for the Authority have been grouped. All inter-entity transactions have been eliminated in the preparation of the grouped financial statements.

Budget Figures

The budget figures were approved by the Authority at the beginning of the financial year and disclosed in the SOI 2005/06-2007/08. The SOI was approved by the Minister in consultation with the MOT. The budget figures have been prepared in accordance with New Zealand's Generally Accepted Accounting Principles (NZ GAAP) and are consistent with the accounting policies adopted by the

Authority for the preparation of the financial statements.

Goods And Services Tax

All items in the financial statements are shown exclusive of Goods and Service Tax (GST), except for Receivables and Payables, which are GST inclusive. The amount of GST owing at balance date, being the difference between output/input tax, is included in payables.

Income Tax

The Authority is not required to pay income tax on its net surplus in terms of the Income Tax Act 2004 and accordingly no charge for income tax has been provided for.

Output Costing

Criteria for Direct and Indirect Costs

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

Direct costs account for 88% of the Authority's costs (86% in FY2004-05).

Cost Drivers for Allocation of Indirect Costs

Indirect personnel, property and other occupancy costs are charged on the basis of budgeted staff numbers attributable to an output. Computer costs are charged on the basis of actual PCs in use. Depreciation and capital charges are charged on the basis of asset utilisation.

Other indirect costs are allocated to business units on the proportion of direct costs to each output.

Revenue and Expenditure

The CAA earns revenue from direct fees and charges and levy funding. Avsec earns revenue from regulated levies on airlines based on outgoing passenger numbers (international) and sectors travelled by passengers (domestic), charges for additional aviation security activities that are outside its core function, interest income and

Crown funding. Revenue is recognised when earned and reported in the financial period to which it relates .

Operating expenditure is recognised in the period to which it relates.

Financial Instruments

The Authority is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, short-term deposits, debtors and creditors. All financial instruments are recognised in the Statement of Financial Position. All revenues and expenses in relation to financial instruments are recognised in the Statement of Financial Performance.

Payment of any Surplus to the Crown

The Authority is specifically excluded from returning surpluses to the Crown under section 165, Schedule 1 Part 1, of the CEA 2004. Any operating surpluses are utilised on ongoing civil aviation safety and aviation security services and activities.

Receivables

Receivables are stated at their estimated realisable value after providing for doubtful and uncollectible debts.

Employee Entitlements

Provision is made in respect of the Authority's liability for annual leave, long service leave and retirement leave. Annual leave has been calculated on an actual entitlement basis at current rates of pay. Long service leave and retirement leave were calculated on an actuarial basis. The retirement leave valuation was calculated by Melville Jessup Weaver (Consulting Actuaries).

Fixed Asset Valuation

Fixed asset purchases are recorded at cost, and depreciated on a straight-line basis over their estimated useful lives. The minimum cost value for a purchase to be classified as a fixed asset is \$2,000.

A building in Auckland is stated at net current value as determined by an independent registered valuer as at 30 June 2006. The building was last re-valued on 30 June 2004. The building is re-valued every three years from 30 June 2004, the effect of the revaluation occurring one year early has been to write down the building by \$2000 over depreciated net book value. Additions between revaluations are recorded at cost.

Upward revaluations of buildings are credited to the appropriate asset revaluation reserve. Downward revaluations of these assets are debited to the appropriate asset revaluation reserve. Where this results in a debit balance in the asset revaluation reserve, this balance is expensed in the Statement of Financial Performance.

Depreciation Of Fixed Assets

Depreciation is calculated on a straight-line basis at rates that write-off the cost or valuation of the assets over their estimated useful lives.

The useful lives and associated depreciation rates used in the preparation of these statements are as follows:

| ASSET CLASS | ESTIMATED LIFE | DEPRECIATION RATE |
|------------------------|-------------------|-------------------|
| Buildings | 10-14 years | 10% - 7% |
| Leasehold improvements | Life of the lease | - |
| 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 years | 33% |
| Leased equipment | 4-5 years | 20% - 25% |

Statement of Cash Flows

Cash means cash balances on hand held in bank accounts, demand deposits and other liquid investments in which the Authority invests as part of its day-to-day cash management.

Operating activities include cash received from all income sources and records the cash payments made for the supply of goods and services.

Financing activities comprise the change in equity and debt capital structure of the Authority.

Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Leases

Operating leases

The Authority leases office premises and office equipment. As all risks of ownership are retained by the lessor, these leases are classified as operating leases. Operating leases are charged as expenses in the period in which they are incurred.

Financial leases

The CAA has entered into finance leases for telephone and data project equipment, while Avsec for security screening equipment. Leases which effectively transfer all risks and benefits incident to ownership of the leased items to the CAA and Avsec respectively are classified as finance leases. These are capitalised at the lower of the fair value of the asset or the present value of minimum lease payments. The leased assets and the corresponding lease liabilities are recognised in the statement of financial position. The leased assets are depreciated over the shorter of the lease term and its useful life.

Changes in Accounting Policies

There have been no changes in accounting policies since the date of the last audited financial statements. The policies have been applied on a basis consistent with the previous year.

