

annual report

2008/09

Civil Aviation Authority of New Zealand
including the
Aviation Security Service



Te Mana Rererangi Tumanui o Aotearoa



Kaiwhakamaru Rererangi

New Zealand Government

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TO: THE MINISTER OF TRANSPORT

This Annual Report has been prepared in accordance with:

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

I present this annual report 2008/09 on the performance of the Civil Aviation Authority of New Zealand, including Aviation Security Service, for the financial year 01 July 2008 to 30 June 2009.



RICK BETTLE

Chairman

Date: 29 October 2009

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1 Introduction from the Authority

The Civil Aviation Authority (CAA) and the Aviation Security Service (Avsec) have both performed well during the year, responding to rapidly changing business and economic conditions and developments in the civil aviation system.

→ Civil Aviation Authority (CAA)

The 2008/09 year was one of high activity levels for the CAA. Demand for regulatory services remained high as new operators entered the market, particularly in the airline sector, and existing operators adjusted their services in response to market conditions. The CAA's resources have been under pressure as operational expenditure was trimmed to offset reduced revenue from safety levies,

Significant activities in the year included:

- addressing a short-term funding issues created by the entry of JetStar into the domestic New Zealand civil aviation market;
- initiating the first comprehensive review of the CAA's levy, fees and charges in thirteen years;
- internal reviews addressing internal capability and capacity to support core regulatory activities;
- work to address findings from the Universal Safety Oversight Audit Programme (USOAP) conducted by the International Civil Aviation Organization (ICAO) and findings from other reviews, including a follow-up audit by the Office of the Auditor General; and
- the decision to relocate the CAA to Wellington CBD.

The Authority has overseen a programme of reviews by management of the CAA's policies governing safety and business processes, and development of a high-level risk register. The CAA has directed attention to poorly performing sectors of the aviation industry via its safety monitoring and safety promotion activities, and other targeted interventions.

→ Aviation Security Service (Avsec)

Avsec has a complement of 799 staff, a reduction of 27 from the previous year. We are very pleased at the manner in which management and staff across New Zealand have responded to the volatility in the aviation sector over the last twelve months. In many instances this has been at some personal sacrifice and we appreciate the willing support and loyalty of staff at this time in particular.

We are also very pleased at the way management and staff participated in the domestic security review, the implementation of air cargo security on international passenger flights and enhancing our people capability to meet the changes in the market.

Avsec is well positioned, both financially and with its resources and capability, to meet the improved economic times and activity that are on the horizon.

→ Conclusion

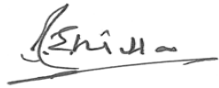
Both the Authority and staff of the CAA and Avsec were deeply saddened to learn of the death of a valued colleague and friend in November 2008. Mr Jeremy Cook died, along with others, when an Airbus 320 aircraft crashed off the south coast of France. Jeremy is missed by all across the organisations.

Date: 29 October 2009



RICK BETTLE

Chairman



ERROL MILLAR

Deputy Chairman - CAA



DARRYLL PARK

Deputy Chairman - Avsec



SUSAN HUGHES

Member

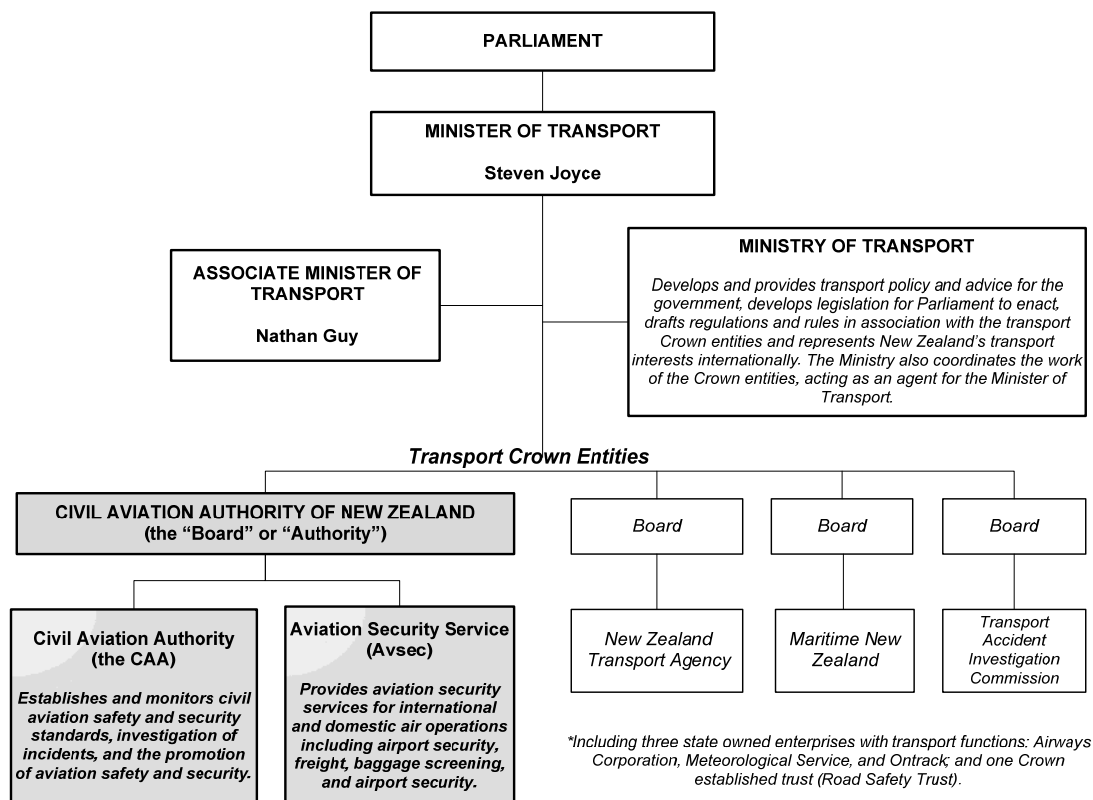


ROSS CRAWFORD

Member

2 Overview of the Authority

2.1 NEW ZEALAND GOVERNMENT'S TRANSPORT SECTOR STRUCTURE



2.2 ROLE OF THE AUTHORITY

The Civil Aviation Authority is a Crown entity, for the purposes of *section 7 of the Crown Entities Act 2004*, established on 10 August 1992 under *section 72A of the Civil Aviation Act 1990 (the Act)*.

The Authority consists of a five-member board appointed for terms of up to three years by the Minister of Transport. They are persons that the Minister considers will represent the public interest in civil aviation. The board or the Authority reports to the Minister of Transport.

Under *section 72AA of the Act*, the objective of the Authority is to undertake New Zealand's civil aviation safety, security and other functions in a way that contributes to the aim of achieving an integrated, safe, responsive, and sustainable transport system.

The functions (*section 72B of the Act*) of the Authority on safety and security regulation and service delivery of aviation security are achieved by the Authority through the work of two organisations, the CAA and Avsec respectively.

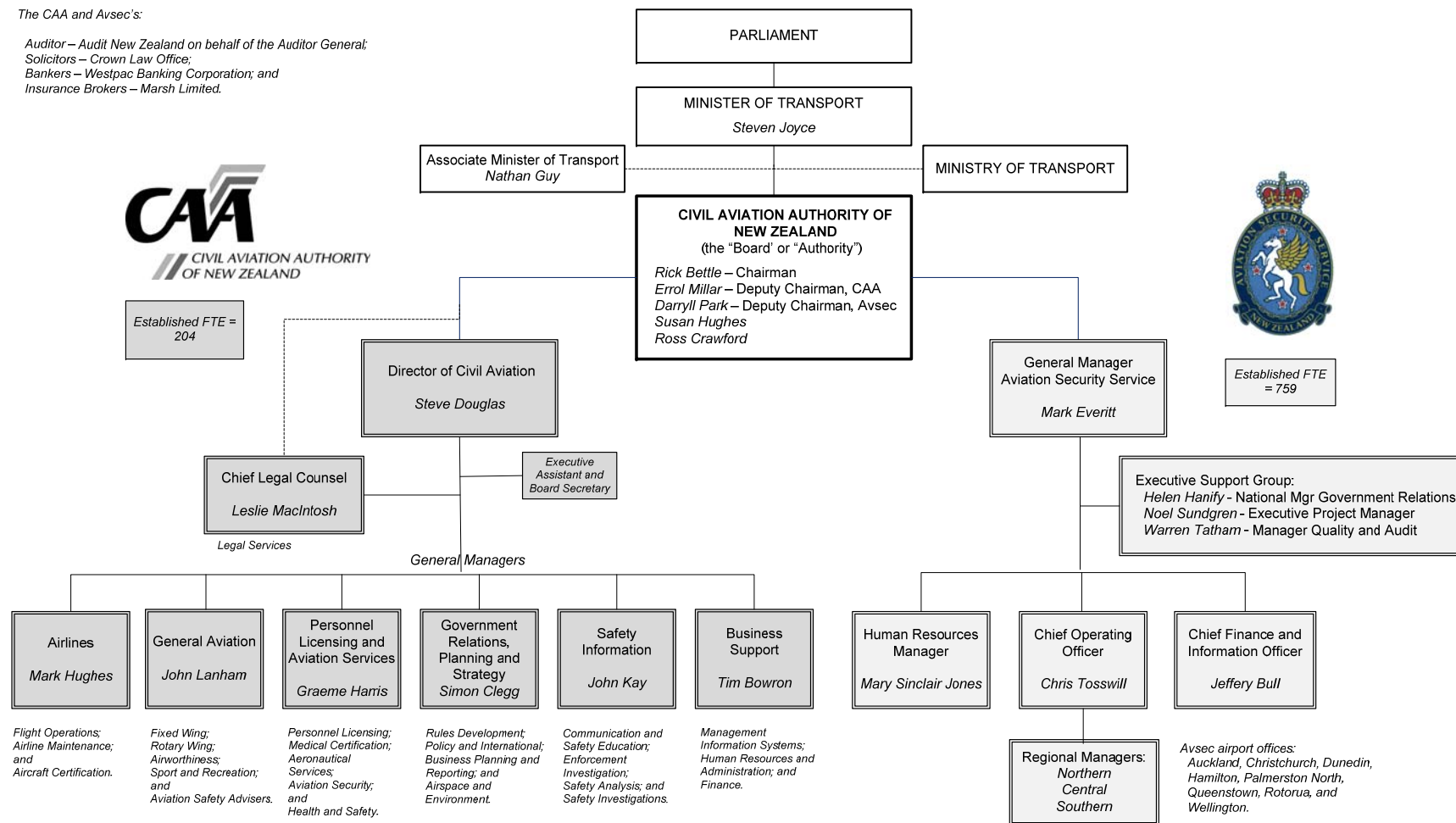
- The CAA is New Zealand's regulatory agency for the establishment and monitoring of civil aviation safety and security standards; investigation of incidents; and the promotion of safety and security.
- Avsec provides aviation security services (*section 72B (ca) of the Act*) for international and domestic air operations, including security of passengers, freight, baggage screening, and airport security

2.3 THE AUTHORITY'S STRUCTURE

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

The CAA and Avsec's:

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



3 Governance and Accountability

Statement of the Authority

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

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

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

3.1 RESPONSIBILITIES

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

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

Under the *Civil Aviation Act 1990*, the Director of Civil Aviation is required to exercise independent judgement in relation to granting, suspension or revocation of aviation documents, the issuance of suspension or revocation of medical certificates, the granting of exemptions or the enforcement of the provisions of the Act.

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

3.2 INTERNAL AUDIT

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

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

- *Avsec has an internal audit function that monitors internal control of the organisation. This function is concerned with the quality and reliability of financial and non-financial information reported to the Authority. Internal Audit operates independently of line management. It reports through the executive management to the Audit and Risk Management Committee of the Authority. (Refer to sec 14.3.)*
- *The CAA has disestablished its internal audit function (Professional Standards Unit) in June 2009 and will be outsourcing the function starting 2009/10 financial year.*

The Authority and management acknowledge their responsibility by signing *the Statement of Responsibility in Part 3 (Statement of Service Performance and Consolidated, CAA and Avsec, Financial Statements)* of this report.

3.3 RISK MANAGEMENT

The Authority acknowledges that it is ultimately responsible for the management of organisational risks. The Authority has required the Director of Civil Aviation and the General Manager of Aviation Security Service, through their respective risk management policies to establish and operate a risk management programme in accordance with the Australia/New Zealand Standard Risk Management 4360 (AS/NZS 4360:2004).

3.4 LEGISLATIVE COMPLIANCE

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

3.5 ETHICS

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

The Civil Aviation Authority is a Crown entity stipulated in *Crown Entities Act 2004*; both organisations are covered by the State Services Commissioner's Standards of Integrity and Conduct launched on 19 June 2007 and effective on 30 November 2007.

3.6 STANDARD FOR QUALITY MANAGEMENT

ISO certification represents an internationally recognised standard for quality management. The Authority has a policy of maintaining its management system certification to ISO 9001:2000, and its successors. This assures that the highest possible standard is reached at all times. Avsec is audited annually under this process (refer to section 14.3). The CAA is in the process of reviewing this function.

3.7 ENGAGEMENT WITH STAKEHOLDERS

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

PART 1:

CIVIL AVIATION
AUTHORITY OF
NEW ZEALAND
(THE CAA)

4 Director of Civil Aviation's Overview

Civil aviation touches every New Zealander in one way or another. Maintaining a civil aviation system that ensures people, goods and services move safely and securely is at the core of what the CAA does.

The CAA's year has been demanding. In 2008/09, economic changes manifested in significantly reduced revenues for the CAA. Yet the safety and security risks the CAA managed remained the same, or in some cases increased. JetConnect's departure from New Zealand's domestic aviation market was replaced by JetStar, which operates under the ANZA privileges. JetStar's decision to operate using ANZA privileges further compounded the CAA's revenue decrease.

Coming to grips with what is happening to revenue, what decisions need to be made to ensure that regulatory oversight of the civil aviation system is maintained within the resources available, and how to manage change within the CAA have dominated 2008/09.

→ Highlights

Safety performance of the civil aviation system

In 2005, the CAA set targets for the safety performance of the civil aviation system. The targets were split amongst thirteen groups, representing various types of civil aviation activity. Of the thirteen groups, seven are performing at, or better than, the target set. Five groups are not.

Of these five groups, three are steadily moving towards the target level of performance, and two are moving away from the targets set. Those two groups are "Sport Aviation Transport Operations" and "Other Commercial Operations — Aeroplane".

The CAA has, in response to the safety performance data for these five target groups, put in place initiatives designed to address the causes of poor safety performance. The effectiveness of these initiatives will be demonstrated in time and it is likely that the targets set for 2010 for these groups will not be met. The safety performance exhibited by these target groups are fitting reminders of the role and purpose of the CAA.

While the CAA actively encourages and influences behaviour that results in good safety performance, the industry participants are responsible for the safety of their operations and the attitudes and behaviour that determine that. The CAA is heartened that the working relationship it has with a number of industry bodies has improved during 2008/09, and that a number of joint industry/regulator initiatives have been started. One example of this is the joint work being undertaken with Aviation Industry Association (AIA) on the implementation of Safety Management Systems (SMS).

Changes in the way the CAA works

Over the last few years, the CAA has been reviewed and audited by a number of organisations, including the Office of the Auditor General. The focus of these reviews has been about how 'well' the CAA goes about its business as a regulator.

The CAA has embarked on a work programme to address the systemic issues these reviews have identified. Principal areas of focus are:

- how to better measure the effectiveness of the CAA's interventions;
- reviewing how well the CAA's surveillance functions work, and what needs to be done to make them more effective; and

- improved training of CAA staff with respect to the decisions and regulatory tools available to them.

The CAA uses its risk profiling tools to determine the breadth and depth of audits it undertakes as part of its safety monitoring programme. Risk profiles enable the CAA to target its resources towards those operators and document holders who appear to pose more risk than might be otherwise expected. While not perfect, use of risk profiles is at the heart of CAA's safety monitoring processes. Further refinement is being made to the tool and its application, as experience enables us to learn where it works well, and where we need to improve our approach.

Civil Aviation Rules Programme

Three Civil Aviation Rules came into force in 2008/09, enabling the CAA to address some of the findings made in the ICAO's Universal Safety Oversight Audit Programme (USOAP) audit. The CAA has also worked closely with the Ministry of Transport to find ways to streamline the process used to develop and implement Civil Aviation Rules, in response to comments from industry.

Safety oversight

In addition to the day-to-day safety oversight activities of the CAA, there were a number of highlights including:

- working with the Civil Aviation Authority of Australia (CASA) to define operational requirements of airlines operating in New Zealand under the Australia New Zealand Aviation (ANZA) mutual recognition arrangement;
- working with Air New Zealand (ANZ) to enable its test flight of a Boeing 747 using jatropha nut based bio-fuel;
- release of the Agricultural Aircraft Safety Review;
- more than 2,000 aviation participants attended the "AvKiwi" seminars on weather;
- in conjunction with Aviation Industry Association (AIA), the CAA hosted the South Pacific Safety Management Systems Symposium;
- implementation of new rules on air cargo security (Rules Part 109); and
- application of a new methodology for the assessment of airspace risk at Gisborne, Taupo, Paraparaumu and Palmerston North aerodromes.

International responsibilities and cooperation

Civil aviation is an international system. The CAA also works within the framework set by the International Civil Aviation Organisation (ICAO), and adopts ICAO standards in Civil Aviation Rules. The CAA works closely with a number of agencies, such as the Civil Aviation Safety Authority of Australia (CASA), the European Aviation Safety Agency (EASA), and the United States Federal Aviation Administration (FAA) and develops co-operative arrangements, for example on airworthiness and maintenance.

Highlights in this area of CAA's activity include:

- progress on bi-lateral agreements with EASA and the FAA;
- CAA hosting an ICAO Aviation Security Panel workshop, which was attended by 28 countries; and
- assistance to PASO in developing its capability to work effectively in the Pacific region.

→ Conclusion

The CAA undertakes a broad range of functions in overseeing the civil aviation system. It does so by working with industry participants to achieve safe operations for the travelling public and all who use the services of the civil aviation system.

The CAA staff members are skilled and dedicated to their safety roles. The past year has been challenging and a number of changes are underway at the CAA to equip us for new and different challenges in future. I am confident that together we can meet the challenges and help ensure New Zealand benefits from a safe and secure civil aviation system.



STEVE DOUGLAS

Director of Civil Aviation

Date: 29 October 2009

5 Overview of the CAA

5.1 WHO WE ARE

→ Our vision¹

The CAA's vision is for New Zealand civil aviation system to be integrated, safe, secure, responsive, and sustainable.

→ Our mission²

The CAA's mission is to be an effective organisation by taking efficient oversight, regulatory and promotional action to enhance value and manage risks in the New Zealand civil aviation system.

→ Our role and functions

Statutory mandate

The *Civil Aviation Act 1990* sets out the roles and functions of the CAA.

The CAA is the agency responsible for the regulatory oversight of New Zealand's civil aviation system. In essence, this includes setting standards for safety and security performance, investigation of incidents, and safety and security promotion.

The Authority (the Board of the CAA) appoints a Chief Executive, who has two roles: as Chief Executive of the CAA; and Director of Civil Aviation. The Director of Civil Aviation has a range of powers and functions conferred by *the Act*. The Chief Executive has a set of delegated authorities conferred by the Authority.

Role³

The CAA's roles include the provision of:

- policy advice and civil aviation rules development;
- certification and licensing of aviation participants;
- monitoring of compliance (surveillance) to civil aviation safety and security standards by participants;
- education and promotion of aviation rules, advisory circulars and other safety and security-related information;
- investigation of aviation incidents and analysis of safety trends;
- enforcement of civil aviation legislation and rules;
- publication of aeronautical information; and
- oversight administration of the *Health and Safety in Employment Act 1992* and *Hazardous Substances and New Organisms Act 1996* in the aviation sector.

¹ Amended in 2009 to: "Safe and secure civil aviation."

² Amended in 2009 to: "To manage safety and security risks in New Zealand civil aviation through the implementation of efficient oversight, regulatory and promotional action."

³ Refer to www.caa.govt.nz for details on how the CAA regulates the New Zealand civil aviation system (entry, participation and exit).

Delegated international civil aviation obligations

Certain international civil aviation obligations of the Crown have been delegated to the CAA or the Director of Civil Aviation in respect of *the International Civil Aviation Organization (ICAO)* and the *Convention on International Civil Aviation signed in Chicago on 7 December 1944*. The CAA is designated by the Minister of Transport as the:

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

5.2 OUR RESOURCE BASE

The CAA has an established 204 full-time equivalents (FTE).

The CAA has six groups, each headed by a General Manager. These groups are: Airlines, General Aviation, Personnel Licensing and Aviation Services, Government Relations Planning and Strategy, Safety Information, and Business Support. A Legal Unit, headed by the Chief Legal Counsel also supports the Director of Civil Aviation.

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

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

6 Our Operating Environment

6.1 OUR CONTRIBUTION TO GOVERNMENT GOALS

→ Economic transformation agenda

In 2008/09, civil aviation carried more than 9 million passengers on New Zealand's domestic aviation network, and 4.5 million on international air carriers to and from New Zealand. Ensuring that the civil aviation network remains safe and secure is important for New Zealand's reputation in both domestic and international travel and air cargo markets.

The CAA balances the impost of regulation against the benefits of safety and security when developing and implementing new *Civil Aviation Rules*. This assessment includes consideration of the impost of the CAA's daily over-sight activities on the civil aviation industry.

The CAA contributes to the Government's economic transformation agenda by:

- ensuring New Zealand continues to have a safe and secure civil aviation system; and
- maintaining New Zealand's links with the 189 other ICAO Contracting States.

6.2 DEVELOPMENTS IN INTERNATIONAL CIVIL AVIATION

→ International Civil Aviation Organization (ICAO)

As a Contracting State with the *International Civil Aviation Organisation (ICAO)*, New Zealand has a responsibility to comply with the standards set by the ICAO. As part of its strategic outlook, ICAO has set a series of objectives for 2010 focussed on enhancing global aviation safety and security. Other strategic objectives include:

- minimising the adverse effect on aviation of the environment, in particular aircraft noise and aircraft engine emissions;
- enhancing the efficiency of aviation operations;
- maintaining the continuity of aviation operations; and
- strengthening the law governing international civil aviation, as international civil aviation changes.

The CAA includes, as part of its *Civil Aviation Rules* programme, work to address these high-level issues, and to engage with the international aviation community where New Zealand has specific needs or requirements.

6.3 DEVELOPMENTS IN THE NEW ZEALAND CIVIL AVIATION SYSTEM

New Zealand's civil aviation sector grew in 2008/09. As at 30 June 2009:

- there were 47,827 active aviation documents covering aircraft, individuals and organisations;
- the total number of certificated organisations increased by 12% to 709;
- the number of active licensed pilots increased by 2.6% to 10,052; and
- the total number of aircraft in the NZ aviation fleet increased by 2% to 4,398.

Other significant events that happened in 2008/09 included:

- JetStar entered New Zealand's domestic aviation market, operating on an Australian Operating Certificate with ANZA privileges on 10 June 2009; and
- international air cargo agents being required to have security controls from 9 April 2009.

International passenger numbers decreased during 2008/09. Arrivals and departures decreased by 2.9% when compared to the 2007/08 year, with arrivals and departures totalling 8,850,767 in 2008/09.

In contrast, domestic passenger numbers increased by 9.1% compared to 2007/08, with the number of travellers estimated to be 9,565,000 in 2008/09.

The CAA's revenues are related to the number of international passenger departures, and the number domestic passengers carried per "sector". JetStar operating under ANZA privileges reduced the CAA's domestic passenger levy income, as it did not have to pay the levy because its safety oversight was undertaken by CASA.

The table below summarises key changes in New Zealand's civil aviation activity.

New Zealand civil aviation	2005/06	2006/07	2007/08	2008/09	Change from 2007/08	% change from 2007/08
Certificated organisations	618	636	634	709	+75	+11.8%
Registered aircraft	3,988	4,103	4,315	4,398	+83	+1.9%
Total international passenger departures and arrivals	8,700,230	8,909,086	9,119,031	8,850,767	-268,264	-2.9%
Total domestic passengers (estimate)	7,735,000	7,904,000	8,717,000	9,565,000	+848,000	+9.1%

7 Managing our Risks

Set out below are the CAA's major internal and external risks during the year.

7.1 MANAGING OUR INTERNAL RISKS

Description	Identified internal risks	What we did to manage our internal risks
1. ICAO obligations		
The regulation of civil aviation is dependent on the collaborative development of international standards and practices through ICAO. These standards and practices must be reflected in State legislation and civil aviation operating rules to ensure the safe and efficient global interaction of civil aviation.	<p>If the New Zealand civil aviation system and civil aviation rules do not comply with international standards, New Zealand will:</p> <ol style="list-style-type: none"> 1. face limits on its aircraft operating into other States; and 2. be exposed to a level of economic risk if it cannot participate adequately in the ICAO oversight or cannot fully implement corrective action plans. 	<p>The CAA continues to ensure that:</p> <ol style="list-style-type: none"> 1. New Zealand meets its obligations under international civil aviation agreements; 2. it complies with ICAO standards as expeditiously as possible; and 3. on-going implementation of corrective actions following ICAO's USOAP (safety) and USAP (security) audits of New Zealand. <p><i>(Refer to section 9.3 for an update on the CAA's implementation of corrective actions re USOAP.)</i></p>
2. External affairs - Includes International (e.g. aviation safety agreements with other States) and Government (e.g. government priorities) Relations		
The CAA's resources need to match the demands generated by other ICAO Contracting States, the international and domestic aviation sectors, and the expectations of Government with respect to its priorities.	<ol style="list-style-type: none"> 1. The CAA's stakeholders, especially the government, might perceive it to be inefficient and uncooperative in pursuing the government's priorities and foreign relations interests. 2. The CAA does not have the resources and capability to meet demands in the development of new agreements, or to proactively seek opportunities with other States that would benefit New Zealand; assist other States especially those in the Pacific; and to pursue government priorities in the transport sector. 	<p>CAA will maintain its current establishment level in the short to medium term, and refocus existing resources on areas of priority.</p> <p><i>(Refer to section 9.3 for ICAO-related work programmes.)</i></p>
3. Financial sustainability		
<p>The CAA's revenues from fees, charges and levies are vulnerable to rapid change in periods of economic decline, which is, sometimes, when safety and security risks often increase.</p> <p>The CAA's reserves, while able to absorb short-term reductions in revenues need to be re-established in periods of stronger economic performance to provide a "fiscal cushion" for future periods of reduced economic activity.</p>	<p>Revenues from aviation safety levy and fees and charges have been adversely affected by the current economic decline and may not be sufficient to fund activity to:</p> <ol style="list-style-type: none"> 1. ensure sufficient safety and security oversight of the civil aviation system; and 2. ICAO requirements so the CAA can fully implement all corrective actions following the USOAP and USAP. 	<p>The CAA:</p> <ol style="list-style-type: none"> 1. reviewed its expenditure and ensured financial discipline and sound financial management practices; and 2. started a Funding (Fees and Charges) Review that addresses the basis and objectives of passenger levy, and fees and charges.

Description	Identified internal risks	What we did to manage our internal risks
4. Personnel capability		
The ability to attract, recruit and retain staff.	The CAA cannot recruit the number or type of staff required to carry out its regulatory responsibilities.	The CAA developed and started to implement a new Human Resources Strategy, adopted new and different recruitment techniques, and reviewed the need for some positions and roles. The sudden change in the economy in the latter part of 2008/09 prompted the CAA to: <ol style="list-style-type: none"> maintain existing establishment levels; review the need for new positions; and re-prioritise training and staff development.
5. Relocation of the CAA		
The CAA has committed to relocate its offices to the Wellington CBD in early 2011. The decision to relocate is part of the CAA's long-term strategy to make itself more accessible to industry and other parts of the government transport sector.	The CAA has exposed itself to financial risk associated with new buildings, fit-out costs, etc., at a time when its revenue flows have diminished.	The costs estimated by the CAA for relocation have been conservatively estimated, rigorously reviewed and will continue to be monitored within the budget set for the relocation. The funding of the ongoing accommodation costs will be considered as part of the analysis of future revenues and costs being undertaken as part of the Funding Review mentioned in the previous page.

7.2 MANAGING OUR EXTERNAL RISKS

Description	Identified external risks	What we did to manage our external risks
6. Shortage of senior pilots for commercial operations		
Until recently, the growth of the aviation industry has created high demand for qualified personnel. Globally there are 16,000 aircraft on manufacturers' order books which will need an estimated 17,000 new pilots (plus aircraft engineers and cabin crew) a year to fly them. (Note: This was identified prior to the global financial crisis which started in September 2008. The scenario changed after that as commercial aviation reviewed their route and fleet plans.)	Small operators are experiencing difficulty in maintaining satisfactory experience standards especially for Chief Pilot appointments, as experienced staff are employed by bigger organisations.	<ol style="list-style-type: none"> The introduction of a new competency based Multi-Crew Pilot Licence (MPL) is being scoped. The intention is to enable the introduction of MPL to New Zealand. MPL is a new qualification for airline co-pilots, using competency-based approach to prepare the co-pilot candidate to pilot an advanced airliner. The CAA conducted training workshops for "Senior Persons Responsible for Air Operations" for organisations holding Part 119/135 or 137 certification, and Chief Flying Instructors for Part 141 certificated (and potential) organisations.
7. Adventure aviation		
Over the last two decades, the use of sport and recreational aircraft for the carriage of passengers for hire or reward (e.g. tandem parachuting, gliding, ballooning, hang-gliding and para-gliding and vintage aircraft) has increased significantly. Applicable civil aviation rules for this sector were written for amateur, private and	Failure to enforce activities and compliance of commercial operators of adventure aviation exposes consumers to higher level of safety risk than acceptable.	The CAA drafted Rules Part 115 (Adventure Aviation) to ensure that all operators achieve an acceptable level of safety for adventure aviation. The final draft rule was submitted to the Ministry of Transport in September 2009.

Description	Identified external risks	What we did to manage our external risks
recreation activities only and are based on self-administration by participants.		
8. Security		
<p>Any State that does not ensure its aviation security systems are robust and effective leaves itself vulnerable to potential attack or for use as a launching point for attacks in other States. Threat levels can change significantly at very short notice and at any time.</p> <p>However, terrorism is only one aspect of the security threat environment in which aviation operates. All acts of unlawful interference against aviation, whether minor or major, and arising from whatever motivation, are considered significant due to the potential for loss of life, financial loss and the need to maintain public confidence in the aviation industry.</p>	<p>The consequence of serious acts of unlawful interference anywhere can have severe adverse effects on aviation and associated interests globally. Attacks are likely to be both indiscriminate and devastating in nature.</p> <p>While government agencies work to prevent unlawful activity and may uncover information suggesting pending attacks, it is prudent to assume that they cannot identify and resolve all possible threats.</p>	<p>The CAA:</p> <ol style="list-style-type: none"> 1. developed consistent application of security measures required of all ICAO Contracting States; and 2. identified potential system vulnerabilities, both international and domestic, to ensure availability of security resources effectively and efficiently.
9. Aging aircraft		
<p>An increasing proportion of the commercial aviation aircraft fleet are old aircraft being used beyond their original planned designed life. Typically these are turbojet and turboprop powered aircraft with a design life of typically 20 to 25 years and up to 90,000 flight hours.</p> <p>Aviation safety authorities globally accept that aircraft that exceed up to 30 years of age can be safely operated if properly maintained.</p>	<p>The existing certification and monitoring programmes are no longer adequate to address issues related to the maintenance and use of aging aircraft. There is an increasing concern that this gives rise to an unacceptable level of latent safety risk.</p>	<p>The CAA would have:</p> <ol style="list-style-type: none"> 1. provided initial training for airline inspectors / airworthiness personnel to provide a sound understanding of aging aircraft issues; 2. established a database of applicable reference material; 3. developed an aging aircraft recurrent training programme; 4. developed an aging aircraft monitoring programme; and 5. established an industry forum aimed at promoting an awareness of aging aircraft issues. <p><i>(Note: The above action plans to mitigate aging aircraft were postponed in 2009/10 due to more urgent operational priorities.)</i></p>

8 Progress Report on our Strategic Directions

8.1 OVERVIEW OF OUR 2008/11 STRATEGIC DIRECTIONS

The CAA has five strategic goals designed to support the achievement of its outputs (*section 21.1*) and outcomes. These strategic goals were:

1. effective stakeholder relationships;
2. appropriate exercise of regulatory functions and powers;
3. effective management and use of safety and security information;
4. active international engagement and alignment; and
5. capable and efficient business operations and systems.

The diagram 8.1a (*refer to next page*) shows the relationships between the CAA's strategic goals, outputs, intermediate outcomes, and overall outcome. Section 9 describes our "operating intentions and work programmes to achieve each strategic goal".

8.2 MEASURING PROGRESS TOWARDS ACHIEVEMENT OF OUR OVERALL OUTCOME

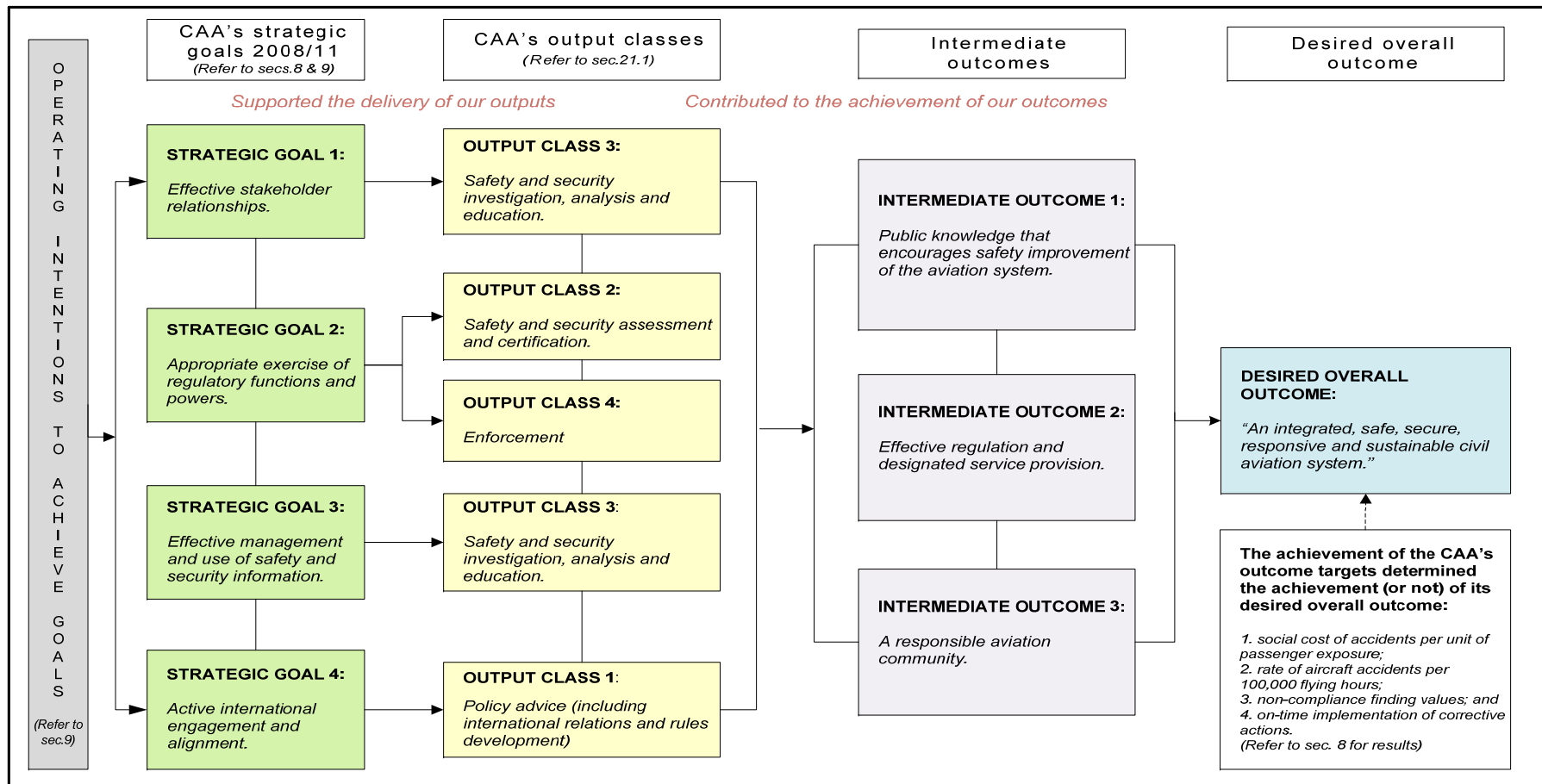
The overall outcome sought by the CAA is:

"An integrated, safe, secure, responsive and sustainable New Zealand civil aviation system."

The CAA's daily regulatory decisions and activities contribute to helping the CAA achieve its overall outcome. Also, the CAA's operating intentions and work programmes discussed in section 9 described what we did to support our achievement of outputs and outcomes. The relationships between day-to-day decisions and the overall outcome are seldom direct. The CAA assesses progress towards this outcome using a set of outcome measures and targets.

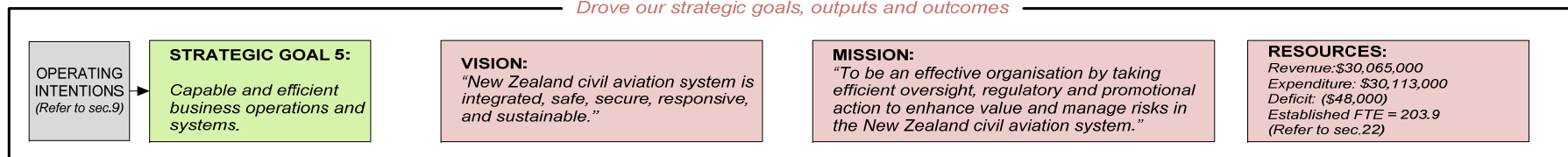
Outcome measures and targets for 2008/09		
Outcome measures	Targets	Overall outcome
1. Social cost of accidents per unit of passenger exposure.	2008/09 social cost per unit of passenger exposure is less than 2007/08 or, trending toward or, is equal to or less than, the 2010 target.	<p>→ The achievement of these outcome targets contributes to the achievement of the CAA's desired overall outcome.</p> <p>○ <i>"An integrated, safe, secure, responsive, and sustainable New Zealand civil aviation system."</i></p>
2. Rate of aircraft accidents per 100,000 flying hours.	2008/09 rate of accidents per 100,000 flying hours is less than the 2007/08 rate.	
3. Non-compliance finding values.	2008/09 non-compliance finding values are less than the 2007/08 value.	
4. Percent (%) of corrective actions implemented by due dates	100% of corrective actions are implemented by due date regardless of severity (critical, major or minor) of findings.	

➔ 8.1a Linking the CAA's strategic goals, outputs and outcomes



Organisational health and capability of the CAA

Drove our strategic goals, outputs and outcomes



The targets set for the 2008/09 year have not been met in some parts of the civil aviation system. For the part of the system where there is the greatest exposure, airline operations used in public air transport, all targets have been met and improved.

There are some parts of the civil aviation system where current trends in safety performance are of concern to the CAA. As discussed below, “Public air transport - sport aviation transport operations” and “Other commercial operation — aeroplane” exhibit trends away from the desired target level of safety performance. In part, the trends these two groups demonstrate result from increased use of aircraft which the CAA has less oversight of than may be necessary for good safety outcomes. The CAA is considering what its options are to try and reverse the emerging trends, and get these two groups moving back towards the desired state of safety performance.

Corrective actions are not being implemented as quickly as they should be. This also causes CAA’s concern, as it may indicate a shift in the prevailing attitude towards safety of some parts of the industry. In essence, corrective actions are about fixing things that are wrong. Underlying causes as to why corrective actions are not being addressed more rapidly are not well understood. This area of activity will be closely monitored by the CAA and it will work with industries to achieve improved performance in 2009/10.

➔ Outcome measure 1: Social cost of accidents per unit of passenger exposure

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

In 2005, the CAA set a series of social cost targets for three groups and thirteen sub-groups of activity in the civil aviation system. The thirteen target groups are called Safety Outcome Target Groups.

The date to achieve safety targets is 2010. The CAA monitors the progress of each of the thirteen Safety Outcome Target Groups to determine if sufficient gains are being made in safety performance to achieve the target set for 2010.

Social cost of accidents per unit of passenger exposure (\$)				
Safety Outcome Target Groups	2010 Target	2007/08 actual	2008/09 actual	Comment
PUBLIC AIR TRANSPORT				
Airline operations — large aeroplanes	0.10	0.03	0.0	<i>For these four groups:</i> <ul style="list-style-type: none"> ○ 2010 target met. ○ Long-term trend is stable and better than 2010 target.
Airline operations — medium aeroplanes	0.10	1.27	0.0	
Airline operations — small aeroplanes	6.50	0.11	0.35	
Airline operations — helicopters	6.50	0.00	4.89	
Sport aviation transport operations	13.00	0.10	62.71	<ul style="list-style-type: none"> ○ 2008/09 performance worse than 2007/08. ○ Group trend is away from 2010 target. ○ On current performance, group will <u>not</u> meet its 2010 target.
OTHER COMMERCIAL OPERATIONS				
Other commercial operations — aeroplane	6.50	57.44	24.60	<ul style="list-style-type: none"> ○ 2008/09 performance better than 2007/08. ○ Group trend is away from 2010 target. ○ On current performance, group will <u>not</u> meet its 2010 target.
Other commercial operations — helicopter	6.50	79.98	44.83	<ul style="list-style-type: none"> ○ 2008/09 performance better than 2007/08. ○ Group performance is improving, though not sufficient to meet its 2010 target.
Agricultural operations — aeroplane	14.00	88.28	67.96	<ul style="list-style-type: none"> ○ 2008/09 performance better than 2007/08.

Social cost of accidents per unit of passenger exposure (\$)				
Safety Outcome Target Groups	2010 Target	2007/08 actual	2008/09 actual	Comment
				o Group performance is improving, though not sufficient to meet its 2010 target.
Agricultural operations — helicopter	14.00	0.00	21.01	o 2008/09 performance worse than 2007/08. o Group trend is static. o On current performance, group <u>may</u> meet its 2010 target.
Agricultural operations — sport aircraft	28.00			o Data not available
NON-COMMERCIAL OPERATIONS				
Private operations — aeroplanes	10.00	0.21	41.34	For these two groups: o 2008/09 performance worse than 2007/08.
Private operations — helicopters	10.00	10.04	30.24	o Group trend is towards its 2010 target. o On current performance, group <u>may</u> meet its 2010 target.
Private operations — sport aircraft	20.00	111.44	92.53	o 2008/09 performance better than 2007/08. o Group performance improving, though not sufficient to meet its 2010 target.
Notes:				
o Social cost per unit of passenger exposure is defined as an economic measure of the cost of accidents to the nation. It assigns a value of statistical life (VOSL) to any deaths, rehabilitation costs from injuries, cost of property damaged or lost in the accident, and other specific external costs. The gross social cost calculated from accidents is pro-rated over the volume of aviation activity in any specified sector of the aviation community. The volume of aviation activity, the unit of passenger exposure, is per seat flying hour. For target groups that are predominantly passenger carrying, a surrogate of 500 kg of aircraft weight is assessed as being the equivalent of an occupied seat.				
o Estimates for large and medium aeroplane calculations use 10 years average, and one year is used for the rest of the target groups.				
o For sport groups, calculation of target social cost is based on CAA estimates.				
o The CAA commissioned the New Zealand Institute of Economic Research (NZIER) to review the social cost target setting process and its usage in strategy development. The review was completed in December 2007, subsequent complementary approaches and implementation of improvements will take effect in 2009/10.				

Four Safety Outcome Target Groups used for public air transport are at or below the target set for 2010. These are the groups, which carry the most passengers and therefore have the highest “risk exposure”. That is, there will be tragic consequences should an accident happen. These groups are:

- airline operations — large aeroplanes;
- airline operations — medium aeroplanes;
- airline operations — small aeroplanes; and
- airline operations — helicopters.

Trends of two Safety Outcome Target Groups are increasing further from the target performance level set for 2010. These two groups are:

- sport aviation transport operations; and
- other commercial operations — aeroplane.

Both groups are of significant concern, and we are identifying new interventions designed to improve the safety performance of these two groups.

Three Safety Outcome Target Groups have long-term performance trends that are moving steadily towards the target set for 2010, though are unlikely to meet the target level of performance in 2010. These three groups are:

- other commercial operations — helicopter;
- agricultural operations — aeroplane; and
- private operations — sport.

The CAA will enhance its current interventions in order to improve the safety performance trend of these groups.

→ Outcome measure 2: Rate of aircraft accidents per 100,000 flight hours

The rate of aircraft accidents per 100,000 flight hours is a measure of the number at which aviation accidents occur per 100,000 flight hours. The measure does not provide information on the severity of an accident.

The target set for 2008/09 was that the rate of aircraft accidents per 100,000 flight hours, in each Safety Outcome Target Group, should be less than or equal to the rate of accidents per 100,000 flight hours in 2007/08.