15. Grouped Financial Statements

GROUPED STATEMENT SPECIFYING FINANCIAL PERFORMANCE

For the year ended 30 June 2006

| Specified financial performance | | Achievement | Target |
|---|-------|-------------|---------|
| Expenditure to be within budget (\$000) | | 73,854 | 74,837 |
| To achieve the budgeted surplus / (deficit) (\$000) | (a) | (419) | (1,864) |
| To maintain net current assets at budgeted levels (\$000) | | 15,858 | 15,474 |
| To achieve the budgeted current ratio | | 2.3 | 3.5 |
| To achieve the budgeted average debtors ratio: days | (b) | 28 | 22 |
| To achieve the budgeted average creditors ratio: days | (c) | 33 | 28 |
| To maintain physical assets at budgeted levels (\$000) | (c) | 18,798 | 21,381 |
| Capital expenditure to be within budget (\$000) | (c) | 21,911 | 11,146 |
| To achieve the budgeted ratio of capital additions to physical assets | (c) | 117% | 52% |
| To achieve the budgeted ratio of physical assets to total assets | (c) | 40% | 50% |
| To maintain equity at budgeted levels (\$000) | (a,c) | 25,852 | 34,755 |
| To achieve the budgeted ratio of public equity to total assets | (c) | 55% | 81% |

Explanation of significant variances in Financial Performance

- (a) The net operating deficit for the year was less than expected despite Levy Revenue being affected by the fall in passenger volumes. The loss of income was off-set by the increase demand for services and interest on surplus cash. Avsec operating cost (depreciation charge) was the principal impact brought about by delays in completion of HBS infrastructural requirement at airports (which did not impact the "go-live" date).
- (b) In 2005/06 the Civil Aviation Safety (Levies) Order and the Civil Aviation (Fees and Charges) Order were amended to require international passenger operators to pay the liable Levy and Charge to the Authority. The increase number of debtors and the remoteness of their management have caused delays in settlements. This is closely monitored by the Authority.
- (c) The Authority's financial performance has been significantly affected by the financial arrangement to buy and then sell and lease-back \$11.6 million capital infrastructure for the hold-stow baggage screening at the seven New Zealand international airports. The transaction has affected the average level of credit, total fixed assets, cash flow for the purchase of fixed assets, the injection and repayment of capital, the level of Public Equity and the ratio of Public Equity to total assets.

The accounting policies on pages 87-89, and notes on pages 96-102 form part of these statements.

GROUPED STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2006

| FY2004-05 ACTUAL \$000 | | NOTES | FY2005-06 ACTUAL \$000 | FY2005-06 BUDGET \$000 |
|------------------------------|--------------------------------|-------|------------------------------|------------------------------|
| 46,768 | Levy revenue | | 61,059 | 63,428 |
| 3,102 | Crown revenue | | 1,893 | 1,906 |
| 8,316 | Other revenue | 1 | 8,858 | 7,103 |
| 1,313 | Interest income | | 1,625 | 536 |
| 59,499 | Total operating revenue | | 73,435 | 72,973 |
| 60,773 | Cost of Services | 2 | 73,854 | 74,837 |
| (1,274) | Net surplus / (deficit) | | (419) | (1,864) |

GROUPED STATEMENT OF MOVEMENTS IN EQUITY

For the year ended 30 June 2006

| FY2004-05 ACTUAL \$000 | | FY2005-06 ACTUAL \$000 | FY2005-06 BUDGET \$000 |
|------------------------------|--|------------------------------|------------------------------|
| (1,274) | Net surplus / (deficit) | (419) | (1,864) |
| - | Increase/(decrease) in asset revaluation reserve | (2) | - |
| (1,274) | Total recognised revenues and expenses | (421) | (1,864) |
| 13,756 | Capital injection | 10,000 | 10,000 |
| - | Capital repayment | (11,639) | - |
| 12,482 | Movements in equity for the year | (2,060) | 8,136 |
| 15,430 | Taxpayers' equity as at 1 July | 27,912 | 26,619 |
| 27,912 | Taxpayers' equity as at 30 June | 25,852 | 34,755 |

The accounting policies on pages 87-89, and notes on pages 96-102 form part of these statements.

GROUPED STATEMENT OF FINANCIAL POSITION

As at 30 June 2006

| FY2004-05 ACTUAL \$000 | | NOTES | FY2005-06 ACTUAL \$000 | FY2005-06 BUDGET \$000 |
|------------------------------|--------------------------------------|-------|------------------------------|------------------------------|
| | PUBLIC EQUITY | | | |
| 27,286 | General Funds | 3 | 25,228 | 34,448 |
| 626 | Asset Revaluation Reserve | 3 | 624 | 307 |
| 27,912 | Total Public Equity | | 25,852 | 34,755 |
| | Represented by: | | | |
| | CURRENT ASSETS | | | |
| 18,954 | Cash | | 20,232 | 16,135 |
| 6,098 | Receivables and other assets | 4 | 7,819 | 5,569 |
| 25,052 | Total Current Assets | | 28,051 | 21,704 |
| | NON-CURRENT ASSETS | | | |
| 11,701 | Fixed Assets | 5 | 18,798 | 21,381 |
| 36,753 | Total Assets | | 46,849 | 43,085 |
| | CURRENT LIABILITIES | | | |
| 3,202 | Payables | | 5,385 | 2,630 |
| 3,459 | Employee entitlements | 6 | 4,316 | 3,600 |
| 73 | Current portion of lease liabilities | 11 | 2,492 | - |
| 6,734 | Total Current Liabilities | | 12,193 | 6,230 |
| | NON-CURRENT LIABILITIES | | | |
| 191 | Lease liabilities | 11 | 6,972 | - |
| 1,916 | Employee entitlements | 6 | 1,832 | 2,100 |
| 8,841 | Total Liabilities | | 20,997 | 8,330 |
| 27,912 | Net Assets | | 25,852 | 34,755 |

The accounting policies on pages 87-89, and notes on pages 96-102 form part of these statements.