Rate of aircraft accidents per 100,000 flight hours			
Safety outcome target groups	2007/08	2008/09	Comment
PUBLIC AIR TRANSPORT			
Airline operations — large aeroplanes	0.20	0.11	○ Target met
Airline operations — medium aeroplanes	1.30	0.50	○ Target met
Airline operations — small aeroplanes	6.60	2.89	○ Target met
Airline operations — helicopters	0.00	2.47	○ Target not met
Sport aviation transport operations	○ The CAA does not record flight hours for this target group.		
OTHER COMMERCIAL OPERATIONS			
Other commercial Operations — aeroplane	5.80	5.18	○ Target met
Other commercial Operations — helicopter	7.50	10.35	○ Target not met
Agricultural operations — aeroplane	24.10	15.43	○ Target met
Agricultural operations — helicopter	7.10	9.93	○ Target not met
Agricultural operations — sport aircraft	○ The CAA does not record flight hours for this target group.		
NON-COMMERCIAL OPERATIONS			
Private operations — aeroplanes	12.90	21.83	○ Target not met
Private operations — helicopters	32.90	24.20	○ Target met
Private operations — sport aircraft	○ The CAA does not record flight hours for this target group.		
<i>Note: For these three groups, the accident rate cannot be calculated as the CAA does not have data for the number of hours flown. Some population size is too small for statistical analysis.</i>			

Overall, the rates of accidents per 100,000 flight hours in Safety Outcome Target Groups with the greatest risk exposure (i.e. airlines operations used as public air transport), continue to improve compared to 2007/08, a trend which has been sustained since 2005/06.

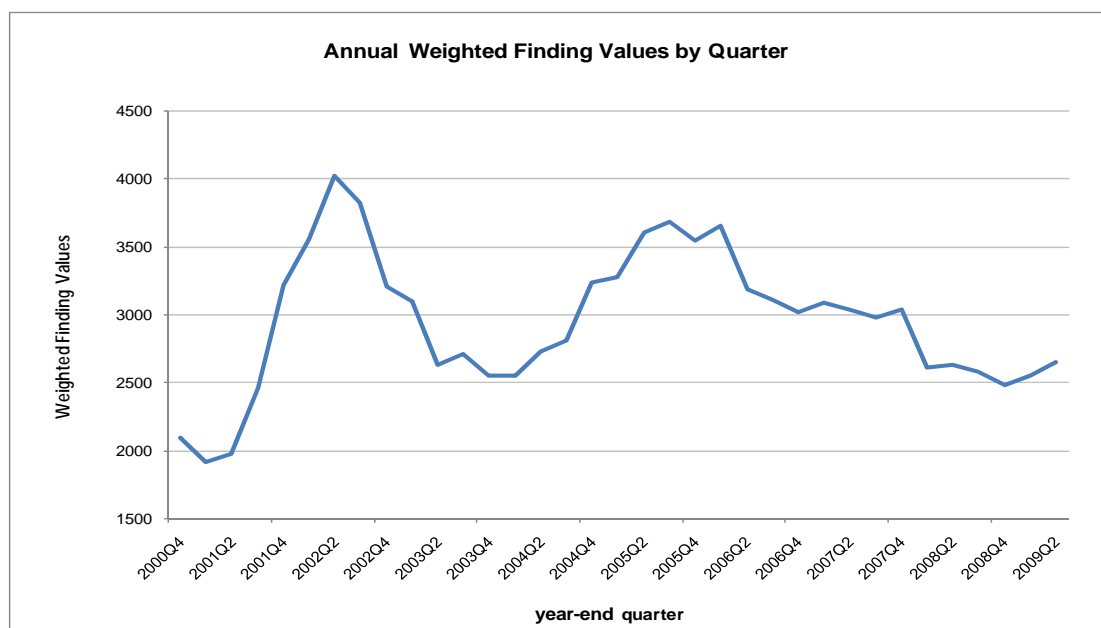
→ Outcome measure 3: Non-compliance finding values

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

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

The CAA measures the number of findings issued.

The target set for 2008/09 was not met, as the number of findings issued in 2008/09 was 15% more than in 2007/08 (3,214). However, the trend from 2005/06 to the end of 2008/09 has been steadily decreasing, as shown in the graph below.



Source: Safety Analysis Unit, CAA

→ Outcome measure 4: Percent of on-time implementation of corrective actions

Using its safety monitoring system, the CAA identifies specific corrective actions aviation participants need to take in order to meet the required standard of performance. The difference between corrective actions and non-compliance findings is that, corrective action needs to be implemented within a specified timeframe to give the CAA confidence that the participant has rectified an identified safety risk.

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

The CAA expects that 100% of corrective actions will be implemented by the specified date after the finding has been issued. This target was not met, and has not been met since the 100% target was instituted in 2006/07. Further enhancements are being made to improve the functionality of the new Surveillance System.

The trend from 2005/06 to 2007/08 has been that the percent of on-time implementation of corrective actions continually increased.

Corrective actions are implemented (closed):	Corrective actions by severity of findings							
	Critical		Major		Minor		Total	
	count	%	count	%	count	%	count	%
○ On the agreed date	1	8%	157	46%	552	47%	710	46%
○ Within 1 month of agreed date	2	15%	114	33%	464	37%	580	38%
○ Within 2 months of agreed date	6	46%	39	11%	67	6%	112	7%
○ Within 3 months of agreed date	5	38%	12	3%	22	2%	36	2%
○ Within 4 months of agreed date	-	-	2	-	8	-	10	-%
○ Within 12 months of agreed date	-	-	3	-	9	-	12	-%
○ Outstanding as at 30 June 2009	2	2%	16	5%	48	4%	66	4%
Total findings 2008/09	13	100%	345	100%	1,171	100%	1,529	100%
2007/08								
○ Implemented on the agreed date	6	67%	242	52%	606	59%	854	57%
Total findings 2007/08	9	100%	466	100%	1,029	100%	1,504	100%

8.3 OUR NEXT STEPS

The CAA's overall outcome has not yet been achieved. Gains can be made in the safety and security performance of the civil aviation system. To achieve improvement in safety performance, the CAA has revised elements of its approach in order to improve its performance, and thus help the sector achieve the desired level of safety performance.

Areas of emphasis (or strategic priorities) for the CAA in 2009/10 and beyond include:

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

As the CAA works with the civil aviation industry, these areas of emphasis will help the CAA minimise the impost of interventions on industry, without taking its focus on improving the safety performance of the civil aviation system.

PricewaterhouseCoopers (PwC) has been engaged to undertake work on measuring the effectiveness of the CAA's interventions. A detailed work plan has been established and agreed, with four milestones and associated deliverables. It is anticipated that the work will be completed by mid-November 2009. This work is the first stage of redeveloping the CAA's strategic outcome measures. Initial indications are that a basket, or mix of measures, will be identified, which are reflective of the particular 'sectors' of the civil aviation system.

9 Progress Report on our Operating Intentions and Work Programmes

9.1 OVERVIEW

This section provides information on how the CAA delivered on its five strategic goals to support achievement of outputs (*section 21.1*) and overall outcome:

1. effective stakeholder relationships;
2. appropriate exercise of regulatory functions and powers;
3. effective management and use of safety and security information;
4. active international engagement and alignment; and
5. capable and efficient business operations and systems.

9.2 OPERATING INTENTIONS TO SUPPORT ACHIEVEMENT OF GOALS

→ Goal 1: Effective stakeholder relationships.

The CAA is seeking to ensure that through its relationship with stakeholders it has:

- a clear understanding of stakeholders perspectives and needs; and
- open communication to enable informed discussion and decision-making.

The outcome sought from enhancing these relationships is a well-informed and responsible aviation community.

The CAA established three projects in 2008/09 to enhance its relationships with stakeholders:

What the CAA worked on to achieve Goal 1	When the work was to be completed by	What has been done
Clarify who the stakeholder are, including their role in the aviation system	December 2008	The CAA commissioned work to characterise stakeholders, which was completed in December 2008.
Develop and monitor stakeholder relationship initiatives	March 2009	In tandem with the work above, the CAA put in place different management processes for key 'events', to ensure a better coordinated response to initiatives. The core body of work was completed. Monitoring and changing how relationships are managed as required are still ongoing.
Implement relationship management action plans and engage with stakeholders accordingly	July 2009	This work is ongoing, because the processes put in place to improve relationship with stakeholders will evolve through time without definite completion date.

→ Goal 2: Appropriate exercise of regulatory functions and powers.

The CAA is seeking to ensure that through application of its regulatory powers, the safety and security outcomes it is seeking are achieved. In practice, this means that:

- participants in the civil aviation system meet their obligations with respect to the privileges they exercise;
- any aircraft in the New Zealand fleet, if certified by the CAA, is safe; and
- trends with respect to safety performance continue, in the medium to long-term, to track towards the CAA's stated targets.

The CAA established five projects in 2008/09, all of which focus on the CAA enhancing the way in which it uses its regulatory powers and functions.

What the CAA worked on to achieve Goal 2	When the work was to be completed by	What has been done
Review (or develop) policies on: <ul style="list-style-type: none"> o <i>entry/exit of participants;</i> o <i>surveillance, risk, safety and security information;</i> o <i>investigation of aviation incidents and occurrences;</i> o <i>enforcement;</i> o <i>sustainability; and</i> o <i>external delegation holders.</i> 	June 2010	A new 'Enforcement Policy' has been drafted. Work is progressing on: <ol style="list-style-type: none"> 1. a policy to address how the CAA uses its regulatory tools; 2. reviewing the CAA's surveillance processes; and 3. review of all detailed policies and procedures associated with the investigation of incidents and occurrences.
Promote the CAA's 'Regulation of Aviation Safety and Security in New Zealand: Statement of Philosophy'	June 2009	The document has been published on the CAA's public website. The CAA has not been able to promote this with the New Zealand Civil Aviation industry in 2009/10 due to other priorities and intervening funding issues. The CAA will be reviewing the content of this document following its decision to implement the SMS approach to safety oversight.
Review regulatory functions to determine effectiveness in the achievement of safety and security outcomes	June 2010	The CAA has commissioned work to develop a method that it can apply to evaluate the effectiveness of its interventions.
Align and enhance capacity and capability to effectively exercise regulatory functions that reflect the current and future civil aviation environment	June 2010	The CAA has started a training programme to refresh the understanding of its people about their role, and the discharge of the CAA's regulatory powers. The CAA has also established a human resources strategy to guide the building of its human capital to meet future business needs.
Evaluate models for deploying regulatory interventions	June 2010	This work has been combined with "determining the effectiveness of regulatory functions". In late June 2009, the CAA has contracted the evaluation of its interventions whether these are effective or not. The report is expected in mid-November 2009.

→ Goal 3: Effective management and use of safety and security information.

Data and information are critical in enabling the CAA to make good decisions. The CAA is seeking to ensure that it manages the data and information it has about the civil aviation system effectively. Decisions made by the CAA need to be informed using accurate data and information with respect to participants, and how the system is performing as a whole.

What the CAA worked on to achieve Goal 3	When the work was to be completed by	What has been done
Develop, publish, and implement policies on the collection and use of safety information.	December 2008	The CAA has settled on the principles that govern how it manages and uses safety data and information. Changes to the way in which information is managed have been initiated (e.g., a single location for data entry). Industry has been advised of the principles, and policy document has been developed based on those principles.
To manage effectively safety and security risks align and build capacity to gather, analyse, interpret, and disseminate safety and security information.	June 2009	The CAA has not progressed on this work, as financial constraints have affected the ability to build capacity. The CAA has completed some work to provide more targeted information for operational decision-making.
Review existing performance measures	December 2008	The CAA commissioned work on how it uses social cost with respect to its outcome measures. The CAA will undertake further work to establish a new set of performance measures in 2009/10. This activity will draw on the work completed in December 2008, and the work is underway in measuring the effectiveness of the CAA's interventions.

→ Goal 4: Active international engagement and alignment.

New Zealand is a signatory to the *Convention on International Civil Aviation*, and a Contracting State of ICAO. These, and other international agreements, provide the framework that enables New Zealand to be part of international civil aviation. To participate effectively in international civil aviation, New Zealand needs to meet its international obligations, and where appropriate, to influence what those obligations might be.

What the CAA worked on to achieve Goal 4	When the work was to be completed by	What has been done
Build capacity and capability to ensure appropriate alignment with ICAO standards and recommended practices.	December 2009	No work has been undertaken in this area, due to resource constraints.
Review and address backlog of differences to ICAO Standards (that are within the CAA's control).	December 2009	Work is ongoing to ensure that 'differences' are lodged with ICAO. New Zealand is one of the first countries to use ICAO's newly developed electronic system to lodge differences.
Establish, publish, and follow priority areas for the engagement with ICAO and related decision-making forums and study groups in the development of New Zealand standards and implementation of ICAO requirements.	June 2009	<ol style="list-style-type: none"> 1. The CAA has commenced this work through centralisation of its representation travel programme. 2. It has nominated an observer to the ICAO Air Navigation Commission to better monitor ICAO's programme of standard development. 3. It has also sought full membership of the ICAO Aviation Security Panel and is fully engaged in that Panel's work. 4. The CAA continued to support the work of other ICAO Panels and Study Groups to which it nominates experts: e.g. Performance Based Navigation Study Group, Separation and Airspace Safety Panel, and Dangerous Goods Panel.
Establish and publish a plan of priorities for the development and implementation of multi-lateral technical policy arrangements with other countries.	December 2009	Due to events in other countries, other priorities and intervening funding issues the CAA was not able to settle this plan of priorities in 2008/09. Work has progressed on bilateral arrangements with the US, Canada, and the EU.

→ Goal 5: Capable and efficient business operations and systems

Like most organisations, the CAA is constantly looking for ways to improve the way it does its business. Ensuring that the CAA has effective and efficient business operations and systems that support and enable its people to do their job is critical.

What the CAA worked on to achieve Goal 5	When the work was to be completed by	What has been done
Align and build capacity and capability in organisational support functions.	December 2009	<p>In the adverse economic climate of the last year, the ability to build capacity and capability in the CAA's support functions was curtailed.</p> <p>Early this year additional resourcing of:</p> <ol style="list-style-type: none"> 1. 1.5 FTE was appointed in Human Resources to improve the ability of the CAA to manage its investment in staff; and 2. 0.5 FTE was appointed in Finance to improve financial analysis and the reporting of management information. <p>Later, the focus was on</p> <ol style="list-style-type: none"> 3. reviews undertaken or initiated to align the level of services with CAA's core business; and 4. to ensure they are being delivered efficiently to ensure "value for money". <p>This has resulted in down-sizing and implementing alternate business models, such as outsourcing.</p>

What the CAA worked on to achieve Goal 5	When the work was to be completed by	What has been done
Implement and enhance business performance reporting measures and frameworks	June 2009	An integrated reporting framework was commissioned in April 2009 that provides core managerial performance indicators with drill down/consolidate or summary tabulation capability. Improved financial management reporting was also delivered during the year with additional staff recruited into the Finance team.
Develop and implement, on a priority basis, components of the following strategies: <ul style="list-style-type: none"> o <i>human resources;</i> o <i>information technology; and</i> o <i>knowledge management</i> 	December 2008 <i>(development)</i> June 2011 <i>(full implementation of all strategies)</i>	Progress was made on all three capability strategies across the CAA. In human resources: <ol style="list-style-type: none"> 1. the review of CAA's remuneration reached advanced stages of completion (letters were sent to all staff regarding the Hay Report); 2. recruitment practices were assessed for efficiency of expenditure and employment outcomes; 3. the health and safety framework was updated and the CAA was successful in its Workplace Safety Management Practices (WSMP) accreditation; and 4. improvements were made to HR reporting. In information technology: <ol style="list-style-type: none"> 5. a Business Reporting Framework project was completed; and 6. IT Strategic Review was commissioned. In knowledge management: <ol style="list-style-type: none"> 7. a critical component completed was the Information Management Strategy, which provides a work programme for CAA's advancement over time of digitalised information capture, access and storage.
Develop a corporate risk management system	December 2008	A corporate risk management framework is near completion. Delays in its progress were due to structural reviews (now completed) that compromised key staff involvement.
Develop a long-term financial model	December 2008	The CAA commissioned work to develop a 10-year financial model. The model has now been completed, and work has started in using the model to help the CAA develop a long-term financial plan. The developed financial model will be an input to the on-going Funding Review.
Implement Phase 1 of the Capability and Resources Review	June 2010	Implementation of initiatives from the Capability and Resources Review continued over the period, with initiatives assimilated into work programmes and operational practices.
Review the basis and objectives of levy, fees and charges	June 2009	The CAA has commissioned work to review and propose changes to its levy, fees and charges with the aim of making recommendations to Government by December 2009.

9.3 PROGRESS REPORT ON OUR ICAO-RELATED WORK PROGRAMMES

The CAA has two major ICAO-related work programmes such that New Zealand's civil aviation system aligns with international standards. These are:

- preparing for the implementation of Safety Management Systems (SMS); and
- completing work resulting from an ICAO audit of the CAA.

→ Implementation of Safety Management Systems (SMS)

ICAO has mandated (in early 2009) that Contracting States systematically move towards implementing SMS as the primary means of exercising safety oversight of the civil aviation system. Moving to a SMS approach will present challenges for both the CAA and for participants in the civil aviation system.

SMS embody a risk-based approach to managing safety. In essence, a SMS places the onus on a participant to identify risks, and put in place actions to mitigate those risks. The same onus is placed on the State; meaning that the CAA will need to develop new ways of identifying risks with respect to the civil aviation system, and actively put in place actions to mitigate them.

SMS are information intensive. Hence, the CAA's work streams on better managing the information it has, and being able to better assess how effective its actions are in mitigating or eliminating risks within the civil aviation system.

The benefits of a SMS approach can be summarised as:

- safety becomes a core business driver for participants, and should lower the costs of business through reduction of risk; and
- the CAA will be better able to target its resources to risk, and mitigate risks earlier, resulting in better safety outcomes.

What has the CAA done

The CAA started work that will eventually lead to the development of a new Civil Aviation Rules, which will mandate the use of SMS. It is expected these rules will be in two parts, and presented to the Minister for signing in July 2010 and June 2011 respectively.

During the year, the CAA jointly hosted with the Aviation Industry Association (AIA) the Safety Management Systems Symposium. The symposium was the first stage of working closely with the civil aviation industry to identify and address implications of the SMS.

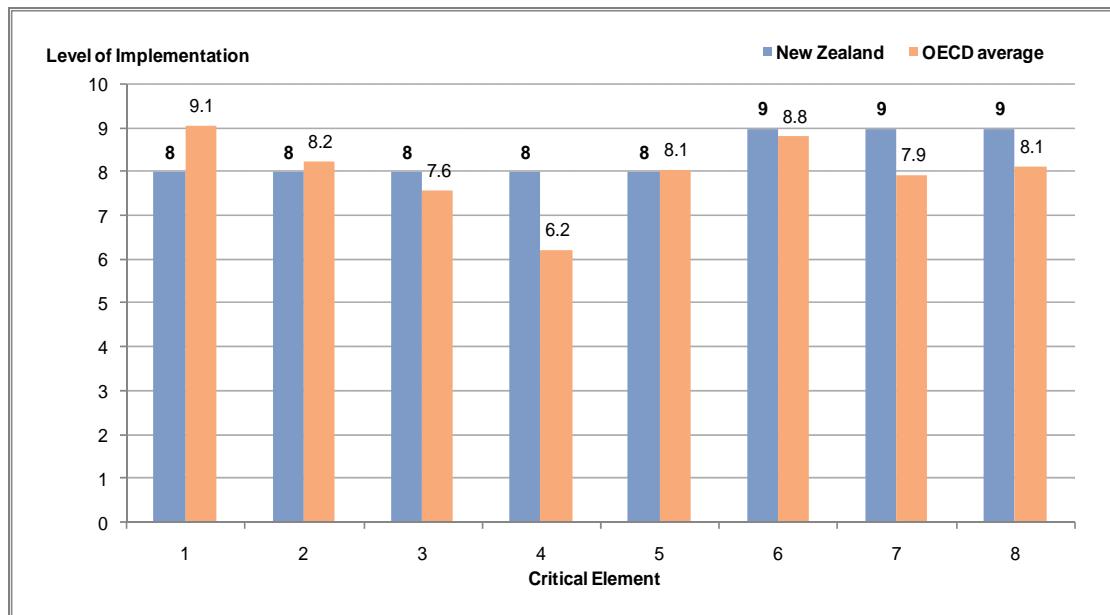
The CAA has also started work on what the changes at the 'state' level mean for the way in which it works. Our Statement of Intent for the period 2009/12 reflects the work done to date, and sets the work programmes the CAA will be following as it prepares itself for the implementation of SMS.

→ Completion of corrective actions resulting from ICAO Safety Audit

On 14 to 24 March 2006, the ICAO audited the way in which the CAA undertakes its safety role. The purpose of this audit is to determine the extent to which New Zealand meets its obligations under the Chicago Convention, with respect to New Zealand's compliance to Standards and Recommended Practices (SARPS). (*Refer to section 7.1, ICAO obligations.*)

Audit results

The audits identified 61 findings, following examination of eight critical elements that the ICAO considers need to be in place to be fully compliant with the technical annexes of the Chicago Convention. New Zealand scored above the average achieved by OECD countries in five of the eight critical elements. The chart below summarises New Zealand's rating against the average rating for OECD countries.



Source: www.ICAO.int

1. Level of implementation: 1=not implemented, 10=fully implemented
2. Critical element: 1 primary aviation legislation (in New Zealand, this is the responsibility of the Ministry of Transport); 2 specific operating regulations; 3 state civil aviation system and safety oversight function; 4 technical personnel qualification and training; 5 technical guidance, tools and the provision of safety-critical information; 6 licensing, certification, authorization and approval obligations; 7 surveillance obligations; and 8 resolution of safety concerns.
3. OECD average comprises 17 countries of the total 30. Republic of Korea has a perfect score of 10; France: 9.5; USA and Canada: 9.38; Poland: 8.75; and New Zealand, Australia, and Czech Republic: 8.38.

What has the CAA done

The CAA proposed 138 actions in response to the findings made by ICAO. A number of these actions are for changes in Civil Aviation Rules to bring the CAA in-line with ICAO requirements. The CAA completed 83 (60.2%) of these actions. A further 42 (30.4%) are in progress, and 13 (9.4%) have not been started.

USOAP: CAA proposed corrective action plans status report summary as at 30 June 2009					
(Source: Policy and International Relations, CAA)					
Critical elements of the audit	Number of ICAO findings	Number of corrective actions proposed by the CAA			
		Completed	In progress	Not started	Total
Primary aviation legislation and civil aviation regulations (LEG)	4	1	9	1	11
Civil aviation organization (ORG)	1	3	0	0	3
Airworthiness of aircraft (AIR)	10	17	5	4	26
Air navigation services (ANS)	13	21	11	2	34
Aircraft operations certification and supervision (OPS)	6	12	0	4	16
Aerodromes (AGA)	9	15	3	2	20
Aircraft accident and incident investigation (AIG)	18	14	14	0	28
Total as at 30 June 2009	61	83	42	13	138
% share to total corrective actions proposed		60.2%	30.4%	9.4%	100.0%
Total as at 30 June 2008	61	59	63	16	138
% share to total corrective actions proposed		42.8%	45.6%	11.6%	100.0%

The CAA initiated a number of changes to Civil Aviation Rules in response to the ICAO audit findings. The status of these changes is given in the following table:

CAA status report on Rules development related to ICAO's USOAP as at 30 June 2009			
<i>(Source: Rules Development contract with the Ministry of Transport)</i>			
Civil Aviation Rules Part	Estimated timelines		
	Draft NPRM to the Ministry of Transport	Final draft rule to the Ministry of Transport	Minister signs rule (completion)
ICAO - Part 139, aerodromes, review	Sep 2010	Jun 2011	Oct 2011
ICAO - Part 172, air traffic service organisations-certification, review	Jul 2009	Nov 2009	May 2010
ICAO - Part 125, air operations-medium aeroplanes	Dec 2008	Jul 2009	Jul 2010
ICAO - Operational compliance	Sep 2009	Apr 2010	Sep 2010
ICAO – Equipment compliance	Oct 2009	Jun 2010	Jun 2010
ICAO – Article 83bis	Post 2010		
ICAO – General Aviation modernisation	Post 2010		
ICAO - Security			Jul 2011

10 Our Organisational Health and Capability

10.1 PROGRESS REPORT ON OUR ORGANISATIONAL DEVELOPMENT WORK PROGRAMMES

→ Relocation of the CAA

The Authority made the decision to lease space at 1 Featherston Street in August 2008. Moving to the Wellington CBD in early 2011 will be the culmination of a project initiated in October 2007 to determine what options the CAA had with respect to its accommodation as current leases expire.

The CAA had four objectives in mind when making its decision to relocate:

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

Number One Featherston Street is a new commercial office building being developed by One Featherston Street Development Ltd. The CAA will be leasing part of the 14th floor, and all of 15th floor. Other organisations taking space in the building include the Aviation Security Service (part of 14th floor) and the Inland Revenue Department (1st to 13th floors).

→ Funding review

The CAA contracted PriceWaterhouse Coopers to review how the CAA is funded with respect to its current levy, fees, and charges revenues. This work is due to be completed in December 2009.

The review is designed to ensure that there is adequate funding and cost recovery of the CAA's safety oversight role, and to address issues identified by Government including:

- addressing the effectiveness of the CAA's current range of safety oversight services;
- whether the current safety oversight services are needed or could be delivered in different ways;
- options for reducing the cost of safety oversight services, matched to differing funding levels, and identifying the associated implications and trade-offs; and
- initiatives, which provide the best value-for-money, develop, and prioritise these for funding.

Included in the CAA's cost calculations for this review are initiatives for developing the CAA's human resources and capability, information systems, accommodation, and international engagement.

10.2 OUR PEOPLE

The CAA is committed to developing the capability of its people. Civil aviation is a dynamic industry with dynamic technologies being used in aircraft and aviation infrastructure. Keeping pace with technical changes presents a significant challenge for the CAA.

Similarly, building management capability in understanding regulatory practices is critical for the CAA, as most of its people come from a technical background in aviation.

→ Number of full time equivalents

The following table summarises the establishment level of the CAA, the actual level of FTEs employed, and the forecast requirement for 2013.

Financial Year	Established FTE	Actual FTE	Forecast requirement
2007/08	198.1	181.0	–
2008/09	203.9	181.0	–
2012/13			220.0

During 2008/09, the CAA recruited a number of key positions that had been vacant for some time, and reviewed the need for other positions. A consequence of changes to the economic environment is ‘freezing’ recruitment for some vacant positions until such time that the CAA is better positioned to afford these positions; down-sizing and implementing alternate business models (e.g. outsourcing of internal audit function).

→ Staff profile

The CAA’s staff are from diverse cultural backgrounds, including New Zealand Maori, New Zealand European, Afghani, American, British, Canadian, Chinese, Dutch, Indian, Fijian, Filipino, Finish, French, Pacific Island, South African, Scottish, Swiss, and Zimbabwean.

Sixty-eight percent of CAA’s staff are male, and forty-eight percent are older than 50 years.

The table below summarises information on length of service.

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

→ Staff turnover

In 2008/09:

- Staff turnover at 9.3% (12.6% as at 01 July 2008);
- 33 permanent staff joined the CAA;
- thirteen resigned;
- one died while on-duty in France;
- one on secondment with ICAO;
- four retired; and
- four were made redundant in June 2009.

10.3 OUR GOOD EMPLOYER PROGRAMME

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

Seven elements of a good employer ⁴	CAA's good employer policies or practices
1. Leadership, accountability and culture	1. Service charter. 2. CAA-wide quarterly forum with the Director of Civil Aviation. 3. Weekly web-based internal newsletter ("the Loop"). 4. Social Club activities. 5. Ka Awatea (relates to the interaction with Maori people). 6. Regular executive, group and unit meetings. 7. Register of Interest (managing conflicts of interest) maintained by Legal Services. 8. Code of conduct. 9. Confidentiality policy. 10. Travel policy (international and domestic). 11. Discipline policy. 12. Privacy and personal information policy (including protected disclosures).
2. Recruitment, selection and induction	13. Vacancies are advertised internally and externally. 14. Relocation assistance. 15. Induction and training on CAA IT systems, health and safety, monitoring of health and wellbeing at both the organisational and team level. Use of psychometric and health profiling where required. 16. New staff introduced during quarterly forums of the Director and web-based internal newsletter "the Loop".
3. Employee development, promotion and exit	17. Due to the nature of our work, staff are trained in New Zealand and overseas to maintain their skills at international level. 18. Provision of on-the-job, experiential learning and external study assistance. 19. In-house training (e.g. natural justice and fit and proper person). 20. Restructuring and redundancy policy. 21. Resignation and termination policy.
4. Flexibility and work design	22. Working from home policy. 23. Hours of work and provision for TOIL – overtime.
5. Remuneration, recognition and conditions	24. KiwiSaver Scheme at 4% employer contribution since 01 July 2007. 25. Remuneration policy. 26. Non-monetary rewards policy. 27. Performance review and development programme.
6. Harassment and bullying prevention	28. Discrimination and harassment prevention policy. 29. Provision of internal employee assistance advisors and in-house chaplain services.
7. Safe and healthy environment	30. Eye examinations and spectacles policy. 31. Stress management policy and guidelines. 32. Health and safety committee and employee representation. 33. Availability of a wellness room. 34. In-house health and safety, and employee assistance framework and programme. 35. Health and safety, critical incident, emergency response induction and ongoing training.

10.4 OUR EQUAL EMPLOYMENT OPPORTUNITY (EEO) PROGRAMME

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

⁴ From the Human Rights Commission, refer to www.hrc.co.nz for guidelines.

PART 2:

AVIATION
SECURITY
SERVICE
(AVSEC)

11 General Manager's Overview

During the last twelve months Avsec has been operating in a diminished economic environment from that of twelve months ago, triggered by the global downturn in international financial markets that is impacting all industry sectors.

→ Introduction

The volatility in the air transport industry is reflected in a reduced number of passengers screened by Avsec over the last twelve months and it is anticipated that a global recovery in the industry will not occur until sometime in 2010.

Within New Zealand airlines have responded to the downturn by withdrawing international flights from some regional airports, altering domestic flight schedules and replacing some domestic jet operations with smaller aircraft that are not required to be screened by Avsec. There is increased competition between airlines and this competition has become even more aggressive on flights across the Tasman. This is expected to result in increased activity for Avsec when the recovery occurs.

In the meantime, Avsec continues to be responsive and flexible in meeting the changes that are occurring in the industry. It is important that Avsec maintain its resources and capability to meet the changing environment. At the same time, Avsec is striving for greater efficiencies at screening points ensuring its staffing levels are at the absolute minimum level, yet able to meet shift-work rosters and to ensure on-time performance of departing aircraft.

I would like to take the opportunity to express my sincere thanks to all staff and acknowledge the manner in which they have responded to the changing and uncertain times, in particular those regional staff that willingly deployed to other airports on a temporary basis, at some personal inconvenience.

I would also like to acknowledge the willing manner in which management across Avsec has agreed to forego any increase in their remuneration during 2009/10.

→ Highlights – 2008/09

- During 2008/09 Avsec management and the representatives and staff delegates of the three Combined Unions (PSA, NUPE and EPMU) successfully re-negotiated the Collective Employment Agreement (CEA) which will endure for a three year period commencing 1 July 2008.

The collective negotiations were conducted in a professional manner, in a spirit of goodwill. The bargaining was concluded at an opportune time as the negotiated outcomes provide employees with a fair degree of certainty during the current uncertain economic times. It also provides Avsec with greater certainty in its financial forecasting over a three year period.

The CEA embraces the terms and conditions of employment for 83% of Avsec's employees. The CEA also covers the commitment of the parties to the continuation of an employee assistance programme and a number of consultative committees and working parties to consider and discuss matters of mutual interest. These include national and regional committees, rosters, sick leave and uniforms.

Over the year Avsec Senior Management met with the Union representatives and delegates on a regular basis to discuss matters of mutual interest and emerging issues. Senior Management also made regular visits to all airport locations to keep staff fully informed on the changes occurring in the market and any impact the changes could have on their individual locations. It is pleasing that we have a very good and amicable industrial relationship and partnership with our Unions and staff.

- Over recent months the government considered the review of domestic aviation security, which was required by the previous government following an alleged hijacking attempt in February 2008⁵.

While this event was not an act of terrorism, it highlighted certain vulnerabilities in the domestic aviation security system: in particular passenger access to the flight deck, the ability of passengers to carry prohibited items on unscreened aircraft of less than 90 seats and the potential for improvised explosive devices to be taken onto aircraft (hold baggage is not screened on domestic flights within New Zealand).

The review assessed the risks in New Zealand's domestic aviation environment to see if current levels of security were adequate. In May 2009 the Minister of Transport announced that the government had decided, at this stage, to not extend security screening for domestic air travel⁶, preferring instead to implement a range of alternative security measures.

These alternative security measures include the establishment of additional Security Committees, comprising airline and airport staff, local police and other key stakeholders at regional airports that serve regular air transport services on aircraft of 19 seats or more. These additional committees will improve the sharing of security intelligence and enhance local threat assessment and risk management. Avsec currently chairs the established airport Security Committees and its role in the additional Committees is still being determined.

- During the last twelve months Avsec implemented the screening of cargo carried on international passenger flights from New Zealand on a contractual basis following the introduction of CAR Part 109 (relating to security requirements for the carriage of cargo on international passenger services). This new screening initiative enhances aviation security on international flights.⁷.

→ Financial results – 2008/09

Avsec's financial result for the year ended 30 June 2009 was an operating surplus of \$19,801k against a budget surplus of \$11,377k. Revenue was less favourable than budget by \$5,254k (6%), and expenses were more favourable than budget by \$13,678k (17%).

Avsec's financial position is sound with net working capital of \$51,476k and taxpayers' equity of \$57,705k. Cash funds on hand or deposit amount to \$55,105k.

→ Passenger security charges

Avsec's current international and domestic passenger security charges were last set by government to take effect from 13 December 2007.

Over coming months Avsec will be working with the Ministry and consulting with airlines (through BARNZ) in reviewing the passenger security charges based on revised growth and expenditure forecasts.

→ Conclusion

Avsec remains committed to being proactive and responsive to the changing economic environment and the requirements of our key stakeholders, especially airlines and airports who continue to be challenged by the current economic conditions.

During 2009/10, we will continue to enhance and foster the capability of our key asset, our staff, and ensure that through our *good employer programmes*, Avsec is an employer of choice. Our focus is also on ensuring our screening equipment is at the top-end of

⁵ Avsec was represented on both the Steering Committee and the Working Group for the Domestic Security Review, along with the Ministry (lead), CAA, DPMC and NZ Police. The aircraft concerned was below the current threshold for security screening of passengers.

⁶ Avsec currently screens only those aircraft with 90 seats or more.

⁷ Cargo Screening applies to cargo from unknown shippers.

technology and that our training programmes and quality management philosophy continues to be highly rated and respected by our global aviation security counterparts.

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

A handwritten signature in blue ink, appearing to read 'ms. everitt', with a large, stylized initial 'E' above the name.

MARK EVERITT

General Manager – Aviation Security Service

Date: 29 October 2009

12 Overview of Avsec

12.1 WHO WE ARE

The Aviation Security Service (Avsec) is a separate service of the Civil Aviation Authority (the Authority). The Authority is a Crown Entity. Avsec currently provides specialised aviation security services at eight security-designated airports, including international and domestic operations.

Avsec's primary responsibility is to enhance the security of the travelling public by preventing acts of unlawful interference against aircraft and ensuring that threat items are not carried onto the aircraft.

Avsec has an established staff component of 799 staff (759 full time equivalents) at 30 June 2009.

The organisation is structured with an Executive Management Team of six senior managers reporting to the General Manager. The business operations are structured through three Regional Managers, reporting to the Chief Operating Officer.

Avsec is a uniformed and ranked culture at the operational level.

Avsec's principal source of revenue is from regulated passenger security charges levied on airlines for departing international and domestic passengers.

12.2 AVSEC – KEY FACTS 2008/09

- 9,932,000 passengers screened.
- 4,934,450 pieces of hold baggage screened.
- 14,900,000 pieces of cabin baggage screened⁸.
- 36,349 non-passengers screened (random)⁹.
- 33 internal and external quality management audits conducted¹⁰.
- 727 Aviation Security Officers across New Zealand.

12.3 OUR STATUTORY ENVIRONMENT

Under the Crown Entities Act 2004 the Authority is designated a Crown Entity and is required to give effect to government policy when directed by the responsible Minister. The functions and duties of Avsec are set out in Section 80 of the Civil Aviation Act 1990 (CA Act 1990). In addition, the Maritime Security Act 2004 provided the Minister with the power to designate Avsec as a Maritime Security Organisation.

Other key legislation and regulations that Avsec works to include the Civil Aviation Rules, the Aviation Crimes Act 1972, the Crimes Act 1961 and the Bill of Rights Act 1990.

The Authority is a five-member board, appointed for terms up to three years. It reports to the Minister of Transport.

⁸ Estimate based on sampling, applied to passengers screened.

⁹ E.g. Airport workers.

¹⁰ Excludes ongoing full time quality system auditing undertaken by Avsec's three fulltime Regional Quality Officers (RQOs).

Avsec carries out the Authority's obligations to provide an aviation security service pursuant to the CA Act 1990. Avsec is required to perform its functions separate from the CAA organisation, through its General Manager, including the maintenance of separate accounts, records, and reports.

12.4 OUR FUNCTION

In order to fulfil our regulatory mandate, Avsec's aviation security activities consist of five key programmes:

- **Screening passengers and their carry-on baggage**

Avsec is responsible for pre-board screening at eight security designated airports¹¹. In the screening process, passengers and their carry-on baggage are inspected to ensure that prohibited items such as knives, firearms, incendiary devices, weapons, dangerous goods, explosives, or any other threat items are not carried onto the aircraft. The screening process in the international environment also ensures passengers do not take more than the permitted quantity of liquids, aerosols and gels (LAGs) into the cabin of the aircraft.
- **Screening checked baggage**

Utilising sophisticated explosive detection equipment, Avsec screens all checked passenger baggage at international airports for threat items.
- **Airport access controls**

Avsec undertakes perimeter patrols at security designated aerodromes, together with patrols of aircraft and aircraft searches, to ensure the prompt interception of persons unlawfully in security areas (including verification of Airport Identity Cards) and increase safety for the flying public.
- **Non passenger screening**

Screening of airport workers with access to, and within enhanced security areas at international airports.
- **Managing the Airport Identity Card System**

Through delegation by the Director of Civil Aviation, Avsec issues airport identity cards.

The National Aviation Security Programme, the Aviation Crimes Act, the Civil Aviation Act, and the Civil Aviation Rule Part 140 form the key domestic regulatory guidance for Avsec activities.

In addition to the mandated aviation security activities outlined above, Avsec also provides other aviation related screening services.

¹¹ All departing international passengers and their carry-on baggage are screened. All departing domestic passengers and their carry-on baggage are screened where the passenger is travelling on aircraft with seats for 90 or more regular and charter air passengers.

13 Our Operating Environment

13.1 GLOBAL INDUSTRY CRISIS

The worldwide aviation industry continues to operate in a fragile environment.

A year ago, the industry was buffeted by skyrocketing fuel costs. This year the industry is being buffeted by diminishing demand and plummeting revenues resulting from the downturn in international financial markets. Within this crisis, the industry has also addressed the impact of the outbreak of Influenza A1 (H1N1) on travellers.

The most optimistic of forecasts do not see any significant recovery in the industry until at least 2010.

The Director General of IATA, Giovanni Bisignani, recently commented¹² that the current economic crisis is not only an airline crisis but one that is impacting on all industry stakeholders and that there is systemic global risk to 32 million jobs and US\$3.5 trillion in economic activity.

He commented further that “flexibility to change quickly is incumbent on all stakeholders to build a stronger, safer, greener, and profitable industry in the post-crisis world”.

13.2 IMPACT OF GLOBAL UNCERTAINTY ON AVSEC

During the last twelve months, Avsec has been responsive and flexible in responding to the changes that are occurring in the industry. Avsec’s revenue base is dependent on passengers screened and is therefore impacted by the volatility that is occurring within the industry.

In some instances international flights have been withdrawn from regional airports and domestic flight schedules are constantly changing as airlines position themselves to the best competitive advantage. Airlines are also switching some domestic flights from jet operations (screened by Avsec) to turbo props (not screened by Avsec).

The changing flight schedules and environment requires a balancing act on Avsec’s part. For example, where international flights have been withdrawn from Palmerston North and Hamilton, and domestic flights from Rotorua, Avsec has redeployed staff to nearby airports to ensure it has the capability to re-utilise those staff when services recommence. Avsec needs to be flexible and responsive as airline decisions are often made at short notice. This is evidenced by recent announcements from airlines of commencement of services from Hamilton and the commencement of international flights between Rotorua and Sydney in 2009/10.

Within New Zealand there has also been increased competition between airlines. We have seen the withdrawal of Qantas domestic operations and the entrance of Jetstar as a low-cost domestic operator. Pacific Blue is also proving to be a serious and competitive contender within New Zealand aviation market.

A very competitive market continues to develop on trans-Tasman routes and the Government is placing significant focus on promoting New Zealand as a tourist destination and creating an improved trans-Tasman passenger facilitation process to expand that market.

¹² *Airlines International*, Issue June 2009

Although the current economic uncertainty is expected to prevail into 2010 recent statistics¹³ from the Ministry of Tourism are encouraging with forecast inbound tourism growth at an annual rate of 2.5% to reach 2.90 million arrivals in 2015. In particular significant growth is forecast in inbound tourism from Australia and China.

13.3 PASSENGERS SCREENED

The volatility in the air transport industry is also being reflected in the numbers of international and domestic passengers screened by Avsec over the last year. For the year ended 30 June 2009 international passengers screened were behind forecast by 5.45% (2.82% behind previous year actual) and domestic passengers screened were behind forecast by 9.42% (0.60% behind previous year actual).

For the year ending 30 June 2010 the volatility is expected to continue and Avsec is forecasting a decrease in international screened passengers of 8.9%, and 9% for domestic passengers compared with 2008/09.

Although these decreased passenger numbers will result in diminished revenue, Avsec has a buffer in that it has been building up higher than expected reserves since the last passenger security review in December 2007. This results principally from lower operating expenses than forecast in that review, in particular lower than anticipated staffing numbers for Auckland Airport developments and aviation security requirements.

13.4 THREATS AND RISKS

Although the current threat to New Zealand aviation is relatively low, circumstances can change without warning. For this reason Avsec must always be at a very high level of preparedness with the capability of not only detecting and deterring threats to aviation but being in a position to implement contingency plans with urgency. On previous occasions this has necessitated, at short notice, a significant growth in staff and the deployment of sophisticated security screening equipment at New Zealand airports.

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

13.5 AIRPORT EXPANSIONS

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

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

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

13.6 CROSS BORDER ACTIVITY

Avsec continues to work closely with the NZ Police and government border agencies such as Customs, Immigration and the Ministry of Agriculture and Forestry. At the international screening point Avsec staff are usually located adjacent to Customs personnel who are performing the immigration function as well as checking for Police and Customs alerts. Co-operation occurs across a wide range of areas including sharing of data on passenger

¹³ New Zealand Tourism Forecasts 2009-2015 – August 2009

numbers, intelligence sharing, discussions on passenger facilitation issues at both formal and informal levels, airport security issues, VIP facilitation and so forth.

However, whereas most other agencies at the airport are focused on incoming overseas passengers, baggage and cargo, for Avsec the prime focus is on the departing passengers and their hand and checked baggage, as well as on maintaining the overall security of the airport and the aircraft using it. On-time performance is a significant driver of the systems used by the various agencies as any delays caused by security concerns or by any of the border processes have the potential to impose significant costs on the airlines, as well as cause disruptions to their network timetables. Therefore, any changes to passenger facilitation/security systems must be made very carefully and with full consultation with our industry partners.

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

Avsec is working with MAF and Customs on issues around airport restarts, passenger facilitation (process of expediting and facilitating passenger processing) and a MAF project trialling x-ray image transfer (Australia to New Zealand).

During recent months Avsec has also been working constructively and pragmatically with other government agencies in dealing with the outbreak of Influenza A1 (H1N1). All staff has been kept fully informed of developments and the government response to the problem.

13.7 PACIFIC SECURITY

A component of managing New Zealand's aviation security risks also involves providing targeted assistance to several Pacific Island Countries (PICs) using funding from the Ministry of Foreign Affairs and Trade Pacific Security Fund.

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

Avsec's key activities in the Pacific are directed at building capability within Pacific aviation security organisations and cementing and enhancing our relationship with people working in those organisations. Avsec's activities include providing specialised screening equipment, technical and management training, assistance with the development of aviation security supporting documentation and dealing with any identified deficiencies.

Our major activities in 2008/09 included supplying cabin bag x-ray machines, patrol vehicles, a hold baggage screening machine, delivery of management/leadership training to aviation security managers and their deputies in each country, and updating compliance documents in four PICs. Avsec also hosted (with MFAT Pacific Security Fund assistance) the 7th Pacific Aviation Security Summit in Auckland in April 2009. This forum is intended to improve compliance with international and national standards through discussing topical issues for regional aviation security personnel, training, equipment and capacity building needs in the Pacific.

13.8 MARITIME SECURITY

The Maritime Security Act (MSA 2004) resulted in the Minister of Transport designating Avsec as one of three Maritime Security Organisations (MSOs)¹⁴, along with NZ Customs and the Ministry of Agriculture and Forestry (MAF). MSOs will only be deployed in a high threat situation. Day-to-day security is conducted by the ports and ships.