GROUPED STATEMENT OF CASH FLOWS

For the year ended 30 June 2006

| FY2004-05 ACTUAL \$000 | NOTES | FY2005-06 ACTUAL \$000 | FY2005-06 BUDGET \$000 |
|---|--|------------------------------|------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| 46,814 | Levies | 59,617 | 62,904 |
| 2,906 | Crown | 1,908 | 1,906 |
| 1,595 | Ministry | 1,418 | 1,418 |
| 6,699 | Fees, charges & other | 7,400 | 5,538 |
| 1,167 | Interest | 1,767 | 681 |
| 59,181 | | 72,110 | 72,447 |
| <i>Cash was applied to:</i> | | | |
| (39,086) | Payments to employees | (47,836) | (51,959) |
| (16,816) | Payments to suppliers | (18,262) | (15,254) |
| (25) | Interest paid | (231) | - |
| (12) | Net Goods and Services Tax | 200 | (25) |
| (1,536) | Payments of Capital Charge to the Crown | (2,167) | (2,145) |
| (57,475) | | (68,296) | (69,383) |
| 1,706 | Net Cash Flow from Operating Activities | 3,814 | 3,064 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| 121 | Sale of Assets | 11,813 | 25 |
| <i>Cash was applied to:</i> | | | |
| (363) | Search & Rescue's Cash Balance to Crown | - | - |
| (6,824) | Purchase of Assets | (21,911) | (11,121) |
| (7,066) | Net Cash Flow from Investing Activities | (10,098) | (11,096) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| <i>Cash was provided from:</i> | | | |
| 14,691 | Capital injection from Crown | 10,000 | 10,000 |
| - | External borrowings | 10,674 | - |
| <i>Cash was applied to:</i> | | | |
| - | Capital repayments to Crown | (11,639) | - |
| (72) | Repayment of external borrowings | (1,473) | - |
| 14,619 | Net Cash Flow from Financing Activities | 7,562 | 10,000 |
| 9,259 | Net Increase/(Decrease) in Cash held | 1,278 | 1,968 |
| 9,695 | Plus opening cash | 18,954 | 14,167 |
| 18,954 | Closing Cash balance | 20,232 | 16,135 |
| <i>Cash was provided from:</i> | | | |
| 34 | Cheque | 519 | 345 |
| 18,920 | Short term deposits | 19,713 | 15,790 |
| 18,954 | Closing Cash balance | 20,232 | 16,135 |

The accounting policies on pages 87-89, and notes on pages 96-102 form part of these statements.

GROUPED STATEMENT OF COMMITMENTS

As at 30 June 2006

Commitments disclosed include those operating and capital commitments arising from non-cancellable contractual or statutory obligations. Operational commitments are related to term leases on buildings and operational leases. Commitments relating to employment contracts are not included.

Some leases, previously included as non-cancellable operating leases in this Statement, have been assessed as finance leases and are now recognised as a liability, refer to Note 12.

| FY2004-05 ACTUAL \$000 | | FY2005-06 ACTUAL \$000 |
|------------------------------|--|------------------------------|
| | <i>Capital commitments</i> | |
| 8,236 | Purchase of capital equipment | 132 |
| 8,236 | Total Capital commitments | 132 |
| | <i>Operating commitments</i> | |
| 4,776 | Non cancellable leases | 5,725 |
| 1,297 | Non-cancellable contracts – supply of goods and services | 867 |
| 43 | Other cancellable contracts | - |
| 6,116 | Total Operating commitments | 6,592 |
| 14,352 | Total Commitments | 6,724 |
| | Commitments by term | |
| | <i>Capital Commitments</i> | |
| 8,236 | - Less than one year | 132 |
| | <i>Operating Commitments</i> | |
| 1,846 | - Less than one year | 2,231 |
| 1,726 | - One year but less than two years | 1,513 |
| 2,323 | - Two years but less than five years | 2,193 |
| 221 | - Longer than five years | 655 |
| 6,116 | Total Operating commitments | 6,592 |
| 14,352 | Total Commitments | 6,724 |

GROUPED STATEMENT OF CONTINGENT LIABILITIES

As at 30 June 2006

Contingent liabilities are noted at the time that the contingency becomes evident. Such contingencies are evidenced by action taken by a third party and will in the normal course of business be rigorously defended. These relate to legal claims against the Authority where court decisions are uncertain.

| FY2004-05 ACTUAL \$000 | | FY2005-06 ACTUAL \$000 |
|------------------------------|-------------------------------------|------------------------------|
| 100 | Judicial review | - |
| 140 | Legal claims | 150 |
| 50 | Statutory review | - |
| 290 | Total Contingent Liabilities | 150 |

The accounting policies on pages 87-89, and notes on pages 96-102 form part of these statements.

STATEMENT OF OPERATIONS OF INDUSTRY SEGMENTS

For the year ended 30 June 2006

Segmental reporting has been applied to identify the three industry segments operated within the Authority.

| INDUSTRY SEGMENT | AVIATION SAFETY | | CLASS III SAR | | SECURITY SERVICE | | ELIMINATION | | GROUPED | |
|----------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| | FY2004-05 ACTUAL \$000 | FY2005-06 ACTUAL \$000 | FY2004-05 ACTUAL \$000 | FY2005-06 ACTUAL \$000 | FY2004-05 ACTUAL \$000 | FY2005-06 ACTUAL \$000 | FY2004-05 ACTUAL \$000 | FY2005-06 ACTUAL \$000 | FY2004-05 ACTUAL \$000 | FY2005-06 ACTUAL \$000 |
| Operating Revenue | | | | | | | | | | |
| Revenue Outside the Group | 26,576 | 27,286 | 1,223 | - | 31,700 | 46,149 | - | - | 59,499 | 73,435 |
| Inter-Segment Revenue | 9 | 18 | - | - | - | 4 | (9) | (22) | - | - |
| Total Revenue | 26,585 | 27,304 | 1,223 | - | 31,700 | 46,153 | (9) | (22) | 59,499 | 73,435 |
| Segment result | 1,206 | 298 | (41) | - | (2,439) | (717) | - | - | (1,274) | (419) |
| Segment Non-Current Assets | 2,381 | 2,258 | - | - | 9,320 | 16,540 | - | - | 11,701 | 18,798 |

The Authority operates predominantly in three industries – Regulation of Civil Aviation Safety, Class III Search and Rescue Co-ordination and Aviation Security Service. Regulation of Civil Aviation Safety comprises of the development of, and monitoring of compliance, with Aviation Rules, Class III Search and Rescue Co-ordination comprises of the provision of a co-ordination search and rescue for persons in distress. Aviation Security Service comprises of the screening of international departing passengers and cabin baggage. On 30th November 2004, the provision of Class III Search and Rescue Services was transferred to Maritime New Zealand.