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

¹⁴ Avsec has a standby and readiness role in case of a high threat situation in the maritime arena, particularly the Port of Auckland where staff are well-trained to respond where cruise-ships, or their passengers, might be affected. Avsec's current role in maritime security is not significant on a day to day basis and accordingly has not been given prominence in this Annual Report.

14 Managing our Risks

14.1 OUR RISK MANAGEMENT

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

14.2 MANAGING OUR RISKS

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

In the *2008/11 Statement of Intent* Avsec identified eleven high level areas of internal and external risk. Those areas of risk are shown in the table below, together with specific mitigation strategies that were progressed during 2008/09.

No.	High level risk exposure	Specific mitigation strategies progressed during 2008/09.
1.	Ongoing international terrorist threat against the aviation industry and other modes of transportation.	Implementation of non-passenger screening of airport workers at security designated airports that support international flights; introduction of an air cargo security screening function; capability development; planning new intelligence gathering unit that will be operational first quarter of 2009/10; research, development and procurement of new and emerging aviation security technology and equipment, including the phased replacement of Avsec's x-ray cabin baggage systems.
2.	Non-airside security incident or damage to airport infrastructure, at an overseas or local airport, could impact on airport operations and cause disruption to air travel.	Airport company awareness; scenario planning; intelligence gathering; exercising of emergency plans.
3.	Decline in passenger numbers caused by natural disaster, recession, pandemic, changes in preferred passenger destination or disinclination to travel due to terrorist activity or environmental policies.	Established contingency planning; ongoing monitoring; reserve funds policy; scenario and business continuity planning; redeployment of staff, impacted by cessation of flights from regional airports, to other airports; review of staffing levels; line-by line review of all operational and capital expenditure.
4.	Instability and under-resourcing in the South Pacific increases the aviation security risk in the South Pacific.	All planned South Pacific project activities for 2008/09 undertaken; planning and strategy developed, and funding guaranteed for proposed 2009/10 activity. Activity is principally in the form of capability development, equipment provision, training and advice to the South Pacific.
5.	Legislative changes, major redevelopments at airports and new international aviation security requirements significantly increase the role and security activities to be undertaken by Avsec.	Involved in the consultative process with the Ministry of Transport and stakeholders on proposed legislative changes and reviews; capability development, especially involving capital equipment, staff recruitment, training and development of appropriate policies and procedures; strategic risk identification through enhancement of Avsec's formal risk management plan (modelled on Risk Management Standard AS/NZS 4360:2004).
6.	Security risk associated with airport workers.	Implementation of non-passenger screening of airport workers at security designated airports that support international flights.

No.	High level risk exposure	Specific mitigation strategies progressed during 2008/09.
7.	Loss of key staff, staff recruitment and retention issues.	Application of good employer and "employer of choice" principles; successful negotiation of a three year employment Collective Agreement with the Combined Unions; progressing implementation of recommendations from the training review; regular communication with staff; enhanced capability in Avsec's Human Relations function; management participation at National Working Parties with the Unions; particular focus on regular management meetings with all staff, especially during the time of economic uncertainty.
8.	Failure of contingency or business continuity plans.	Continual review and update of the plans as part of Avsec's quality management process.
9.	Financial and operational impact of Avsec's leave entitlement.	During the 2008/09 collective bargaining negotiations the claim by the Unions for increased sick leave entitlements was withdrawn. In lieu the parties agreed to the establishment of a National Working Party to review all aspects of sick-leave entitlements; progressing planned implementation of an electronic roster system to facilitate improved scheduling of staff.
10.	Essential equipment failure.	Dedicated research, development and procurement function that considers new and emerging aviation security technology and equipment; phased replacement of Avsec's major capital equipment.
11.	Impact on Avsec's capability to respond to an incident if called on to assist in an incident involving maritime security.	Contingency plans and backup systems in place to mobilise exiting resources; standby equipment available; ongoing scenario planning takes place with other agencies.

14.3 AUDIT ACTIVITY REPORT

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

During 2008/09 a Verifications NZ audit for the continuation of Avsec's ISO 9001:2008 quality systems certification was successfully undertaken. There were no findings.

In addition, Avsec was subject to eleven Civil Aviation Authority compliance audits covering all airport locations. The audits embraced Avsec's quality systems, airport identity card management and training standards. As a result of these audits one procedural finding was raised and this was addressed through appropriate corrective action.

An ICAO: USAP follow-up audit was also undertaken (as part of a four year program) in September 2008 and there were no outstanding issues.

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

The internal quality assurance systems raised 70 internal actions as a result of the audits and all major findings have been addressed.

Avsec is also in the process of procuring a new incident reporting system to provide enhanced reporting of incidents, breaches and system failures. The new system is expected to be operational in late 2009 and will also ensure more prompt corrective actions and reporting of security related occurrences to the Director of Civil Aviation.

Avsec's extensive audit regime and risk management is also under constant review by Avsec's Board Audit and Risk Management Committee.

15 Progress Report on our Strategic Outcome

15.1 OUR DESIRED OUTCOME

Avsec's desired outcome is *A more secure New Zealand civil aviation system*¹⁵.

15.2 PROGRESS AGAINST OUR OUTCOME MEASURES

Avsec's progress and performance against its desired outcome is assessed against the three outcome measures set out in its 2008/11 Statement of Intent:

Outcome measures	Progress and performance during 2008/09
i. Avsec successfully meeting and implementing all international and other regulatory obligations that enhance aviation security within the required time frames.	<ul style="list-style-type: none"> • All ICAO standards complied with. • All current New Zealand regulatory requirements complied with.
ii. Consistently achieving our key output performance measures set out in Section 21.2.	<ul style="list-style-type: none"> • All security related performance measures achieved, apart from seven instances where prohibited items were discovered post screening point¹⁶; and less than a 1% failure of Aviation Security Officers who did not pass recurrent testing for proficiency in screening/aircraft search functions.
iii. Consistently achieving a high standard of verification from internal and external security audits and the subsequent urgent attention and rectification of any audit shortcomings.	<ul style="list-style-type: none"> • No findings resulting from 2008/09 Verifications NZ audit (ISO 9001:2008 quality systems certification renewal). • One procedural finding resulting from eleven CAA compliance audits. The one procedural finding was addressed through appropriate corrective action. • No outstanding issues from the ICAO: USAP follow-up audit undertaken in September 2008. • Seventy internal quality assurance actions raised by internal auditors were rectified and addressed within the time-frames determined by the relevant Internal Auditors.

¹⁵ Avsec has a standby and readiness role in case of a high threat situation in the maritime arena, particularly the Port of Auckland where staff is well-trained to respond should the Port or Cruise-ships threat level be raised. Avsec's current role in maritime security is not significant on a day to day basis and accordingly has not been given prominence in this Annual Report.

¹⁶ The seven systems failures were fully investigated by Avsec and reported to the CAA. The causal factors of the failures were identified and appropriate corrective and preventative processes were put in place.

15.3 PROGRESS AGAINST OUR HIGH LEVEL SECURITY IMPACTS AND MEASURES

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

Performance against high level aviation security impacts		
Security impact	Performance target	Performance achievement 2008/09
No in-flight security incidents	To achieve a nil rate of in-flight security incidents involving offences against the Aviation Crimes Act 1972 for aircraft which have been screened by Avsec.	Achieved. No in-flight security incidents.
No airside security incidents	To achieve a nil rate of airside incidents involving offences against the Aviation Crimes Act 1972 at security designated aerodromes where Avsec operates.	Achieved. No airside security incidents.
No dangerous goods introduced into aircraft	To achieve a nil rate of incidents involving the introduction of dangerous goods into aircraft that have been screened by Avsec.	Achieved. No dangerous goods introduced into aircraft.

16 Progress Report on our Operating Initiatives and Activities

16.1 INTRODUCTION

In the 2008/11 Statement of Intent Avsec identified specific short term initiatives and activities that were programmed into our business planning cycles.

It was noted that these initiatives would be progressed commencing the 2008/09 financial year principally for the following reasons:

- Introduction and implementation of new aviation security measures, either through legislation or rules or at the request of airlines;
- In response to the development and growth at New Zealand metro-airports; and
- To ensure Avsec maintains and enhances its current capability to service the significant growth in the organisation over recent years and the new and improved aviation security requirements.

The cost of implementing the initiatives was provided for in the financial budgets for 2008/09 and out-years.

It was also noted that in some instances further activity may be required, but, due to uncertainties, timing and the economic climate, the activity could not be clearly quantified or substantiated. Accordingly, no provision for the expenditure was made in the financial budgets for 2008/09 and out-years. Details of this potential activity are shown below under key strategic awareness initiatives.

16.2 KEY WORK INITIATIVES FOR 2008/09

The principal initiatives and activities that were progressed during the 2008/09 financial year are shown in the table below.

Key work initiatives for 2008/09	Progress during 2008/09
i. Phased rollout and deployment of new generation x-ray baggage inspection system to replace Avsec's existing equipment.	<ul style="list-style-type: none"> • Nine new generation x-ray baggage units were installed during 2008/09. An additional sixteen units are due for installation during 2009/10 and a further six units by 2011/12. <p>The new systems provide significantly enhanced images to operators and improved detection capabilities.</p>
ii. Review of Avsec's additional screening point measures, embracing a review of methods, efficiencies and productivity in station staffing and consideration of an electronic rostering solution.	<ul style="list-style-type: none"> • As at 30 June 2009 Avsec is finalising a review of its operational processes. The review is looking at staffing levels and improved efficiencies and includes international benchmarking, deployments and workplace methods and practices. • An enhanced incident reporting system has been identified, following a comprehensive RFP process, and it is expected the system will go live in the second quarter of 2009/10. • As at 30 June 2009 Avsec is finalising a business case for a national electronic rostering system that has been identified and evaluated following an open tender process. <p>The proposed system (subject to a</p>

Key work initiatives for 2008/09	Progress during 2008/09
	<p>business case) will enable Avsec to roster staff more effectively and aid scheduling staff in creating, managing and updating their daily staffing requirements. It is anticipated implementation will commence late 2009 and be rolled out region by region over the following six months.</p>
<p>iii. Provision of new or extended operations and administration base at Auckland Airport (due to increase in staff) and modifications to existing facilities at Christchurch Airport.</p>	<ul style="list-style-type: none"> • The existing base at Auckland airport was initially built for a staff of 82 and is currently used by over 300 staff. Avsec has committed to leasing a new purpose-built administration and operational facility that is expected to suffice for the next twenty five years. Occupation of the new facility is anticipated by August 2010. The existing facility will be decommissioned and either leased or sold. • The new integrated domestic / international terminal at Christchurch is projected for completion late 2010/11. During 2008/09 Avsec was involved with the stakeholders working group in future planning for the repositioning and integration of additional screening equipment and the HBS control room.
<p>iv. Activity specific to Auckland Airport's major development plan involves both the planning and rollout of significant capital expenditure and staffing requirements.</p>	<ul style="list-style-type: none"> • Pier B construction has commenced and expected to be completed 2009/10. It was initially anticipated that additional passenger screening points would be required but no new screening points will be added until passenger demand dictates requirement. • The redevelopment at Auckland Airport makes provision of two additional gatehouses which will be controlled / manned by Avsec. Milestone dates for the new gatehouses are subject to advice from Auckland International Airport Limited (AIAL). • It is anticipated a second screening lane will be required within the Qantas domestic terminal in the near future. The additional lane was not progressed during 2008/09 and milestone dates are subject to advice from AIAL and the airline.
<p>v. Planning for the possible introduction of international and domestic jet operations from new airport locations.</p>	<ul style="list-style-type: none"> • Subject to ongoing contingency planning. Planning process was also fully embraced and considered during the domestic security review. International flights will commence from Rotorua late 2009.
<p>vi. Planning for the impact of Airbus A380 flights operating out of New Zealand.</p>	<ul style="list-style-type: none"> • Planning phase completed. Airbus A380 flights commenced at Auckland International Airport during 2008/09, with minimal impact on Avsec.
<p>vii. Multiple South Pacific project activities that will contribute to New Zealand's aviation security and assist aviation security development in these countries.</p>	<ul style="list-style-type: none"> • All Pacific Security Fund (PSF) activity completed for 2008/09.

16.3 KEY STRATEGIC AWARENESS INITIATIVES FOR 2008/09

The table below shows the activity that was identified in the 2008/11 Statement of Intent, together with a brief report on how it was monitored / progressed during the 2008/09 financial year.

Key strategic awareness activity for 2008/09 Activity – Impact- Preparedness	Progress during 2008/09
<p>Full domestic Hold Baggage Screening (HBS) and passenger screening</p> <p>The requirement to undertake full domestic HBS and passenger screening would extend to at least an additional 17 airport locations.</p> <p>Impact: Significant increase in staffing and capital equipment. Capital expenditure may require initial funding. Greater impact if the current screening threshold is further reduced.</p> <p>Avsec preparedness: Monitoring brief and further development of scenario plans for this contingency.</p>	<p>During 2008/09 government considered the review of domestic aviation security (ordered by the previous government following an alleged hijacking attempt in February last year)¹⁷.</p>
<p>Lowering of aircraft seating threshold for domestic screening:</p> <p>Avsec currently screens passengers on domestic flights on aircraft that have more than 90 seats. If the current threshold is reduced Avsec would be required to undertake aviation security services at a greater number of airport locations (e.g. threshold lowered to 60-90 passengers - extra 10 locations; 40-59 passengers - extra 5 locations; 15-40 passengers – extra 10 locations). The reduced threshold would also have a significant impact on all other locations at which Avsec currently operates.</p> <p>Impact: Significant increase in staffing and capital equipment. Capital expenditure may require initial funding.</p> <p>Avsec preparedness: Monitoring brief and further development of scenario plans for this contingency.</p>	<p>The review assessed the risks in New Zealand's domestic aviation environment to see if current levels of security were adequate.</p> <p>In May 2009 The Minister of Transport announced that the government would not change the current thresholds for security screening for domestic air travel, opting instead to implement a range of alternative security measures.</p> <p>Security committees, made up of airline and airport staff, local police and other key stakeholders will however be established at most regional airports to improve sharing of security intelligence and enhance local threat assessment and risk management.</p>
<p>Regional airport security may be required on a 24 hour, 7 days per week basis:</p> <p>Increased security requirements at five existing (and potentially at new airport locations). This may result from increased airport usage or greater domestic aviation security requirements.</p> <p>Impact: Increase in staffing, rostering and capital expenditure. Substantial capital costs may require initial funding. Increase in passenger security charges may be required to meet the incremental costs.</p> <p>Avsec preparedness: Monitoring brief and further development of scenario plans for this contingency.</p>	<p>As a key participant on the review team Avsec has developed an extensive database of domestic aviation knowledge, and contingency plans that can be applied if the assessed risk level in the domestic aviation environment changes.</p> <p>There have been no further developments or requirements for Avsec to provide regional airport security on a 24 hour, 7 days per week basis.</p>
<p>Research, development and procurement of new and emerging aviation security technology and equipment:</p> <p>Significant international research and development is taking place into new aviation security technology and equipment. Avsec continually monitors the emerging technology to ensure that its aviation security equipment is at the leading edge in proficiency, efficiency and cost-effectiveness. Avsec provides for the cyclical replacement of equipment in the normal course of business but not for the substantive replacement of equipment and technology that may result from emerging research and development.</p> <p>Impact: Substantial capital costs would require Crown funding. Potential for a more efficient operation through technology / human resources balance.</p> <p>Avsec preparedness: Avsec has a dedicated development and research function that is committed to planning and research into emerging technologies, including testing, trial and evaluation.</p>	<p>Ongoing strategic research and monitoring of emerging technologies that will enhance aviation security and provide improved efficiencies at screening point locations.</p>
<p>Impact on airport locations of major national or localised events:</p> <p>Awareness and scenario planning on the impact that a major national or local event may have on airport operations and aviation security requirements. Events include activities such as the Rugby World Cup 2011 and Presidential / Heads of Government visits.</p> <p>Impact: Increase in staffing, rostering and heightened level of security which may also extend to ports, other transport areas or airport locations.</p> <p>Avsec preparedness: Monitoring brief. Early involvement in the event planning.</p>	<p>Monitoring brief.</p> <p>Avsec is an active member of the Major Events Border Steering Group that includes the Rugby World Cup 2011. Regional Working Groups at Auckland, Wellington and Christchurch Airports have been established.</p>

¹⁷ Avsec was represented on both the Steering Committee and the Working Group for the Domestic Security Review, along with the Ministry (lead), CAA, DPMC and NZ Police.

17 Our Organisational Health and Capability

17.1 KEY CAPABILITY DEVELOPMENTS

→ Our people, systems and processes

During 2009/10 Avsec's key capability developments focused on people, systems and processes included:

i. Customer satisfaction surveys

Avsec undertakes regular internal high level screening point surveys of passengers to gauge their satisfaction of Avsec's performance through the security screening process.

Planning is currently in progress to undertake an in depth customer satisfaction survey during the next twelve months using an external provider.

ii. Workplace performance audit

An external provider was contracted to undertake an extensive survey of all employees on matters associated with workplace performance and health and safety. The survey was completed mid August 2009 and will provide baseline data in developing strategic human resources planning for the next three years.

iii. Workplace training and development

Avsec's ICAO Auckland training centre and Regional Training Officers (RTOs) provided an extensive range of training programmes during 2008/09, as shown in the table below. The training programmes include specialised training provided to Pacific islands as part of the Pacific security enhancement initiatives.

Training development programme provided 2008/09	Training development objective	Number of Participants trained
Basic Training Course (BTC)	CAA approved programme. Initial training of new recruits to the frontline ASO/Screeners roles followed by on job training programme.	19
Dangerous Goods Refresher Training IATA & CAA	Compliance training required as per CAR Part 92. Half day Dangerous Goods Awareness programme approved under CAR Part 141.	447
Avsec Legislation Refresher Training	Refresher training in relevant Avsec legislation conducted on a two year cycle.	492
Avsec Specialist Legislation Training	Specialist training relating to maritime security and unruly passengers.	5
Leadership & Management Development for Sergeants	Leadership and management development programme for Avsec Sergeants, facilitated by specialist external providers.	54
Avsec HR Policy Workshops for Sergeants & Senior Sergeants (Performance Management, Harassment Prevention, Discipline & Grievance Handling)	Workshop delivered to Avsec supervisors to ensure that they are up to date with Avsec HR policy in terms of appropriately addressing frontline issues with performance management, harassment prevention, discipline and grievance handling.	17
Harassment Prevention Workshops for Aviation Security Officers (ASOs)	Workshop delivered to ASOs to ensure they are fully aware of Avsec policy on harassment prevention in the workplace.	373

Training development programme provided 2008/09	Training development objective	Number of Participants trained
Staff Wellbeing Workshops	Workshop that overviews coping with shift-work & driver fatigue avoidance, manual handling procedures.	271
Avsec Control Room Refresher Training	Control room refresher training for ASOs assigned this task.	29
Professional Client Service Training	Workshop that provides frontline staff with Avsec's expectations of how we deliver professional service to all of our stakeholders.	136
Behaviour Analysis Training	Workshop that introduces frontline Avsec staff in the recognition of behaviour patterns in human behaviour.	651
Vehicle Search Training	Training programme to provide Security Officers with the skills to perform vehicle searches in compliance with Non-Passenger Screening (NPS) requirements.	111
Trace Detection Training	Training programme in the correct use of Trace Detection equipment used for cargo screening and passenger screening points.	201
X-ray Image Recognition Training	Initial training in the use the computer based training programme for x-ray image recognition.	260
Airport Terminal Evacuation procedures	Training programme to enable ASO's to perform effective evacuation procedures of airport terminals.	428
Training workshops for Trainers	Internal and external training workshops for Security Officers undertaking training of Avsec operations staff.	57
Other Managerial / Administrative Specialist Skills Courses and Workshops	Training to provide skills in business and report writing, negotiating skills, computer applications and other administrative processes.	69
ICAO Courses and Workshops (conducted at Avsec Training Centre (Auckland))	Specialist programmes relative to quality control, instructors, crisis management, national inspectors and professional managers.	71
Pacific Islands Training	Pacific security training programmes delivered in Rarotonga, Samoa, Niue, Tonga, Vanuatu and Solomon Islands by Avsec's Training Team.	237

iv. Review policies and procedures

During 2009/10 an extensive review and update of Avsec's policies and procedures was commenced and is currently ongoing. The review will enhance Avsec's quality management philosophy.

→ Investment in capital assets

During the year ended 30 June 2009 Avsec's net capital expenditure on new and replacement equipment was \$4.014 million.

The expenditure has been applied to replacement of security equipment and vehicles and enhancement of business systems.

In addition Avsec entered into contractual commitments for the long-term lease of a purpose-built operations facility at Auckland base (current premises no longer suitable for the expanded workforce) and the lease of new accommodation for National Office (current premises lease is due to expire and building is subject to a demolition clause). Both facilities are scheduled to be occupied during 2009/10.

Avsec also has a dedicated procurement function that constantly reviews and monitors new and emerging technologies that will enhance screening capability and provide increased efficiencies.

17.2 OUR GOOD EMPLOYER PROGRAMME

Avsec's "Good Employer Programme" covers the following areas:

Seven elements of being a good employer	Avsec "good employer" policies or practices
<p>1. Leadership, accountability and culture.</p>	<ul style="list-style-type: none"> • Regular staff bulletins. • Intranet. • Regular Executive and Operations Management meetings, including Avsec's Quality Council. • Social activities. • Register of interests maintained.
<p>2. Recruitment, selection and induction.</p>	<ul style="list-style-type: none"> • Special recruitment days. • Vacancies advertised internally. • Relocation, transfer and secondment assistance. • Basic training courses and induction programmes.
<p>3. Employee development, promotion & exit.</p>	<ul style="list-style-type: none"> • Training and leadership development programmes. • Special allowances for training and education, including On Job Trainers. • Exit interviews conducted in house currently, to be contracted by an external provider later this year.
<p>4. Flexibility and work design.</p>	<ul style="list-style-type: none"> • Consideration of flexible working arrangements complying with current legislation. • Where possible, flexibility of role design depending on individual circumstances. • Long service leave.
<p>5. Remuneration, recognition & conditions.</p>	<ul style="list-style-type: none"> • Equitable, transparent and gender neutral remuneration system. • Equal access to job opportunities and conditions. • 83% of Avsec belong to a collective agreement. • KiwiSaver provider and 2% employer contribution. • Remuneration benchmarking and ongoing Hay job evaluation and market survey.
<p>6. Harassment and bullying prevention.</p>	<ul style="list-style-type: none"> • Discrimination and harassment prevention policy. • Harassment and bullying workshops for employees, ongoing. • Code of Conduct.
<p>7. Safe and healthy environment.</p>	<ul style="list-style-type: none"> • Annual wellness payment to all staff. • Uniform provided to all operational staff. • Member of Southern Cross group discount scheme. • Personal protective equipment provided to all staff as required. • Subsidised eye examinations and spectacles. • Subsidised Employee Assistance programme. • Life and trauma cover for employees. • Disputes resolution process. • First Aid Officers at all Avsec locations. • Health and safety committees and education. • Tamiflu available for all staff. • Vaccinations (Hepatitis A & B, seasonal flu, Tetanus).