The accounting policies on pages 87-89, and notes on pages 96-102 form part of these statements.

16. Notes to the Financial Statements

For the year ended 30 June 2006

NOTE 1: OTHER REVENUE

| FY2004-05 | | | FY2005-06 | FY2005-06 |
|--------------|---|--|--------------|--------------|
| ACTUAL | | | ACTUAL | BUDGET |
| \$000 | | | \$000 | \$000 |
| 6,855 | Fees, charges and other contracted services | | 7,299 | 5,660 |
| 1,422 | Ministry | | 1,418 | 1,418 |
| 39 | Gain on disposal of Assets | | 141 | 25 |
| 8,316 | Total | | 8,858 | 7,103 |

NOTE 2: COST OF SERVICES

| FY2004-05 | | | FY2005-06 | FY2005-06 |
|---------------|--|-------|---------------|---------------|
| ACTUAL | | NOTES | ACTUAL | BUDGET |
| \$000 | | | \$000 | \$000 |
| 40,848 | Employee remuneration | 7 | 49,700 | 49,711 |
| 490 | Training | | 1,480 | 2,124 |
| 1,453 | Recruitment | | 771 | 394 |
| 25 | Finance charges on finance leases | | 231 | 20 |
| 1,684 | Rental expenses on operating leases | | 1,821 | 2,141 |
| 1,524 | Capital Charge | 8 | 2,167 | 2,145 |
| 146 | Authority Members fees | 9 | 148 | 153 |
| 1 | Bad debts written off | | 3 | - |
| 6 | Provision for doubtful debts | | (1) | 10 |
| 49 | Fees paid to Auditors – external audit | | 79 | 60 |
| | – other services | | 5 | - |
| 11,997 | Other Operating | | 13,461 | 12,808 |
| | Depreciation: | | | |
| 1,090 | Plant & equipment | | 1,008 | 3,353 |
| 761 | Computer equipment | | 687 | 975 |
| 349 | Motor vehicles | | 453 | 500 |
| 71 | Buildings | | 72 | 77 |
| 159 | Furniture & fittings | | 214 | 194 |
| 77 | Leased office equipment | | 1,499 | 79 |
| 43 | Office equipment | | 56 | 93 |
| 2,550 | Total depreciation for the year | | 3,989 | 5,271 |
| 60,773 | Total | | 73,854 | 74,837 |

NOTE 3: TAXPAYERS' EQUITY

| FY2004-05 ACTUAL \$000 | | FY2005-06 ACTUAL \$000 | FY2005-06 BUDGET \$000 |
|------------------------------|---|------------------------------|------------------------------|
| | Net surplus / (deficit) | | |
| 1,206 | Aviation Safety | 298 | (299) |
| (41) | Search & Rescue | - | - |
| (2,439) | Security Service | (717) | (1,565) |
| (1,274) | Total recognised revenues and expenses | (419) | (1,864) |
| | Capital Injection/(Repayment) | | |
| 14,691 | - Security Service – capital injection from Crown | 10,000 | 10,000 |
| | – capital repayments to Crown | (11,639) | - |
| (935) | - Search and Rescue | - | - |
| 12,482 | Movements in equity for the year | (2,058) | 8,136 |
| 14,804 | Taxpayers' equity as at 1 July | 27,286 | 26,312 |
| 27,286 | Taxpayers' equity as at 30 June | 25,228 | 34,448 |

Asset revaluation reserve building

| FY2004-05 ACTUAL \$000 | | FY2005-06 ACTUAL \$000 | FY2005-06 BUDGET \$000 |
|------------------------------|------------------------|------------------------------|------------------------------|
| 626 | Opening balance | 626 | 307 |
| - | Revaluation | (2) | - |
| 626 | Closing balance | 624 | 307 |

NOTE 4: RECEIVABLES AND OTHER ASSETS

| FY2004-05 ACTUAL \$000 | | FY2005-06 ACTUAL \$000 | FY2005-06 BUDGET \$000 |
|------------------------------|-----------------------------------|------------------------------|------------------------------|
| 5,486 | Trade debtors | 7,138 | 5,057 |
| (7) | Less provision for doubtful debts | (6) | (10) |
| 240 | Prepayments | 252 | 102 |
| 379 | Work in progress | 400 | 400 |
| - | Inventories | 35 | 20 |
| 6,098 | Total | 7,819 | 5,569 |

NOTE 5: FIXED ASSETS

| FY2004-05 Cost or Valuation \$000 | FY2004-05 Accumulated Depreciation \$000 | FY2004-05 Carrying Value \$000 | Grouped | FY2005-06 Cost or Valuation \$000 | FY2005-06 Accumulated Depreciation \$000 | FY2005-06 Carrying Value \$000 | FY2005-06 Budget Value \$000 |
|--|---|---|------------------------|--|---|---|---------------------------------------|
| 6,601 | 3,673 | 2,928 | Plant and equipment | 7,310 | 4,576 | 2,734 | 3,367 |
| 4,262 | 2,984 | 1,278 | Computer equipment | 4,786 | 3,512 | 1,274 | 1,337 |
| 2,005 | 1,076 | 929 | Motor vehicles | 2,174 | 1,015 | 1,159 | 1,375 |
| 1,007 | 71 | 936 | Auckland building* | 900 | - | 900 | 1,108 |
| 1,728 | 365 | 1,363 | Furniture and fittings | 2,719 | 576 | 2,143 | 2,386 |
| 385 | 121 | 264 | Leased equipment | 11,040 | 1,605 | 9,435 | 11,577 |
| 409 | 222 | 187 | Office equipment | 471 | 266 | 205 | 231 |
| 3,816 | - | 3,816 | Work in progress | 948 | - | 948 | - |
| 20,213 | 8,512 | 11,701 | Total Assets | 30,348 | 11,550 | 18,798 | 21,381 |

*The Auckland building was re-valued to net current value as determined by Seagar & Partners (Registered Valuers) as at 30 June 2006.