Other good employer initiatives undertaken / commenced during 2008/09 include:

- i. Collective negotiations carried out in August 2008 established several consultative committees and working parties to progress various issues in a collaborative manner. These working parties will be ongoing throughout 2009/10 and comprise:
 - National Consultative Committee which meets quarterly;
 - Regional Committees to address specific local issues which meet six weekly; and
 - Roster committees which operate from Northern, Central and Southern regions to review rosters.
- ii. Employer/Employee working parties established comprise:
 - Sergeants leadership development;
 - Rostering rules and guidelines;
 - Review of issues around sick leave;
 - Uniform review; and
 - Collective coverage re administration staff.
- iii. A Uniform Survey carried out in 2008 drew a very positive response rate and identified specific areas for a uniform change. This will be progressed by the Uniform Working Party and implemented as practicable.
- iv. Workplace Performance and Health and Safety Audits. These two surveys were carried out to establish baseline data that will enable Avsec to measure improvement in a variety of KPIs.

During the next twelve months Avsec's Good Employer Programme will focus on:

- Implementing policies and practices identified as a result of the Workforce Performance and Health and Safety audit. These will be achieved using a collaborative approach with staff and Unions; and
- Developing a comprehensive HR strategy.

17.3 OUR STAFF PROFILE

Avsec's workplace profile at 30 June 2009 is analysed by employee numbers, gender, and age:

Workplace Profile	As at 30 June 2008		As at 30 June 2009	
	Number	%	Number	%
Staff Number:				
Headcount	826		799	
FTE	786		759	
Gender:				
Women	294	35.6%	287	36.1%
Men	532	64.4%	512	63.9%
Age (where provided)				
Under 20	5	0.6%	-	-
20-29	54	6.5%	39	4.9%
30-39	183	22.2%	163	20.5%
40-49	300	36.3%	275	34.6%
50-59	236	28.6%	255	32.0%
Over 60	48	5.8%	59	7.4%
Age not known	-	-	8	0.6%
Total	826	100%	799	100%
Employment Status:				
Members of Collective Agreement	644	78.0%	662	82.8%
Individual Employment Agreements	182	22.0%	137	17.2%
Total	826	100%	799	100%
Annual Staff Attrition Rate		9.52%		7.04%

17.4 OUR EQUAL EMPLOYMENT OPPORTUNITIES PROGRAMME

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

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

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

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

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

PART 3:

STATEMENT OF
SERVICE
PERFORMANCE
AND
CONSOLIDATED
FINANCIAL
STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS, 01 JULY 2008 - 30 JUNE 2009

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

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

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

18 Statement of Responsibility

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

- The preparation of the financial statements and the Statement of Service Performance for the judgements used therein.
- The establishment and maintenance of a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial and non-financial reporting.
- In the opinion of the Civil Aviation Authority, the financial statements and Statement of Service Performance fairly reflect the financial position and operations of the Civil Aviation Authority for the year ended 30 June 2009.

Signed on behalf of the Board:



RICK BETTLE

Chairman

Date: 29 October 2009



ERROL MILLAR

Deputy Chairman – CAA

Date: 29 October 2009



DARRYLL PARK

Deputy Chairman – Avsec

Date: 29 October 2009

19 Ministerial Directions

Whole of government direction pursuant to *section 107 of the Crown Entities Act 2004* dated 21 July 2008 from David Parker (former Minister of State Services) and Michael Cullen (former Minister of Finance). It concerns investment in or building of online credential management or identity verification capability or “Shared Authentication Services”.

20 Audit Report

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Audit Report

**To the readers of
Civil Aviation Authority's
financial statements and statement of service performance
for the year ended 30 June 2009**

The Auditor-General is the auditor of Civil Aviation Authority (the Authority). The Auditor-General has appointed me, John O'Connell, using the staff and resources of Audit New Zealand, to carry out the audit. The audit covers the financial statements and statement of service performance included in the annual report of the company for the year ended 30 June 2009.

Unqualified Opinion

In our opinion:

- The financial statements of the company on pages 83 to 116:
 - comply with generally accepted accounting practice in New Zealand;
 - comply with International Financial Reporting Standards; and
 - give a true and fair view of:
 - the company's financial position as at 30 June 2009; and
 - the results of its operations and cash flows for the year ended on that date.
- The statement of service performance of the company on pages 68 to 82:
 - complies with generally accepted accounting practice in New Zealand; and
 - gives a true and fair view of, for each class of outputs:
 - its standards of delivery performance achieved, as compared with the forecast standards outlined in the statement of forecast service performance adopted at the start of the financial year; and
 - its actual revenue earned and output expenses incurred, as compared with the forecast revenues and output expenses outlined in the statement of forecast service performance adopted at the start of the financial year.
- Based on our examination the company kept proper accounting records.

The audit was completed on 29 October 2009 and is the date at which our opinion is expressed.

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

Basis of Opinion

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

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

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

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

Audit procedures generally include:

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

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

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

Responsibilities of the Board and the Auditor

The Board is responsible for preparing the financial statements and statement of service performance in accordance with generally accepted accounting practice in New Zealand. The financial statements must give a true and fair view of the financial position of the company as at 30 June 2009 and the results of its operations and cash flows for the year ended on that

date. The statement of service performance must give a true and fair view of, for each class of outputs, the company's standards of delivery performance achieved and revenue earned and expenses incurred, as compared with the forecast standards, revenue and expenses adopted at the start of the financial year. The Board's responsibilities arise from the Crown Entities Act 2004.

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

Independence

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

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



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

Matters Relating to the Electronic Presentation of the Audited Financial Statements and Statement of Service Performance

This audit report relates to the financial statements and statement of service performance of the Civil Aviation Authority for the year ended 30 June 2009 included on the Civil Aviation Authority's website. The Civil Aviation Authority's Board is responsible for the maintenance and integrity of the Civil Aviation Authority's website. We have not been engaged to report on the integrity of the Civil Aviation Authority's website. We accept no responsibility for any changes that may have occurred to the financial statements and statement of service performance since they were initially presented on the website.

The audit report refers only to the financial statements and statement of service performance named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements and statement of service performance. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and statement of service performance and related audit report dated 29 October 2009 to confirm the information included in the audited financial statements and statement of service performance presented on this website.

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

21 Statement of Service Performance

The consolidated financial statements comprise the following output classes:

<p>21.1 Civil Aviation Authority (CAA)</p>	<p><i>Output Class 1: Policy advice</i></p> <p><i>Output Class 2: Safety and security assessment and certification</i></p> <p><i>Output Class 3: Safety and security investigation, analysis and education</i></p> <p><i>Output Class 4: Enforcement</i></p>
<p>21.2 Aviation Security Service (Avsec)</p>	<p><i>Output Class 1: Aviation security services</i></p> <p><i>Output Class 2: Maritime security services</i></p>

21.1 Civil Aviation Authority (CAA)

OUTPUT CLASS 1: POLICY ADVICE

→ Description

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

- coordination of New Zealand's response to ICAO regarding matters of a specifically technical or safety regulatory nature associated with or arising from the work of the ICAO Air Navigation Bureau and the Technical Assistance Bureau (excluding search and rescue);
- administration of aviation security matters arising from the work of the ICAO Aviation Security and Facilitation Branch;
- participation in appropriate ICAO international and regional fora;
- development and administration of bilateral agreements with the civil aviation safety regulatory authorities of other countries;
- working with Pacific Island States to develop safety and security objectives;
- provision of policy advice to government;
- development and review of legislation;
- ministerial servicing, including Ministerial Correspondence, Parliamentary Questions, and reports to the Minister and Select Committees; and
- rules development services under contract to the Ministry of Transport.

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

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

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

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

The impacts and consequences of rules development are that the provision of rules development services to the Ministry of Transport contributes to the achievement of the CAA's objectives as stipulated in the *Civil Aviation Act 1990*.

→ Performance of Output Class 1 against its output measures and targets

Performance of Output Class 1 against cost standards <i>For the year-ended 30 June 2009</i>	2008/09		2007/08
	Actual	Budget	Actual
	\$000	\$000	\$000
Crown funding (Vote Transport: Policy advice)	1,821	1,820	1,321
Ministry contracts revenue (Rules development)	1,439	1,418	1,439
Services revenue and other income	2	-	-
Total output revenue	3,262	3,238	2,760
Total output expenses	(3,604)	(4,178)	(3,249)
Net deficit	(342)	(940)	(489)

Output Class 1: Policy advice outputs	Output performance against quantity, quality and timeliness targets <i>For the year ended 30 June 2009</i>		
	Quantity	Quality	Timeliness
1. Reports to Parliament and the Minister	Target: Demand-driven and provided as required 100% of the time.	Target: 100% of responses, reports, or briefings to Ministerial correspondence and Parliamentary Questions are accepted as robust by the Minister, including advisers.	Target: 100% of responses, reports or briefings are responded to by the CAA within due dates as required (e.g. all replies to Ministerial correspondence are forwarded to the MoT within 10 working days of receipt by the CAA).
a) Responses to Ministerial correspondence (demand driven number)	Target: estimated range 20-50 <i>Actual:</i> ○ 08/09: 44 ○ 07/08: 36 ○ 06/07: 33 ○ 05/06: 23	<i>Actual: Target met.</i>	<i>Actual: Target met.</i>
b) Reports and briefings to the Minister (demand-driven number)	Target: estimated range 40-60 <i>Actual:</i> ○ 08/09: 60 ○ 07/08: 52 ○ 06/07: 59 ○ 05/06: 65		
c) Responses to Parliamentary Questions (demand-driven number)	Target: estimated range 15-50 <i>Actual:</i> ○ 08/09: 16 ○ 07/08: 2 ○ 06/07: 16 ○ 05/06: 7		
d) Reports and responses to Select Committees (demand-driven number)	Target: estimated range 4-8 <i>Actual:</i> ○ 08/09: 0 (not required) ○ 07/08: 2		

Output Class 1: Policy advice outputs	Output performance against quantity, quality and timeliness targets For the year ended 30 June 2009		
	Quantity	Quality	Timeliness
	<ul style="list-style-type: none"> o 06/07: 3 o 05/06: 7 		
<p>2. International relations and obligations</p> <p>Responses on behalf of New Zealand to ICAO State letters on aviation safety and security matters, including:</p> <ul style="list-style-type: none"> a) review and comment on ICAO proposals for amendments to Annexes; b) file acceptances or differences as necessary; c) implement decisions arising from review of CAA's ICAO obligations. d) liaison with other international civil aviation authorities on matters of mutual interests; e) advice and representation in support on international agreements, projects and other fora; f) promote the development of technical arrangements and agreements with other aviation authorities where this will have demonstrable benefits for the New Zealand aviation system; and coordinate the implementation of the ICAO Corrective Action Plan. 	<p>Target: Demand-driven and provided as required 100% of the time.</p> <p><i>Actual: Target met.</i></p>	<p>Target: Advice and representation will be based on the priorities and goals of the government and CAA.</p> <p><i>Actual: Target met. (new standard)</i></p>	<p>Target: Completed in a timely fashion or within an agreed or required timeframe.</p> <p><i>Actual: Target met.</i></p>
<p>3. South Pacific obligations</p> <ul style="list-style-type: none"> a) New Zealand representation on the council of the Pacific Aviation Safety Office (PASO); and b) oversight of safety and security support agreements with Pacific Island Countries. 	<p>Target: NZ is represented or gave support as required 100% of the time.</p> <p><i>Actual: Target met</i></p> <p><i>NZ participated in a PASO Council meeting in Niue and the PASO AGM in Vanuatu during the period.</i></p>	<p>Target: Advice and representation were based on the relevant priorities and goals of the government and CAA.</p> <p><i>Actual: Target met. (new standard)</i></p>	<p>Target: Completed in a timely fashion or within an agreed or required timeframe.</p> <p><i>Actual: Target met.</i></p>
<p>4. International safety and security agreements with other countries</p> <ul style="list-style-type: none"> a) USA: Bilateral Aviation Safety Agreement (BASA) Maintenance Implementation Procedures (MIP); and b) Europe: Develop further opportunities for expansion of the Mutual Recognition Agreement/ Technical Arrangement (Design and Production approvals). 	<p>Target: Demand-driven and provided as required 100% of the time.</p> <p><i>Actual: Target met</i></p> <p><i>a) and b) are ongoing</i></p>	<p>Target: Advice and representation will be based on the relevant priorities and goals of the government and CAA.</p> <p><i>Actual: Target met (new standard)</i></p>	<p>Target: Completed in a timely fashion or within an agreed or required timeframe.</p> <p><i>Actual: Target met</i></p>
<p>5. Policy activities and programmes</p> <ul style="list-style-type: none"> a) Provision of advice and comment on government policy initiatives that impact on the aviation community and 	<p>Target: Demand-driven and provided as required 100% of the time.</p> <p><i>Actual: a) to g): Target met</i></p>	<p>Target: Advice provided will be based on:</p> <ol style="list-style-type: none"> 1. comprehensive analysis of information from relevant sources; 	<p>Target: Completed in a timely fashion or within an agreed or required timeframe.</p> <p><i>Actual: Target met</i></p>

Output Class 1: Policy advice outputs	Output performance against quantity, quality and timeliness targets For the year ended 30 June 2009		
	Quantity	Quality	Timeliness
<p>travelling public or any matter connected with aviation;</p> <p>b) provided support and advice to the development or amendment of civil aviation related legislation, such as Civil Aviation Act 1990, Civil Aviation Charges Regulations 1991, Civil Aviation (Aeronautical Information Service) Levies Order 2001 and the Civil Aviation Safety Levies Order 2002;</p> <p>c) policy input to rules programme;</p> <p>d) Transport Sector Strategic Directions (TSSD) collaborative planning projects such as: Integrated Approach to Planning, Research and Information, Cross-modal Approach to Safety, Influencing Demand for Transport, Managing Environmental and Public Health Impacts, and Monitoring and Evaluation;</p> <p>e) development on designation of airspace (dependent on additional resources);</p> <p>f) review of requirements for operator Security Management Systems; and</p> <p>g) review of New Zealand's State Safety Programme.</p>		<p>2. relevant priorities and goals of the government and CAA; and</p> <p>3. clear, accurate, and well-presented consultation with interested parties.</p> <p><i>Actual: Target met (new standard)</i></p>	
<p>6. Rules development Rules Development services under a separate contract to the MoT.</p> <p>a) Review of 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.</p> <p>b) Research and development of appropriate safety and security standards.</p> <p>c) Publish notices of intention to make or amend ordinary rules.</p> <p>d) Give interested parties a reasonable time to make submissions on the proposed rules or amendments</p> <p>e) Consult with such persons as in each case is considered appropriate on the proposed rules or amendments.</p> <p>f) Draft and publish rules and rule amendments required by the Minister.</p>	<p>Target: Provided as required 100% of the time as agreed in the 2008/09 Agreement for Rules Development Services.</p> <p><i>Actual: a) to g) met; f) delayed</i></p>	<p>Target: Rules Programme meets the quality requirements in the 2008/09 Agreement for Rules Development Services with MoT.</p> <p><i>Actual: Target met (new standard)</i></p>	<p>Target: Delivered in accordance with the timeliness requirements in the 2008/09 Agreement for Rules Development Services with MoT.</p> <p><i>Actual: Target met (new standard)</i></p>

OUTPUT CLASS 2: ASSESSMENT AND CERTIFICATION

→ Description

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

- exercise of control over entry into the New Zealand civil aviation system through the issuance or amendment of aviation documents and approvals to organisations, individuals and products (*section 7 of the Civil Aviation Act 1990*);
- exercise of control over exit from the civil aviation system through the amendment of aviation documents including the suspension, revocation or imposition of conditions on documents where such action is necessary in the interests of safety and security;
- monitoring of adherence to safety and security standards by participants in the civil aviation system including the carrying out of inspections and audits;
- updating of entry, exit and monitoring information in our database, including maintenance of the New Zealand Register of Aircraft;
- development and review of New Zealand airworthiness directives;
- assessment and approval of alternative means of compliance with airworthiness directives;
- assessment of petitions for and the granting of exemptions from requirements prescribed in the *Civil Aviation Rules* pursuant to the *Civil Aviation Act 1990* and rule making procedures; and
- management of inspections and audits under the *Health and Safety in Employment 1992*, including identification and follow-up of corrective actions that need to be taken by employers in the aviation sector to ensure adherence and compliance to *Health and Safety Employment* regulations.

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

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

→ Performance of Output Class 2 against its output measures and standards

Performance of Output Class 2 against cost standards <i>For the year-ended 30 June 2009</i>	2008/09		2007/08
	Actual	Budget	Actual
	\$000	\$000	\$000
Crown funding (Vote Transport, Health and safety in aviation)	440	440	440
Fees and charges	3,243	4,053	3,715
Levies	15,816	16,459	16,125
Other income	1,374	383	197
Total output revenue	20,873	21,335	20,477
Total output expenses	(20,218)	(21,053)	(18,512)
Net surplus/(deficit)	655	282	1,965

Output Class 2: Assessment and certification outputs	Output performance against quantity, quality and timeliness standards For the year ended 30 June 2009		
	Quantity	Quality	Timeliness
Airline sector outputs			
7. Routine audits and inspections (number of hours)	<p>Target: 4,000-5,000 hrs estimated range</p> <p><i>Actual:</i></p> <ul style="list-style-type: none"> o 08/09: 5,025 o 07/08: 4,348 o 06/07: 5,139 o 05/06: 5,054 <p><i>FY 05/06 (6,577 hrs) and 06/07 (7,511 hrs) data were previously erroneously reported due to an incorrect programming link.</i></p>	<p>Target: Airlines' actual safety and security assessment and certification procedures meet the specified accuracy and completeness requirements as specified in the CAA internal safety assessment and certification procedures 100% of the time.</p> <p><i>Actual: Target met</i></p>	<p>Target: 80% of scheduled audit and inspection modules are completed by due date.</p> <p><i>Actual: 08/09: data not available</i></p> <p><i>Note: The surveillance project changes have negated the system's ability to review timeliness of audits. Remedial work is underway.</i></p>
8. Spot checks (number of hours, issue-driven)	<p>Target: 200 hours</p> <p><i>Actual:</i></p> <ul style="list-style-type: none"> o 08/09: 333 o 07/08: 208 o 06/07: 155 o 05/06: 35 		<p>Target: 100% of programmes completed by due dates</p> <p><i>Actual: 08/09: data not available.</i></p> <p><i>Note: The surveillance project changes have negated the system's ability to review timeliness of audits. Remedial work is underway..</i></p>
9. Airworthiness directives to be developed and published (issue-driven number)	<p>Target: 150-250 estimated range</p> <p><i>Actual:</i></p> <ul style="list-style-type: none"> o 08/09: 220 o 07/08: 239 o 06/07: 323 o 05/06: 327 		<p>Target: No delays recorded</p> <p><i>Actual: 08/09: Target met. No delays recorded</i></p>
10. Airline Certification work requests (demand-driven number)	<p>Target: 200-500 estimated range</p> <p><i>Actual:</i></p> <ul style="list-style-type: none"> o 08/09: 922 o 07/08: 743 o 06/07: 904 o 05/06: 663 		
11. Aircraft Certification work requests (demand-driven number)	<p>Target: 800-1,000 estimated range</p> <p><i>Actual:</i></p> <p>08/09: 998 07/08: 898 06/07: 1,053 05/06: 925</p>		
12. Aircraft Registration work requests (demand-driven number)	<p>Target: 1,000-2,000 estimated range</p> <p><i>Actual:</i></p> <ul style="list-style-type: none"> o 08/09: 2,192 o 07/08: 1,721 o 06/07: 1,740 o 05/06: 1,782 		
General aviation sector outputs			
13. Routine audits and inspections (number of hours)	<p>Target: 3,500-4,500 hours estimated range</p>	<p>Target: General Aviation's actual safety and security</p>	<p>Target: 80% of scheduled audit and</p>

Output Class 2: Assessment and certification outputs	Output performance against quantity, quality and timeliness standards For the year ended 30 June 2009		
	Quantity	Quality	Timeliness
hours)	<p><i>Actual:</i></p> <ul style="list-style-type: none"> o 08/09: 3,384 o 07/08: 3,138 o 06/07: 2,821 o 05/06: 3,291 	<p>assessment and certification procedures meet the specified accuracy and completeness requirements as specified in the CAA internal safety assessment and certification procedures 100% of the time.</p> <p><i>Actual: Target met.</i></p>	<p>inspection modules are completed by due date.</p> <p><i>Actual:</i> 08/09: data not available <i>Note: The surveillance project changes have negated the system's ability to review timeliness of audits. Remedial work is underway.</i></p>
14. Spot checks (number of hours, issue-driven)	<p>Target: 1,500-1,900 hours estimated range</p> <p><i>Actual:</i></p> <ul style="list-style-type: none"> o 08/09: 811 o 07/08: 473 o 06/07: 1,058 o 05/06: 1,483 		<p>Target: 100% of programmes completed by due dates</p> <p><i>Actual:</i> 08/09: data not available <i>Note: The surveillance project changes have negated the system's ability to review timeliness of audits. Remedial work is underway..</i></p>
15. Operator Certification work requests (demand-driven number)	<p>Target: 1,000-1,400 estimated range</p> <p><i>Actual:</i></p> <ul style="list-style-type: none"> o 08/09: 912 o 07/08: 1,285 o 06/07: 1,518 o 05/06: 1,141 		<p>Target: No delays recorded</p> <p><i>Actual: Target met. No delays recorded.</i></p>
Personnel licensing and aviation services outputs			
16. Routine audits and inspections (number of hours)	<p>Target: 1,050 -1,350 hours estimated range</p> <p><i>Actual:</i></p> <ul style="list-style-type: none"> o 08/09: 1,353 o 07/08: 1,373 o 06/07: 1,123 o 05/06: 1,367 	<p>Target: Actual safety and security assessment and certification procedures meet the specified accuracy and completeness requirements as specified in the CAA internal safety assessment and certification procedures 100% of the time.</p> <p><i>Actual: Target met. Complied.</i></p>	<p>Target: 80% of scheduled audit and inspection modules are completed by due date.</p> <p><i>Actual:</i> 08/09: data not available <i>Note: The current surveillance project changes have negated the system's ability to review timeliness of audits. Remedial work is underway</i></p>
17. Spot checks (number of hours, issue driven)	<p>Target: 50-170 hours estimated range</p> <p><i>Actual:</i></p> <ul style="list-style-type: none"> o 08/09: 323 o 07/08: 205 o 06/07: 160 o 05/06: 28 		<p>Target: 100% of programmes completed by due dates</p> <p><i>Actual:</i> 08/09: data not available <i>Note: The surveillance project changes have negated the system's ability to review timeliness of audits. Remedial work is</i></p>

Output Class 2: Assessment and certification outputs	Output performance against quantity, quality and timeliness standards For the year ended 30 June 2009		
	Quantity	Quality	Timeliness
			<i>underway.</i>
18. Personnel licensing work requests (demand-driven number)	Target: 4,500-5,000 estimated range <i>Actual:</i> o 08/09: 7,042 o 07/08: 6,859 o 06/07: 5,733 o 05/06: 4,822		Target: No delays recorded <i>Actual: Target met. No delays recorded.</i>
19. Part 109 Regulated air cargo agent certification (security) – (demand-driven number) *new output in 08/09	Target: 1 - 30 estimated range <i>Actual: 55</i>		Target: No delays recorded <i>Actual: Target met. No delays recorded.</i>
20. Release General Directions for consultation (demand-driven number)	Target: 2 <i>Actual:</i> o 08/09: 0 o 07/08: 0 o 06/07: 2 o 05/06: 4		Target: 100% of General Directions programmes completed by due dates <i>Actual: Target met.</i>
21. Petitions for rule exemptions processed – (demand-driven number)	Target: 100-200 estimated range <i>Actual:</i> o 08/09: 57 o 07/08: 72 o 06/07: 124 o 05/06: 104		Target: No delays in liaison with petitioner <i>Actual: Target met. No delays with petitioner.</i>
Aviation community health and safety in employment outputs			
22. HSE investigations carried-out (demand-driven number)	Target: 55 – 75 estimated range <i>Actual:</i> o 08/09: 33 o 07/08: 56	Target: Health and Safety's actual safety and security assessment and certification procedures meet the specified accuracy and completeness requirements as specified in the CAA internal safety assessment and certification procedures 100% of the time. <i>Actual: Target met.</i>	Target: a) 70% of all investigations of occurrences completed within 6 months of registration; b) 90% completed within 12 months of registration; and c) 100% completed within 2 years of registration. <i>Actual:</i> 08/09: a) 50%; b) 67%, c) 2-yr measure can't be read. Criteria records for the Unit began a year ago. 07/08: a) 86%; b) 100%; c) 100%
23. HSE audits/ inspections of selected clients (number)	Target: 20 <i>Actual:</i> o 08/09: 23 o 07/08: 21 o 06/07: 3 o 05/06: 11		Target: 100% completed by due date <i>Actual: Some delays at end of financial year.</i>
24. Provision of information and education to clients and stakeholders (demand-driven number)	Target: 10 <i>Actual:</i> o 08/09: 10 o 07/08: 18 o 06/07: 10 o 05/06: 9		

OUTPUT CLASS 3: INVESTIGATION, ANALYSIS AND EDUCATION

→ Description

Output Class 3 covers the following outputs and activities:

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

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

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

Work on the analysis of safety and security data and information, and intelligence relating to the domestic and international aviation safety and security environment intends to minimise the future risk of accidents or incidents and maximise compliance with civil aviation rules.