NOTE 6: EMPLOYEE ENTITLEMENTS

| FY2004-05 ACTUAL \$000 | | FY2005-06 ACTUAL \$000 | FY2005-06 BUDGET \$000 |
|------------------------------|-----------------------|------------------------------|------------------------------|
| 2,835 | Annual leave | 3,435 | 2,906 |
| 343 | Performance-based pay | 418 | 459 |
| 281 | Salaries and wages | 405 | 235 |
| 722 | Long service leave | 739 | 829 |
| 1,194 | Retirement leave | 1,151 | 1,271 |
| 5,375 | Total | 6,148 | 5,700 |
| 3,459 | Current | 4,316 | 3,600 |
| 1,916 | Non-current | 1,832 | 2,100 |
| 5,375 | TOTAL | 6,148 | 5,700 |

NOTE 7: EMPLOYEE REMUNERATION

The remuneration of employees who received remuneration and other benefits of \$100,000 or more per annum, in \$10,000 bands are as follows:

| FY2004-05 | TOTAL REMUNERATION AND OTHER BENEFITS | FY2005-06 |
|-----------|---------------------------------------|-----------|
| 12 | \$100,000 to \$109,999 | 4 |
| 9 | \$110,000 to \$119,999 | 14 |
| 4 | \$120,000 to \$129,999 | 7 |
| 5 | \$130,000 to \$139,999 | 5 |
| 4 | \$140,000 to \$149,999 | 4 |
| 2 | \$150,000 to \$159,999 | 1 |
| 1 | \$160,000 to \$169,999 | 1 |
| 1 | \$170,000 to \$179,999 | 3 |
| - | \$180,000 to \$189,999 | 2 |
| - | \$200,000 to \$209,999 | - |
| 1 | \$220,000 to \$229,999 | 1 |
| 1 | \$230,000 to \$239,999 | - |
| - | \$250,000 to \$259,999 | 1 |
| 40 | | 43 |

The Director of Civil Aviation remuneration lies in the \$220,000 to \$229,999 band (2005: \$220,000 to \$229,999 band) and the General Manager of Aviation Security Service remuneration lies in the \$250,000 to \$259,999 band (2005: \$230,000 to \$239,999 band).

NOTE 8: CAPITAL CHARGE AND RELATED PARTY DISCLOSURES

The Authority is a Crown Entity. The Government significantly influences the role of the Authority as well as being a major source of revenue.

The Authority pays a capital charge to the Crown based on its public equity at 30 June and 31 December each year. The capital charge for 2005/2006 was 8.0% (2004-05:8.0%).

The Authority has entered into a number of transactions with Government departments, Crown entities and State-Owned enterprises on an arm's length basis. Where those parties are acting in the course of their normal dealings with the Authority, related party disclosures have not been made for transactions of this nature.

The Authority has entered into a number of insignificant transactions with entities, of which members of the Authority are non-executive directors, on an arm's length basis. Where those parties are acting in the course of their normal dealings with the Authority, related party disclosures have not been made for transactions of this nature.

NOTE 9: AUTHORITY'S FEES

| FY2004-05 | | FY2005-06 | FY2005-06 |
|------------|---|------------|------------|
| ACTUAL | | ACTUAL | BUDGET |
| \$000 | | \$000 | \$000 |
| 41 | R Tannock (Chair - appointed November 2004) | 50 | 49 |
| 25 | H Armstrong (Deputy Chair - appointed 2001) | 26 | 27 |
| 21 | D Park (appointed November 2003) | 24 | 24 |
| 15 | S Hughes (appointed November 2004) | 24 | 24 |
| 16 | R Reid (appointed November 2004) | 24 | 23 |
| 19 | R. Fisher (retired in November 2004) | - | - |
| 9 | J. Gabriel (term ended in November 2004) | - | - |
| 146 | Honoraria | 148 | 147 |

The Authority pays honoraria and actual or reasonable expenses to Members in accordance with Cabinet Office Circular CO (03) 4. No Member received any payment for severance, ex-gratis or consultancy work. The Members received an extra honorarium for their work on the sub-authority and continuity.

NOTE 10: FINANCIAL INSTRUMENTS

The Authority is party to financial instruments as part of its everyday operations. These financial instruments include bank accounts, bank deposits, accounts receivable, accounts payable, loans and foreign currency forward contracts.

Credit risk is the risk that a third party will default on its obligation to the Authority causing the Authority to incur a loss.

The Authority has minimal credit risk in its holdings of various financial instruments. These instruments include cash, bank deposits and accounts receivable.

The Authority places its investments in registered banks. This reduces the risk of any loss that could arise from its investment activities. The Authority does not require any collateral or security to support financial instruments.

There is no significant credit risk.

The fair value of all financial instruments is equivalent to the carrying amount disclosed in the Statement of Financial Position.

The Authority has no significant exposure to currency risk. Transactions in foreign currencies are converted at the New Zealand rate of exchange at the date of settlement.

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. There are no interest rate options or interest rate swap options in place as at 30 June 2006 (2005: nil). The interest rates on the Authority's investments ranged from 2.8% to 7.6% per annum (2005: 2.8% to 7.0% per annum).

The Authority has taken insurance cover for Authority members and employees for personal loss caused by wrongful acts in the course of their duties where indemnity is not available from the organisation. The Authority has also taken insurance cover covering personal accident and travel risk for Authority members and employees where injury or loss occurs while on CAA business.