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

Performance of Output Class 3 against its output measures and standards

Performance of Output Class 3 against cost standards <i>For the year-ended 30 June 2009</i>	2008/09		2007/08
	Actual	Budget	Actual
	\$000	\$000	\$000
Fees and charges	-	12	-
Levies	4,879	5,053	4,846
Other income	7	-	-
Total output revenue	4,886	5,065	4,846
Total output expenses	(5,217)	(4,988)	(4,626)
Net Surplus/(Deficit)	(331)	77	220

Output Class 3: Investigation, analysis and education outputs	Output performance against quantity, quality and timeliness standards For the year ended 30 June 2009		
	Quantity	Quality	Timeliness
Safety and security investigation outputs			
25. Number of safety and security investigations carried out	<p>Target: 1,700-2,200 estimated range</p> <p>Actual:</p> <ul style="list-style-type: none"> o 08/09: 1,539 o 07/08: 2,655 o 06/07: 2,200 o 05/06: 2,296 	<p>Target: Actual safety and security investigations procedures meet the specified accuracy and completeness requirements as specified in the CAA internal safety and security investigation procedures 100% of the time.</p> <p>Actual: Target met.</p>	<p>Target: a) 70% of all investigations of occurrences completed within 6 months of registration;</p> <p>b) 90% completed within 12 months; and</p> <p>c) 100% completed within 2 years.</p> <p>Actual: 08/09: a)80%; b)91%; c)99%</p> <p>07/08: a)87%, b) 96%, c) 99%</p>
Safety and security data analysis outputs			
26. Aviation safety summary reports (number)	<p>Target: 4 times a year</p> <p>Actual:</p> <ul style="list-style-type: none"> o 08/09: 4 o 07/08: 4 o 06/07: 4 o 05/06: 4 	<p>Target: Meet the CAA quality standards policy for data analysis.</p> <p>Actual: Target met. (new standard)</p>	<p>Target: Published within 40 working days at the end of the quarter to which the report relates to.</p> <p>Actual: Target met from 05/06 to 08/09</p>
Safety and security education and information outputs			
27. Vector periodicals released (number)	<p>Target: 6 per year</p> <p>Actual:</p> <ul style="list-style-type: none"> o 08/09: 6 o 07/08: 6 o 06/07: 6 o 05/06: 6 	<p>Target: Meet the CAA quality standards policy.</p> <p>Actual: Target met. (new standard)</p>	<p>Target: 100% of safety education and information materials are published by due date.</p> <p>Actual: Target met from 05/06 to 08/09</p>
28. Safety seminars conducted (number)	<p>Target: minimum of 10 seminars</p> <p>Actual:</p> <ul style="list-style-type: none"> o 08/09: 32 o 07/08: 26 o 06/07: 28 o 05/06: 25 		
29. Aviation security risk context statement (number)	<p>Target: 1</p> <p>Actual:</p> <ul style="list-style-type: none"> o 08/09 and 07/08: 0 o Note: No longer undertaken. 	<p>Target: 100% of information provided is up-to-date.</p> <p>Actual: Not applicable.</p>	<p>Target: Published within due dates</p> <p>Actual: Not applicable.</p>
30. Security special notices (number)	<p>Target: Demand-driven number and provided 100% of the time.</p> <p>Actual:</p> <ul style="list-style-type: none"> o 08/09 and 07/08: 0 not required. 	<p>Target: 100% of information provided is up-to-date.</p> <p>Actual: Target met.</p>	<p>Target: Published within due dates.</p> <p>Actual: Not applicable</p>
31. Security awareness presentations (number)	<p>Target: 3-10 estimated range</p> <p>Actual:</p> <ul style="list-style-type: none"> o 08/09: 4 o 07/08: 3 		<p>Target: 100% of presentations requested within the financial year are delivered.</p> <p>Actual: Target met.</p>

OUTPUT CLASS 4: ENFORCEMENT

→ Description

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

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

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

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

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

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

→ Performance of Output Class 4 against its output measures and standards

Performance of Output Class 4 against cost standards <i>For the year-ended 30 June 2009</i>	2008/09		2007/08
	Actual	Budget	Actual
	\$000	\$000	\$000
Levies	1,034	1,403	1,277
Other income	10	-	6
Total output revenue	1,044	1,403	1,283
Total output expenses	(1,074)	(1,177)	(1,067)
Net Surplus/(Deficit)	(30)	226	216

Output Class 4: Enforcement outputs	Output performance against quantity, quality and timeliness standards <i>For the year ended 30 June 2009</i>		
	Quantity	Quality	Timeliness
32. Number of occurrences reviewed by the Law Enforcement Unit (LEU) in order to consider enforcement action (demand-driven)	Target: 260-300 estimated range <i>Actual:</i> o 08/09: 207 o 07/08: 307 o 06/07: 335 o 05/06: 231	Target: 100% of Enforcement's investigations closed meet the specified accuracy and completeness requirements in CAA procedures. <i>Actual: Target met.</i>	Target: 100% of detailed investigations completed within 12 months of commencement and 90% within 6 months . <i>Actual:</i> 08/09: 100%/96% 07/08: 100%/98%
33. Number of detailed enforcement investigations undertaken (demand-driven number)	Target: 70-90 estimated range <i>Actual:</i> o 08/09: 58 o 07/08: 102 o 06/07: 75 o 05/06: 81		

21.2 Aviation Security Service (Avsec)

OUTPUT CLASS 1: AVIATION SECURITY SERVICE

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

Performance Measures 2008/09		2008/09	
		Actual	Target
GENERAL PERFORMANCE MEASURES			
These performance measures reflect Avsec's capability to process a significant number of passengers and their baggage, detect prohibited items and ensure Avsec is not responsible for delays to aircraft departures.			
1.	Forecast numbers of screened international passengers.	4,312,408	4,561,038 (+/-3%)
2.	Forecast numbers of screened domestic passengers on aircraft of 90+ seats.	5,620,651	6,205,208 (+/- 3%)
3.	Percentage of international hold baggage screened.	100%	100%
4.	Number of verified unauthorised or prohibited items discovered post screening points (system failure).	5	Nil
5.	Number of flight delays attributable to screening activities (due to an Avsec system failure).	Nil	Nil
6.	Number of flight delays attributable to aircraft search activities.	Nil	Nil
7.	Number of verified unauthorised dangerous goods discovered post screening points (system failure).	2	Nil
WAITING TIME PERFORMANCE MEASURES			
These performance measures are a test of Avsec's capability and efficiency in processing passengers at international and domestic screening points within prescribed international standards.			
8.	Average passenger wait times at international departure screening points (tested six monthly at Auckland & Christchurch international airports; also note that airport infrastructure can have a direct impact on wait times).	Auckland 1m 18s. Christchurch 2m 15s.	No more than 5 minutes.
9.	Average passenger wait times at domestic departure screening points (tested six monthly at Auckland & Christchurch international airports; also note that airport infrastructure can have a direct impact on wait times). International benchmarking against CATSA will also be undertaken.	Auckland 1m 32s. Christchurch 1m 26s. CATSA benchmarking November 2009.	No more than 5 minutes.
TRAINING AND TESTING PERFORMANCE MEASURES			
These performance measures reflect the very high standard of proficiency that is expected of all Aviation Security Officers in screening activities and detecting prohibited items.			
10.	Percentage of Aviation Security Officers involved in the screening function trained in key aviation security functions (searching, wandng, and X-ray proficiency).	100%	100%
11.	Percentage of all Aviation Security Officers involved in the screening function covertly tested every 150 working days against key aviation security functions (searching, wandng, x-ray proficiency).	100%	100%
12.	Percentage of practicing Aviation Security Officers who pass recurrent testing for proficiency in screening functions.	99.83%	100%
13.	Percentage of practicing Aviation Security Officers who pass recurrent testing for proficiency in the aircraft search function.	99.60%	100%

Performance Measures 2008/09		2008/09	
		Actual	Target
COMPLAINTS AND AUDIT PERFORMANCE MEASURES			
These performance measures are quality tests and measure of the proficiency in which Aviation Security Officers undertake their role and achieve high level audit standards.			
14.	Number of complaints against Aviation Security Officers involved in the screening function (includes 'free riders'). ¹⁸	One formal complaint per 462,635 passengers screened.	No more than one formal complaint per 250,000 passengers screened.
15.	Number of complaints against Aviation Security Officers pertaining to aircraft search.	Nil airline complaints.	No more than five airline complaints per annum.
16.	Number of corrective action requests issued pertaining to the aircraft search function issued by external auditors during any programmed audit.	Nil	Nil
17.	Number of corrective action requests issued pertaining to screening functions issued by external auditors during any programmed audit.	Nil	Nil

→ Output (b): Prevention of airside security incidents

Performance Measures 2008/09		2008/09	
		Actual	Target
Access control management and response to security related emergencies			
These performance measures are a reflection on Avsec's management of access control at a security designated airport and ability to respond with urgency to a security related emergency.			
1.	Number of corrective action requests pertaining to access control issued by external auditors.	Nil	Nil
2.	Percentage of responses to any security-related emergency within 5 minutes of being requested.	100%	100%
Management of Airport Identity Card process			
These performance measures reflect Avsec's capability to manage a significant number of Airport Identity Cards in accordance with the standards and requirements set out in Civil Aviation Rules.			
3.	Forecast number of Airport Identity Cards issued: Permanent: Temporary:	7,314 53,543	7,500 (+/- 5%) 50,000 (+/- 5%)
4.	Percentage compliance by Airport Identity Cardholders per CAA Rule 19.357. ¹⁹	99.34%	100%

¹⁸ "Free riders" refers to some screened domestic passengers for which no levy is recovered from airlines. The situation arises due to the infrastructural configuration at Christchurch airport that results in the screening of certain passengers who are not embarking on a domestic flight with more than 90 seats. This situation will cease to exist once the new Christchurch terminal is constructed.

¹⁹ CAA Civil Aviation Rule 19.357 sets out the security requirements for the issuance of Airport Identity Cards, areas of security designated airports that they must be worn and the vetting processes that are provided for.

→ Financial Performance of Output Class 1: Aviation Security Services

Output (a): Prevention of in-flight security incidents			
2007/08 Actual (\$000)		2008/09 Actual (\$000)	2008/09 Budget (\$000)
907	Contracted services	343	810
74,141	Passenger security charges	80,782	86,488
1,318	Other income	2,539	-
76,366	Total output revenue	83,664	87,298
(50,584)	Total output expenses	(51,085)	(64,002)
25,782	Output surplus	32,579	23,296

Output (b): Prevention of air-side security incidents			
2007/08 Actual (\$000)		2008/09 Actual (\$000)	2008/09 Budget (\$000)
1,954	Contracted services	2,168	2,134
358	Other income	564	-
2,312	Total output revenue	2,732	2,134
(13,657)	Total output expenses	(15,510)	(14,053)
(11,345)	Output (deficit)	(12,778)	(11,919)

Output 1: Total			
2007/08 Actual (\$000)		2008/09 Actual (\$000)	2008/09 Budget (\$000)
2,861	Contracted services	2,511	2,944
74,141	Passenger security charges	80,782	86,488
1,676	Other income	3,103	-
78,678	Total output revenue	86,396	89,432
(64,241)	Total output expenses	(66,595)	(78,055)
14,437	Output surplus / (deficit)	19,801	(11,377)

OUTPUT CLASS 2: MARITIME SECURITY SERVICES

→ Output (c): Maritime Security Services

Performance measure 2008/09		2008/09	
		Actual	Target
1.	Percentage of Avsec responses within four hours to any request from the Minister of Transport or the Director of Maritime New Zealand to a high level threat situation at the Port of Auckland affecting cruise ships or their passengers.	N/a	100%

→ Financial Performance of Output Class 2: Maritime Security Services

Output 2: Maritime Security Services			
2007/08 Actual (\$000)		2008/09 Actual (\$000)	2008/09 Budget (\$000)
136	Crown	156	145
136	Total output revenue	156	145
(136)	Total output expenses	(156)	(145)
-	Output surplus / (deficit)	-	-

22 Consolidated Financial Statements

22.1 CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2009

	Note	2009 Actual \$000	2009 Budget \$000	2008 Actual \$000
Income				
Levies revenue	2	21,729	22,926	22,274
Revenue from passenger security charges and other services	2	87,481	93,085	79,851
Crown funding revenue	3	2,417	2,406	1,897
Ministry contract revenue	3	2,129	1,818	1,962
Other income	4	2,865	2,616	2,178
Total income		116,621	122,851	108,162
Expenditure				
Personnel costs	5	71,602	83,196	68,029
Depreciation and amortisation expense	14,15	6,233	7,198	5,862
Capital charge	6	2,019	2,832	1,845
Finance costs	7	446	259	600
Other cost of services	8	16,568	18,344	15,477
Total expenses		96,868	111,829	91,813
NET SURPLUS		19,753	11,022	16,349

Explanation of significant variances in financial performance:

- a) The net operating surplus for the year was higher than expected because decreased personnel costs more than offset reduced revenue from passenger security charges (see (b)).
- b) Revenue from passenger security charges for the year was lower than expected due to the economic downturn adversely affecting international and domestic travel volumes.
- c) The under-spend against budget in personnel costs were due largely to delays in Avsec's projects at Auckland and Christchurch airports where new staff were not recruited as expected.

The accompanying notes form part of these financial statements.

22.2 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2009

	Note	2009 Actual \$000	2009 Budget \$000	2008 Actual \$000
Assets				
CURRENT ASSETS				
Cash and cash equivalents	9	61,908	45,125	35,422
Debtors and other receivables	10	9,558	12,337	10,782
Inventories	11	334	520	271
Derivative financial instruments	12	-	-	16
TOTAL CURRENT ASSETS		71,800	57,982	46,491
NON-CURRENT ASSETS				
Property, plant and equipment	14	11,738	14,227	12,690
Intangible assets	15	1,567	2,432	1,715
TOTAL NON-CURRENT ASSETS		13,305	16,659	14,405
TOTAL ASSETS		85,105	74,641	60,896
Liabilities				
CURRENT LIABILITIES				
Creditors and other payables	16	4,169	7,363	5,172
Employee entitlements	17	8,082	7,421	7,448
Provisions	18	-	-	-
Borrowings	19	1,645	1,417	2,864
Derivative financial instruments	12	116	-	-
TOTAL CURRENT LIABILITIES		14,012	16,201	15,484
NON-CURRENT LIABILITIES				
Employee entitlements	17	3,311	3,248	2,699
Provisions	18	327	-	263
Borrowings	19	708	-	1,417
TOTAL NON-CURRENT LIABILITIES		4,346	3,248	4,379
TOTAL LIABILITIES		18,358	19,449	19,863
NET ASSETS		66,747	55,192	41,033
TAXPAYERS' EQUITY				
General funds	20	30,744	49,471	25,235
Property, plant and equipment revaluation reserve	20	640	624	640
Passenger security charges reserves	20	35,363	5,097	15,158
TOTAL TAXPAYERS' EQUITY		66,747	55,192	41,033

The accompanying notes form part of these financial statements.

22.3 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2009

	Note	2009 Actual \$000	2009 Budget \$000	2008 Actual \$000
Opening balance as at 1 July		41,033	38,208	25,130
<i>Amounts recognised directly in equity</i>				
Property, plant and equipment				
Revaluation gains taken to equity	20	-	-	16
Net surplus		19,753	11,022	16,349
Total recognised revenues and expenses		60,786	49,230	41,495
Capital contributions		7,347	7,348	-
Repayment of capital		(1,386)	(1,386)	(462)
Closing balance at 30 June	20	66,747	55,192	41,033

The accompanying notes form part of these financial statements.

22.4 CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2009

	Note	2009 Actual \$000	2009 Budget \$000	2008 Actual \$000
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from levies		22,316	22,926	22,274
Receipts from passenger security charges and other services		87,869	92,917	79,851
Receipts from Crown funding and Ministry contracts		4,535	4,223	3,859
Interest received		2,663	2,488	1,964
Payments to employees		(66,670)	(76,679)	(65,333)
Payments to suppliers		(20,775)	(23,815)	(18,084)
Interest paid		(418)	(248)	(464)
Payments of capital charge to the Crown		(2,086)	(2,832)	(1,845)
Goods and Services Tax (net)		(16)	(49)	29
Net Cash Flows from Operating Activities	21	27,418	18,931	22,251
CASH FLOWS FROM INVESTING ACTIVITIES				
Maturity of investments		-	-	-
Sale of property, plant and equipment		274	55	166
Placement of investments		-	-	-
Purchase of property, plant and equipment		(5,088)	(10,582)	(2,951)
Purchase of intangible assets		(216)	(8)	(372)
Net Cash Flows from Investing Activities		(5,030)	(10,535)	(3,157)
CASH FLOWS FROM FINANCING ACTIVITIES				
Capital contributions		7,348	7,348	-
Repayment of capital		(1,386)	(1,386)	(462)
Repayment of external borrowings		(1,864)	(2,833)	(2,691)
Net Cash Flows from Financing Activities		4,098	3,129	(3,153)
Net increase/(decrease) in cash and cash equivalents		26,486	11,525	15,941
Opening cash and cash equivalents at 1 July		35,422	33,600	19,481
Closing cash and cash equivalents at 30 June	9	61,908	45,125	35,422

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

The accompanying notes form part of these financial statements.

23 Consolidated Notes to the Financial Statements

1 STATEMENT OF ACCOUNTING POLICIES

Reporting entity

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

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

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

These financial statements of the Authority are for the year ended 30 June 2009. The financial statements were approved by the Authority on 29 October 2009. Neither the Authority, the Crown, nor any other party has the power to amend the financial statements after this date.

Basis of preparation

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

Measurement basis

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

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

The functional and presentation currency is New Zealand dollars.

New standards and interpretations issued and not yet adopted

The following standards, interpretations, and amendments that are relevant to the Authority are not yet effective for the year ended 30 June 2009 have not been applied in preparing these financial statements:

NZ IAS 1 Presentation of Financial Statements (revised 2007) replaces NZ IAS 1 Presentation of Financial Statements (issued 2004) and is effective for reporting periods beginning on or after 1 January 2009. The revised standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a Statement of Comprehensive Income. The Statement of Comprehensive Income will enable readers to analyse changes in equity resulting from non-owner changes separately from

transactions with the Crown in its capacity as “owner”. The revised standard gives the Authority the option of presenting items of income and expense and components of other comprehensive income either in a single Statement of Comprehensive Income with subtotals, or in two separate statements (a separate income statement followed by a Statement of Comprehensive Income). The Authority intends to adopt this standard for the year ending 30 June 2010, and has decided it will prepare a separate income statement followed by a Statement of Comprehensive Income.

Significant accounting policies

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

Revenue

The Authority earns revenue from:

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

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

- **Provision of fee-based services**

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

- **Interest**

Interest income is recognised using the effective interest method.

- **Crown funding and Ministry contracts**

Revenue provided by the Crown and revenue earned under Ministry contracts is recognised in the Statement of Financial Performance in the period in which the Authority provides the funded programmes.

Capital charge

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

Goods and services tax

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

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

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

Income tax

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

Payment of any surplus to the Crown

The Authority is specifically excluded from returning surpluses to the Crown under Section 165 of the Crown Entities Act 2004. Avsec holds approval from the Minister of Finance in terms of Section 72CA of the CAA Act to retain all operating surpluses. Operating surpluses retained by the Authority (including those relating to Avsec) are utilised within each entity for ongoing services and projects.

Financial instruments

The Authority's financial instruments comprise cash and cash equivalents, debtors and other receivables, derivatives, creditors and other payables, and finance lease liabilities.

A financial instrument is recognised when the Authority becomes a party to the contractual provisions of the instrument. Financial instruments are initially recognised at their fair value and classified into one of the following categories:

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

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

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

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

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

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

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

- **Impairment of financial assets**

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

Leases

- **Finance Leases**

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

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

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

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

- **Operating Leases**

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

Cash and cash equivalents

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

Inventories

- **Services work in progress**

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

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

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

- **Inventory write-downs**

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

Foreign currency transactions

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

Property, plant and equipment

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

- **Revaluations**

A building (Avsec Operational base) at Auckland International Airport is stated at fair value as determined by an Independent Registered Valuer (Seagar & Partners) as at 30 June 2008. The building is re-valued at least every three years to ensure that the carrying amount does not differ materially from fair value. All other asset classes are carried at depreciated historical cost.