NOTE 11: LEASE LIABILITY

| FY2004-05 ACTUAL \$000 | | FY2005-06 ACTUAL \$000 | FY2005-06 BUDGET \$000 |
|------------------------------|----------------------------------|------------------------------|------------------------------|
| | Finance Leases: | | |
| 73 | Current | 2,492 | - |
| 191 | Non-current | 6,972 | - |
| 264 | Total | 9,464 | - |
| | Repayable as follows: | | |
| 92 | Less than one year | 3,156 | - |
| 86 | One to two years years | 3,170 | - |
| 127 | Two to five years | 4,556 | - |
| 305 | | 10,882 | - |
| (41) | Future finance charges | (1,418) | - |
| 264 | Recognised as a liability | 9,464 | - |

The effective interest rate on the finance leases is 7.79% (8.49% in FY2004-05). The ownership of the assets remains with the lessor.

NOTE 12: RECONCILIATION OF NET SURPLUS FROM OPERATIONS WITH THE NET CASH FLOW FROM OPERATIONS

| FY2004-05 ACTUAL \$000 | | FY2005-06 ACTUAL \$000 | FY2005-06 BUDGET \$000 |
|------------------------------|--|------------------------------|------------------------------|
| (1,274) | Net surplus / (deficit) | (419) | (1,864) |
| | Add non-cash items | - | - |
| 7 | Bad and doubtful debts | 2 | 10 |
| 2,550 | Depreciation | 3,989 | 5,271 |
| 2,557 | Total non-cash items | 3,991 | 5,281 |
| | Movements in working capital | | |
| (530) | Decrease/(Increase) in receivables | (1,468) | (473) |
| 145 | Decrease/(Increase) in inventories | (11) | - |
| (95) | Decrease/(Increase) in work-in-progress | (21) | (30) |
| 403 | Decrease/(Increase) in prepayments | (12) | (22) |
| (429) | (Decrease)/Increase in payables | 1,902 | (408) |
| 935 | (Decrease)/Increase in employee entitlements | 923 | 605 |
| 429 | Movements in net working capital | 1,313 | (328) |
| | Movements in investing activities | | |
| 33 | (Decrease)/Increase in payables - assets | (930) | - |
| (39) | Gain on sale of assets | (141) | (25) |
| (6) | Total movements in investing activities | (1,071) | (25) |
| 1,706 | Net cash flow from operating activities | 3,814 | 3,064 |

NOTE 13: STATEMENT OF MEMORANDUM ACCOUNTS

| FY2004-05 ACTUAL \$000 | | FY2005-06 ACTUAL \$000 | FY2005-06 BUDGET \$000 |
|------------------------------|-------------------------------------|------------------------------|------------------------------|
| | Aviation safety: | | |
| | Revenue | | |
| 15,334 | Domestic levy | 15,469 | 15,841 |
| 3,693 | International levy | 3,783 | 3,844 |
| 864 | Other levies | 896 | 847 |
| 3,112 | Fees and charges | 3,501 | 2,851 |
| 23,003 | Total revenue | 23,649 | 23,383 |
| | Expenditure | | |
| 17,298 | Safety assessment and certification | 18,349 | 18,898 |
| 4,427 | Safety analysis and education | 4,703 | 4,716 |
| 823 | Enforcement | 822 | 845 |
| 22,548 | Total expenditure | 23,874 | 24,459 |
| 455 | Net surplus / (deficit) | (225) | (1,076) |
| (1,448) | Opening balance | (993) | (993) |
| (993) | Closing balance | (1,218) | (2,069) |

| FY2004-05 ACTUAL \$000 | | INT'L LEVY \$000 | DOMESTIC LEVY \$000 | OTHER FEES / CHARGES | FY2005-06 ACTUAL \$000 | FY2005-06 BUDGET \$000 |
|------------------------------|------------------------|------------------------|---------------------------|----------------------------|------------------------------|------------------------------|
| | Aviation security: | | | | | |
| 30,590 | Revenue | 26,169 | 14,743 | 3,898 | 44,810 | 45,827 |
| 33,030 | Expenses | 28,014 | 13,797 | 3,716 | 45,527 | 47,392 |
| (2,440) | Net surplus/(deficit) | (1,845) | 946 | 182 | (717) | (1,565) |
| 4,863 | Opening balance | 4,658 | (1,462) | (773) | 2,423 | 3,988 |
| 2,423 | Closing balance | 2,813 | (516) | (591) | 1,706 | 2,423 |

17. Additional financial Information

GROUPED FINANCIAL STATEMENTS

for the year ended 30 June 2006

FINANCIAL PERFORMANCE

| GROUPED FY2004-05 ACTUAL \$000 | STATEMENT OF FINANCIAL PERFORMANCE | AVIATION SAFETY | | SECURITY SERVICE | | ELIMINATION | | GROUPED | |
|---|---------------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| | | FY2005-06 ACTUAL \$000 | FY2005-06 BUDGET \$000 | FY2005-06 ACTUAL \$000 | FY2005-06 BUDGET \$000 | FY2005-06 ACTUAL \$000 | FY2005-06 BUDGET \$000 | FY2005-06 ACTUAL \$000 | FY2005-06 BUDGET \$000 |
| | Revenue | | | | | | | | |
| 46,768 | Levies | 20,148 | 20,532 | 40,911 | 42,896 | - | - | 61,059 | 63,428 |
| 3,102 | Crown funding | 1,761 | 1,761 | 132 | 145 | - | - | 1,893 | 1,906 |
| 1,422 | Ministry | 1,418 | 1,418 | - | - | - | - | 1,418 | 1,418 |
| 6,855 | Fees, charges and contracted services | 3,514 | 2,851 | 3,785 | 2,809 | - | - | 7,299 | 5,660 |
| 1,313 | Interest | 442 | 336 | 1,183 | 200 | - | - | 1,625 | 536 |
| 39 | Gain on disposals | 3 | - | 138 | 25 | - | - | 141 | 25 |
| - | Inter-group income | 18 | - | 4 | - | (22) | - | - | - |
| 59,499 | Total revenue | 27,304 | 26,898 | 46,153 | 46,075 | (22) | - | 73,435 | 72,973 |
| | Expenditure | | | | | | | | |
| 42,791 | Personnel costs | 16,582 | 17,229 | 35,370 | 35,000 | - | - | 51,952 | 52,229 |
| 12,022 | Other operating costs | 7,828 | 7,385 | 5,470 | 5,077 | - | - | 13,298 | 12,462 |
| 2,550 | Depreciation | 801 | 950 | 3,188 | 4,321 | - | - | 3,989 | 5,271 |
| 1,524 | Capital charge | 573 | 565 | 1,594 | 1,580 | - | - | 2,167 | 2,145 |
| 1,684 | Rental property and equipment | 1,075 | 924 | 1,144 | 1,560 | - | - | 2,219 | 2,484 |
| 146 | Authority Members' costs | 99 | 104 | 49 | 49 | - | - | 148 | 153 |
| 1 | Bad debts | 3 | - | - | - | - | - | 3 | - |
| 6 | Provision for doubtful debt | (1) | 10 | - | - | - | - | (1) | 10 |
| 49 | Audit fee | 42 | 30 | 37 | 30 | - | - | 79 | 60 |
| - | Inter-group expense | 4 | - | 18 | 23 | (22) | - | - | 23 |
| 60,773 | Total expenditure | 27,006 | 27,197 | 46,870 | 47,640 | (22) | - | 73,854 | 74,837 |
| (1,274) | Net surplus/(deficit) | 298 | (299) | (717) | (1,565) | - | - | (419) | (1,864) |

GROUPED FINANCIAL STATEMENTS

for the year ended 30 June 2006

MOVEMENT IN TAXPAYERS' EQUITY REPORTING

| GROUPED FY2004-05 ACTUAL \$000 | STATEMENT OF MOVEMENT IN TAXPAYERS' EQUITY | AVIATION SAFETY | | SECURITY SERVICE | | GROUPED | |
|---|--|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| | | FY2005-06 ACTUAL \$000 | FY2005-06 BUDGET \$000 | FY2005-06 ACTUAL \$000 | FY2005-06 BUDGET \$000 | FY2005-06 ACTUAL \$000 | FY2005-06 BUDGET \$000 |
| (1,274) | Net operating surplus/(deficit) | 298 | (299) | (717) | (1,565) | (419) | (1,864) |
| - | Revaluation reserve | - | - | (2) | - | (2) | - |
| (1,274) | Total recognised revenues and expenses for the year | 298 | (299) | (719) | (1,565) | (421) | (1,864) |
| 13,756 | Capital injection/(repayment) | - | - | 10,000 | 10,000 | 10,000 | 10,000 |
| - | Retention of previous years surpluses | - | - | (11,639) | - | (11,639) | - |
| 12,482 | Movements in equity for the year | 298 | (299) | (2,358) | 8,435 | (2,060) | 8,136 |
| 15,430 | Taxpayers' equity at 1 July 2005 | 7,166 | 7,063 | 20,746 | 19,556 | 27,912 | 26,619 |
| 27,912 | Taxpayers' equity at 30 June 2006 | 7,464 | 6,764 | 18,388 | 27,991 | 25,852 | 34,755 |

GROUPED FINANCIAL STATEMENTS

for the year ended 30 June 2006

FINANCIAL POSITION

| GROUPED FY2004-05 ACTUAL \$000 | STATEMENT OF FINANCIAL POSITION | AVIATION SAFETY | | SECURITY SERVICE | | ELIMINATIONS | | GROUPED | |
|---|-------------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| | | FY2005-06 ACTUAL \$000 | FY2005-06 BUDGET \$000 | FY2005-06 ACTUAL \$000 | FY2005-06 BUDGET \$000 | FY2005-06 ACTUAL \$000 | FY2005-06 BUDGET \$000 | FY2005-06 ACTUAL \$000 | FY2005-06 BUDGET \$000 |
| 27,912 | TAXPAYERS' EQUITY | 7,464 | 6,764 | 18,388 | 27,991 | - | - | 25,852 | 34,755 |
| | Represented by: | | | | | | | | |
| | CURRENT ASSETS | | | | | | | | |
| 18,954 | Cash | 5,785 | 5,229 | 14,447 | 10,906 | - | - | 20,232 | 16,135 |
| 5,479 | Receivables | 2,446 | 2,147 | 4,686 | 2,900 | - | - | 7,132 | 5,047 |
| - | Inventories | - | - | 35 | 20 | - | - | 35 | 20 |
| 379 | Work-in-progress | 400 | 400 | - | - | - | - | 400 | 400 |
| 240 | Prepayments | 104 | 2 | 148 | 100 | - | - | 252 | 102 |
| 25,052 | Total current assets | 8,735 | 7,778 | 19,316 | 13,926 | - | - | 28,051 | 21,704 |
| 11,701 | Non-current assets | 2,258 | 2,186 | 16,540 | 19,195 | - | - | 18,798 | 21,381 |
| 36,753 | Total assets | 10,993 | 9,964 | 35,856 | 33,121 | - | - | 46,849 | 43,085 |
| | CURRENT LIABILITIES | | | | | | | | |
| 3,202 | Payables | 1,784 | 1,600 | 3,601 | 1,030 | - | - | 5,385 | 2,630 |
| 73 | Current portion of term liabilities | 72 | - | 2,420 | - | - | - | 2,492 | - |
| | Provisions | | | | | | | | |
| 3,459 | Employee entitlements | 1,069 | 1,000 | 3,247 | 2,600 | - | - | 4,316 | 3,600 |
| 6,734 | Total current liabilities | 2,925 | 2,600 | 9,268 | 3,630 | - | - | 12,193 | 6,230 |
| | NON-CURRENT LIABILITIES | | | | | | | | |
| 191 | Term liabilities | 118 | - | 6,854 | - | - | - | 6,972 | - |
| 1,916 | Employee entitlements | 486 | 600 | 1,346 | 1,500 | - | - | 1,832 | 2,100 |
| 8,841 | Total liabilities | 3,529 | 3,200 | 17,468 | 5,130 | - | - | 20,997 | 8,330 |
| 27,912 | NET ASSETS | 7,464 | 6,764 | 18,388 | 27,991 | - | - | 25,852 | 34,755 |

GROUPED FINANCIAL STATEMENTS

for the year ended 30 June 2006

CASH FLOWS

| GROUPED FY2004-05 ACTUAL \$000 | STATEMENT OF CASH FLOWS | AVIATION SAFETY | | SECURITY SERVICE | | ELIMINATIONS | | GROUPED | |
|---|--|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| | | FY2005-06 ACTUAL \$000 | FY2005-06 BUDGET \$000 | FY2005-06 ACTUAL \$000 | FY2005-06 BUDGET \$000 | FY2005-06 ACTUAL \$000 | FY2005-06 BUDGET \$000 | FY2005-06 ACTUAL \$000 | FY2005-06 BUDGET \$000 |
| | CASH FROM OPERATING ACTIVITIES | | | | | | | | |
| | Cash was provided from: | | | | | | | | |
| 46,814 | Levies | 19,932 | 20,203 | 39,685 | 42,701 | - | - | 59,617 | 62,904 |
| 2,906 | Crown funding | 1,761 | 1,761 | 147 | 145 | - | - | 1,908 | 1,906 |
| 1,595 | Ministry | 1,418 | 1,418 | - | - | - | - | 1,418 | 1,418 |
| 6,699 | Fees, charges and contracted services | 3,613 | 2,819 | 3,809 | 2,719 | (22) | - | 7,400 | 5,538 |
| 1,167 | Interest | 416 | 336 | 1,351 | 345 | - | - | 1,767 | 681 |
| 59,181 | | 27,140 | 26,537 | 44,992 | 45,910 | (22) | - | 72,110 | 72,447 |
| | Cash was applied to: | | | | | | | | |
| (39,086) | Payments to employees | (15,445) | (17,359) | (32,391) | (34,600) | - | - | (47,836) | (51,959) |
| (16,816) | Payments to suppliers | (9,744) | (8,550) | (8,540) | (6,704) | 22 | - | (18,262) | (15,254) |
| (25) | Interest paid | (19) | - | (212) | - | - | - | (231) | - |
| (12) | Net goods and services tax | 38 | - | 162 | (25) | - | - | 200 | (25) |
| (1,536) | Payments of capital charge | (573) | (565) | (1,594) | (1,580) | - | - | (2,167) | (2,145) |
| (57,475) | | (25,743) | (26,474) | (42,575) | (42,909) | 22 | - | (68,296) | (69,383) |
| 1,706 | Net cash flow from operating activities | 1,397 | 63 | 2,417 | 3,001 | - | - | 3,814 | 3,064 |
| | CASH FROM INVESTING ACTIVITIES | | | | | | | | |
| | Cash was provided from: | | | | | | | | |
| 121 | Sale of assets | 8 | - | 11,805 | 25 | - | - | 11,813 | 25 |
| (363) | Cash balance back to Crown | - | - | - | - | - | - | - | - |
| (6,824) | Purchase of assets | (762) | (800) | (21,149) | (10,321) | - | - | (21,911) | (11,121) |
| (7,066) | Net cash flow from investing activities | (754) | (800) | (9,344) | (10,296) | - | - | (10,098) | (11,096) |
| | CASH FROM FINANCING ACTIVITIES | | | | | | | | |
| | Capital injection | - | - | 10,000 | 10,000 | - | - | 10,000 | 10,000 |
| 14,691 | Capital repayment | - | - | (11,639) | - | - | - | (11,639) | - |
| | External borrowings | - | - | 10,674 | - | - | - | 10,674 | - |
| (72) | Repayment of external borrowings | (73) | - | (1,400) | - | - | - | (1,473) | - |
| 14,619 | Net cash flow from financing activities | (73) | - | 7,635 | 10,000 | - | - | 7,562 | 10,000 |
| 9,259 | Increase/(Decrease) in cash | 570 | (737) | 708 | 2,705 | - | - | 1,278 | 1,968 |
| 9,695 | Add opening cash 01 July 2005 | 5,215 | 5,966 | 13,739 | 8,201 | - | - | 18,964 | 14,167 |
| 18,954 | Cash held at 30 June 2006 | 5,785 | 5,229 | 14,447 | 10,906 | - | - | 20,232 | 16,135 |

18. Report of the Auditor General

AUDIT REPORT

TO THE READERS OF
THE CIVIL AVIATION AUTHORITY OF NEW ZEALAND'S
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

The Auditor-General is the auditor of the Civil Aviation Authority of New Zealand (the Authority). The Auditor-General has appointed me, Stephen Lucy, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the Authority, on his behalf, for the year ended 30 June 2006.

Unqualified opinion

In our opinion the financial statements of the Authority on pages 73 to 106:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
 - the Authority's financial position as at 30 June 2006;
 - the results of its operations and cash flows for the year ended on that date; and
 - its service performance achievements measured against the performance targets adopted for the year ended on that date.

The audit was completed on 26 October 2006, 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 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. 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. 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 disclosures are adequate.

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

We evaluated the overall adequacy of the presentation of information in the financial statements. 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 financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must fairly reflect the financial position of the Authority as at 30 June 2006. They must also fairly reflect the results of its operations and cash flows and service performance achievements for the year ended on that date. The Board's responsibilities arise from the Public Finance Act 1989.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and the Public Finance Act 1989.

Independence

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

In addition to the audit we have carried out an assignment to provide quality assurance over a contractor selection process, which is compatible with those independence requirements. Other than the audit and this assignment, we have no relationship with or interests in the Authority.



S B Lucy
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 Civil Aviation Authority of New Zealand for the year ended 30 June 2006 included on the Authority's web site. The Authority's Board is responsible for the maintenance and integrity of the Authority's web site. We have not been engaged to report on the integrity of the Authority's web site. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

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/from these 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 and related audit report dated 26 October 2006 to confirm the information included in the audited financial statements presented on this web site.

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