- **Accounting for revaluations**

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

- **Additions**

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

- **Disposals**

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

- **Subsequent costs**

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

- **Depreciation**

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

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

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

Intangible Assets

- **Software acquisition and development**

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

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

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

- **Indefinite life intangible assets**

The Aeronautical Information Service (AIS) database acquired and used in the fulfilment of the Authority's statutory safety obligations is considered to have an indefinite useful life.

Indefinite life intangible assets are carried at cost less any accumulated impairment losses.

- **Amortisation**

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

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

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

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

Impairment of non-financial assets

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

Indefinite life intangible assets are tested for impairment annually.

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

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

For re-valued non-financial assets, any impairment loss is recognised in the associated asset revaluation reserve to the extent of any credit balance carried in that reserve. Any excess impairment loss is recognised in the Statement of Financial Performance. Subsequent reversals of impairment losses are recognised firstly, in the Statement of Financial Performance, to the extent the impairment loss was originally recognised there and then in the associated revaluation reserve.

Employee entitlements

- **Short-term employee entitlements**

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

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

- **Long-Term Employee Entitlements**

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

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

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

Post-employment entitlements

- **Superannuation schemes**

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

Provisions

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

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

Budget figures

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

Output costing

- **Criteria for direct and indirect costs:**

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

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

Indirect costs are charged on the basis of year-to-date costs attributable to an output. Depreciation and capital charges are charged on the basis of asset utilisation.

Critical accounting estimates and assumptions

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

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

- **Internally developed computer software intangible assets availability for use**

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

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

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

Lease classification

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

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

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

2 REVENUE FROM LEVIES AND SERVICES

	2009 Actual \$000	2008 Actual \$000
Levies revenue		
International passenger levies	3,833	3,944
Domestic passenger levies	16,902	17,434
Other levies	994	896
Total levies revenue	21,729	22,274
Revenue from passenger security charges and other services		
International passenger security charges	57,503	53,438
Domestic passenger security charges	23,282	20,701
Aviation regulatory and safety services	4,171	3,392
Other contracted aviation security services	2,525	2,320
Total revenue from passenger security charges and other services	87,481	79,851

3 CROWN FUNDING AND MINISTRY CONTRACT REVENUE

Crown funding revenue

The Authority has been provided with funding from the Crown for the following specific purposes of the Authority as set out in the *Civil Aviation Act 1990* and the scope of the relevant government appropriations. Apart from these general restrictions, there are no unfulfilled conditions or contingencies attached to government funding (2008: nil).

	2009 Actual \$000	2008 Actual \$000
Policy	1,821	1,321
Health and safety in employment	440	440
Maritime security	156	136
Total revenue from the Crown	2,417	1,897

Policy

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

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

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

Health and safety in employment

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

- conduct HSE investigations, audit and inspections;

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

Maritime security

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

Ministry contract revenue

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

	2009 Actual \$000	2008 Actual \$000
Rules development	1,439	1,419
Pacific Security Fund	690	543
Total Ministry contract revenue	2,129	1,962

4 OTHER INCOME

	2009 Actual \$000	2008 Actual \$000
Interest income	2,621	2,083
Net gain on sale of property, plant and equipment	244	91
Net foreign exchange gains	-	4
Total other income	2,865	2,178

5 PERSONNEL COSTS

	2009 Actual \$000	2008 Actual \$000
Salaries and wages	64,459	60,860
Employer contributions to defined contribution plans	536	365
Other personnel expenses	5,361	4,720
Increase in long-term employee entitlements (Note 17)	1,246	2,084
Total personnel costs	71,602	68,029

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

6 CAPITAL CHARGE

The Authority pays a capital charge to the Crown as at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 2009 was 7.5% (2008: 7.5%).

In June 2008, the Authority received advice from the Minister of Finance to alter the basis on which the capital charge is levied, from net assets, to net assets less the balance of the passenger security charge reserves that comprise residual funds received from the domestic and international passenger security charges.

The new methodology applied to the capital charge for the period from 1 January 2008. For periods prior to 1 January 2008 the capital charge was levied on the Authority's total taxpayers' equity.

7 FINANCE COSTS

	2009 Actual \$000	2008 Actual \$000
Interest on finance leases	253	464
Discount unwind on long-term employee entitlements	193	136
Discount unwind on provisions (Note 18)	-	-
Total finance costs	446	600

8 OTHER COST OF SERVICES

	2009 Actual \$000	2008 Actual \$000
Fees to auditor:		
Audit fees for financial statements audit	76	78
Audit fees for NZ IFRS transition	-	10
Audit fees -other Audit New Zealand fees	-	11
Audit related fees for assurance and related services	7	1
Operating lease expense	2,239	2,235
Building operating expenses	628	513
Information technology expenses	1,436	1,431
Staff travel	3,072	2,900
Insurances	971	857
Donations	38	35
Impairment of receivables	2	3
Safety information services	1,672	1,552
Consultancy	1,143	1,290
Consumables and maintenance	2,071	1,708
Net foreign exchange losses	134	-
Net loss on sale of property, plant and equipment	8	-
Other expenses	3,071	2,853
Total other cost of services	16,568	15,477

Other Audit New Zealand fees were for quality assurance reviews of the CAA and Avsec that were undertaken during the year.

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

9 CASH AND CASH EQUIVALENTS

	2009 Actual \$000	2008 Actual \$000
Cash on hand and at bank	2,228	1,932
Cash equivalents -- short-term deposits	59,680	33,490
Total cash and cash equivalents	61,908	35,422

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

The weighted average effective interest rate for the short-term deposits held at 30 June 2009 is 4% (2008:8.4%).

No part of cash and cash equivalents has been pledged as security for liabilities or contingent liabilities. As all cash and cash equivalents deposits are held with New Zealand registered banks that have high quality credit ratings, no security is held for the balances, nor considered necessary.

10 DEBTORS AND OTHER RECEIVABLES

	2009 Actual \$000	2008 Actual \$000
Debtors	8,956	10,472
Other receivables	604	312
Less: provision for impairment	(2)	(2)
Total debtors and other receivables	9,558	10,782

The carrying value of receivables approximates their fair value due to the short period of time in which they are expected to be collected. As at 30 June 2009 and 2008, all receivables were reviewed for evidence of impairment. All overdue receivables have been specifically assessed for impairment write-down and appropriate provisions applied as detailed below.

The impairment provisions raised have been based on expected losses for the Authority's pool of debtors, determined from an analysis of actual losses in previous periods, and the individual circumstances of particular debtors.

	Current \$000	Past due 1-30 days \$000	Past due 31-60 days \$000	Past due 61-90 days \$000	Past due more than 90 days \$000	Total \$000
2009						
Not past due and not impaired	2,692	-	-	-	-	2,692
Past due but not impaired	-	6,132	644	15	69	6,860
Impaired assets -- gross	-	-	-	5	3	8
Impairment	-	-	-	(1)	(1)	(2)
Impaired assets -- net	-	-	-	4	2	6
Total debtors and other receivables	2,692	6,132	644	19	71	9,558
2008						
Not past due and not impaired	10,234	-	-	-	-	10,234
Past due but not impaired	-	493	44	4	2	543
Impaired assets -- gross	-	-	-	4	3	7
Impairment	-	-	-	(1)	(1)	(2)
Impaired assets -- net	-	-	-	3	2	5
Total debtors and other receivables	10,234	493	44	7	4	10,782

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

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

	2009 Actual \$000	2008 Actual \$000
Opening balance at 1 July	(2)	(1)
Additional provisions made during the year	-	(1)
Receivables written-off during the period	-	-
Provisions reversed during the year	-	-
Closing balance at 30 June	(2)	(2)

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

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

11 INVENTORIES

	2009 Actual \$000	2008 Actual \$00
Inventories held for use in the provision of services	72	28
Services work in progress	262	243
Total inventories	334	271

Inventories held for use in the provision of services

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

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

There have been no write-downs (2008: \$nil) or reversals of write-downs (2008:\$nil) for inventories during the year.

12 DERIVATIVE FINANCIAL INSTRUMENTS

The Authority has taken a forward exchange contract for USD 471,000 (2008: USD 450,000) to settle liability insurance cover premiums for the 2008/09 financial year.

13 NON-CURRENT ASSETS HELD FOR SALE

The Authority has no non-current assets classified as held for sale (2008: \$nil).

14 PROPERTY, PLANT AND EQUIPMENT

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

	Asset under construction \$000	Buildings (incl components) \$000	Leasehold improvements \$000	Furniture & fittings \$000	Plant & equipment \$000	Office equipment \$000	Motor vehicles \$000	Computer equipment \$000	Leased HBS screening equipment \$000	Total \$000
Cost or valuation										
Opening balance at 1 July 2007	-	924	2,284	1,060	8,441	912	2,350	3,246	10,675	29,892
Additions	-	-	86	35	1,728	3	743	332	-	2,927
Revaluation decrease	-	(116)	-	-	-	-	-	-	-	(116)
Disposals	-	-	-	-	(1,276)	(32)	(295)	(165)	-	(1,768)
Closing balance at 30 June 2008	-	808	2,370	1,095	8,893	883	2,798	3,413	10,675	30,935
Opening balance at 1 July 2008	-	808	2,370	1,095	8,893	883	2,798	3,413	10,675	30,935
Additions	601	-	300	2	1,838	119	1,054	337	976	5,227
Revaluation decrease	-	-	-	-	-	-	-	-	-	-
Disposals	-	(1)	(136)	-	(518)	(312)	(833)	(136)	-	(1,936)
Closing balance at 30 June 2009	601	807	2,534	1,097	10,213	690	3,019	3,614	11,651	34,226
Accumulated depreciation and impairment losses										
Opening balance at 1 July 2007	-	(102)	(636)	(299)	(5,399)	(590)	(1,301)	(2,154)	(4,091)	(14,572)
Depreciation expense	-	(78)	(318)	(104)	(1,224)	(145)	(495)	(464)	(2,668)	(5,496)
Eliminate on disposal	-	-	-	-	1,265	25	262	164	-	1,716
Eliminate on revaluation	-	107	-	-	-	-	-	-	-	107
Impairment losses	-	-	-	-	-	-	-	-	-	-
Closing balance at 30 June 2008	-	(73)	(954)	(403)	(5,358)	(710)	(1,534)	(2,454)	(6,759)	(18,245)
Opening balance at 1 July 2008	-	(73)	(954)	(403)	(5,358)	(710)	(1,534)	(2,454)	(6,759)	(18,245)
Depreciation expense	-	(68)	(344)	(105)	(1,326)	(97)	(588)	(611)	(2,730)	(5,869)
Eliminate on disposal	-	-	2	-	496	279	753	96	-	1,626
Impairment losses	-	-	-	-	-	-	-	-	-	-
Closing balance at 30 June 2009	-	(141)	(1,296)	(508)	(6,188)	(528)	(1,369)	(2,969)	(9,489)	(22,488)
Carrying amounts										
At 1 July 2007	-	822	1,648	761	3,042	322	1,049	1,092	6,584	15,320
At 30 June 2008	-	735	1,416	692	3,535	173	1,264	959	3,916	12,690
At 30 June 2009	601	666	1,238	589	4,025	162	1,650	645	2,162	11,738

The Authority owns a building at Auckland airport, which is restricted for government or reserve use. The original carrying cost of this building was \$900,000. The building was revalued in June 2008 by an independent valuer, Seagar & Partners FPINZ. The total amount of property, plant and equipment in the course of construction is \$601,000 (2008: \$64,000). The net carrying amount of office equipment held under finance leases is nil (2008: \$36,000). Other than items of property, plant and equipment that are subject to finance leases, there are no title restrictions for any of the Authority's property, plant and equipment assets, nor are any items of property, plant and equipment pledged as security for liabilities or contingent liabilities.

15 INTANGIBLE ASSETS

Movements for each class of intangible asset are as follows:

	AIS navigation database \$000	Acquired software \$000	Internally developed software \$000	Software under developme nt \$000	Total \$000
Cost					
Opening balance at 1 July 2007	711	1,068	1,449	50	3,278
Additions	28	170	163	10	371
Transfer to available for use	-	-	40	(40)	-
Closing balance at 30 June 2008	739	1,238	1,652	20	3,649
Opening balance at 1 July 2008	739	1,238	1,652	20	3,649
Additions	46	12	158	-	216
Transfer to available for use	-	-	-	-	-
Closing balance at 30 June 2009	785	1,250	1,810	20	3,865
Accumulated amortisation and impairment losses					
Opening balance at 1 July 2007	-	(468)	(1,100)	-	(1,568)
Amortisation expense	-	(253)	(113)	-	(366)
Closing balance at 30 June 2008	-	(721)	(1,213)	-	(1,934)
Opening balance at 1 July 2008	-	(721)	(1,213)	-	(1,934)
Amortisation expense	-	(237)	(127)	-	(364)
Closing balance at 30 June 2009	-	(958)	(1,340)	-	(2,298)
Carrying amounts					
At 1 July 2007	711	600	349	50	1,710
At 30 June 2008	739	517	439	20	1,715
At 30 June 2009	785	292	470	20	1,567

The amortisation expense for intangible assets is included within depreciation and amortisation expense in the Statement of Financial Performance.

There are no title restrictions for any of the Authority's intangible assets, nor are any intangible assets pledged as security for liabilities or contingent liabilities.

Intangible assets with an indefinite useful life

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

16 CREDITORS AND OTHER PAYABLES

	2009 Actual \$000	2008 Actual \$000
Creditors	1,693	4,001
Other payables	2,476	1,171
Total creditors and other payables	4,169	5,172

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

17 EMPLOYEE ENTITLEMENTS

	2009 Actual \$000	2008 Actual \$000
Current employee entitlements are represented by:		
Accrued salaries and wages	1,791	1,619
Annual leave	5,791	5,494
Current portion of long-term employee entitlements		
Sick leave	138	145
Retiring and long service leave	362	190
Total current portion	8,082	7,448
Non-current employee entitlements are represented by:		
<i>Long-term employee entitlements</i>		
Retiring and long service leave	3,021	2,689
Sick leave	290	10
Total non-current portion	3,311	2,699
Total employee entitlements	11,393	10,147

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

In determining the appropriate discount rate, the Authority considered the interest rates on New Zealand government bonds which have terms to maturity that match, as closely as possible, the estimated future cash outflows. The salary inflation factor has been determined after considering historical salary inflation patterns and after obtaining advice from an independent actuary. A weighted average discount rate of 6.0% per annum (2008: 6.8% per annum) and an inflation factor of 3.5% per annum (2008: 3.6% per annum) were used.

Actuarial estimate sensitivity analysis

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

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

18 PROVISIONS

	2009 Actual \$000	2008 Actual \$000
Current provisions are represented by:		
HBS screening equipment decommissioning	-	-
Leasehold refurbishment	-	-
Total current portion	-	-
Non-current provisions are represented by:		
HBS screening equipment decommissioning	210	164
Leasehold refurbishment	117	99
Total non-current portion	327	263
Total provisions	327	263

Movements for each class of provision are as follows:

	HBS screening equipment decommissioning \$000	Leasehold refurbishment \$000	Total \$000
2009			
Balance at 1 July	164	99	263
Additional provisions made	46	18	64
Amounts used	-	-	-
Unused amounts reversed	-	-	-
Discount unwind (Note 7)	-	-	-
Balance at 30 June	210	117	327
2008			
Balance at 1 July	118	81	199
Additional provisions made	46	18	64
Amounts used	-	-	-
Unused amounts reversed	-	-	-
Discount unwind (Note 7)	-	-	-
Balance at 30 June	164	99	263

HBS screening equipment decommissioning

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

Leasehold refurbishment

In respect of leased office space in Wellington, the Authority is required at the expiry of the lease term to refurbish the premises by replacing the carpets and re-painting internal walls. Information about the Authority's leasing arrangements is disclosed in Notes 19.

19 BORROWINGS

	2009 Actual \$000	2008 Actual \$000
Current borrowings are represented by:		
Finance leases	1,645	2,864
Total current portion	1,645	2,864
Non-current borrowings are represented by:		
Finance leases	708	1,417
Total non-current portion	708	1,417
Total borrowings	2,353	4,281
Analysis of finance leases		
	2009 Actual \$000	2008 Actual \$000
Minimum lease payments payable:		
Not later than one year	1,727	3,114
Later than one year and not later than five years	758	1,458
Later than five years	-	-
Total minimum lease payments	2,485	4,572
Future finance charges	(132)	(291)
Present value of minimum lease payments	2,353	4,281
Present value of minimum lease payments payable:		
Not later than one year	1,645	3,112
Later than one year and not later than five years	708	1,169
Later than five years	-	-
Total present value of minimum lease payments	2,353	4,281

Description of leasing arrangements

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

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

On expiry, the Authority has the option to return the equipment or continue using it. The Authority does not have the option to purchase the equipment. The rental payments are unchanged if the Authority continues to use the asset.

There are no restrictions placed on the Authority by any of these finance-leasing arrangements.

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

20 EQUITY

	2009 Actual \$000	2008 Actual \$000
Taxpayers' equity		
Opening balance at 1 July	41,033	25,130
Revaluations	-	16
Net surplus / (deficit)	19,753	16,349
Capital contribution	7,348	-
Repayment of capital	(1,386)	(462)
Closing balance at 30 June	66,748	41,033
Comprising:		
Property, plant and equipment revaluation reserve		
Opening balance at 1 July	640	624
Impairment charges	-	-
Reversal of impairment	-	-
Revaluations	-	16
Transfer to general funds on disposal	-	-
Closing balance at 30 June	640	640
Passenger security charges reserves		
Opening balance at 1 July	15,158	213
Transfer from general funds to:		
Passenger security charges additions	18,424	13,164
Passenger security contingency reserve	1,781	1,781
Closing balance at 30 June	35,363	15,158
General funds	30,744	25,235
Taxpayer's equity at 30 June	66,747	41,033

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

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

	2009 Actual \$000	2008 Actual \$000
Net surplus/(deficit)	19,753	16,349
Add/(less) non-cash items:		
Depreciation and amortisation expense	6,233	5,862
Impairment of receivables	2	3
Net foreign exchange (gains) / losses	134	(36)
Discount unwind on employee entitlements	193	23
Non-current employee entitlements	(108)	628
Total non-cash items	6,454	6,480
Add/(less) items classified as investing or financing activities:		
Grant for intangible asset	(80)	-
(Gains) / losses on disposal of property, plant & equipment	(236)	(91)
Total items classified as investing or financing activities	(316)	(91)
Add/(less) movements in working capital items:		
Debtors & other receivables	1,224	(1,100)
Inventories	(63)	147
Creditors & other payables	(1,003)	(1,054)
Employee entitlements	1,305	1,456
Provisions	64	64
Net movements in working capital items	1,527	(487)
Net cash from operating activities	27,418	22,251

22 CAPITAL AND OPERATING COMMITMENTS

	2009 Actual \$000	2008 Actual \$000
Capital commitments		
Property, plant and equipment	4,561	-
Intangible assets	127	280
Total capital commitments	4,688	280
Non-cancellable operating commitments		
Operating leases as lessee	Actual \$000	Actual \$000
Not later than one year	2,537	2,278
Later than one year and not later than five years	21,297	4,007
Later than five years	33,819	1,020
Total non-cancellable operating leases	57,653	7,305

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

	2009 Actual \$000	2008 Actual \$000
Other non-cancellable operating commitments		
Not later than one year	1,082	966
Later than one year and not later than five years	4,011	4,918
Later than five years	-	-
Total non-cancellable operating commitments	5,093	5,884

23 CONTINGENCIES

Contingent liabilities

Legal actions

The Authority has taken, or is responding to, legal actions involving one (2008: two) aviation participants. The Authority has relied on advice from legal counsel in forming the view that contingent liabilities with an estimated value of \$12,000 (2008: \$55,000) exist in relation to the proceedings. The final amount of any settlement cost is dependent on the outcome of ongoing matters or court cases and is expected to be known within twelve months of the balance sheet date. Each matter relates to appeals against decisions made by the Director of Civil Aviation.

Levy refund

The Authority has recognised a contingent liability for a possible obligation to refund passenger levies. The amount of potential refund cannot be reliably estimated. The time and final amount are subject to confirmation by receipt of a legal opinion.

In the event that these contingent liabilities materialise, there are not arrangements in place that would allow the Authority to receive any material reimbursement (2008: \$nil).

Contingent assets

The Authority has no contingent assets (2008: \$nil).

24 RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT PERSONNEL

Related party transactions

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

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

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

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

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

	Ref	Transaction value year ended 30 June		Balance outstanding year ended 30 June	
		2009	2008	2009	2008
		\$	\$	\$	\$
Income					
R Bettle (Authority Chairman)-- provision of services	(i)	-	12,500	-	-
R Crawford (Authority member) -- CAA Instructor renewal flight test fee	(ii)	559	550	-	-
E Millar (Authority member) - Phillips Search & Rescue Trust	(iii)	13,439	-	2,893	-
Expenses					
E Millar (Authority member) - Phillips Search & Rescue Trust	(iii)	8,784	12,500	-	-
R Bettle (Authority Chairman) - Revera Limited	(iv)	91,672	550	-	-

(i) The Authority purchased IT services from Fronde Systems Group, of which the Chairman of the Authority is a professional director. The services were purchased in March 2008 on normal commercial terms.

(ii) R Crawford paid the normal prescribed fee for the CAA Instructor Renewal Flight Test. This test is a biennial requirement for all A Category Instructors / Flight Examiners.

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

(iv) R Bettle, an Authority member, is a Director of Revera Limited. CAA paid Revera Limited for Business Continuity and systems storage.

The fee paid was on normal commercial terms at the usual rate for the services provided.

No provision has been required, nor any expense recognised for impairment of receivables from related parties (2008: \$nil).

Key management personnel compensation

	2009 Actual \$000	2008 Actual \$000
Salaries and other short-term employee benefits	2,978	2,516
Post-employment benefits	56	40
Other long-term benefits	24	86
Termination benefits	-	-
Total key management personnel compensation	3,058	2,642

Key management personnel include all Authority members, the Director of Civil Aviation, the General Manager of Aviation Security, the seven members of CAA's senior management team, and the five members of Avsec's senior management team.

25 AUTHORITY MEMBER COMPENSATION

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

	2009 Actual \$000	2008 Actual \$000
R Bettle (Chair -- appointed October 2006)	49	49
E Millar (Deputy Chair -- appointed April 2007)	28	28
D Park (appointed November 2003)	24	24
S Hughes (appointed November 2004)	24	24
R Crawford (appointed April 2007)	24	24
Total Authority member remuneration	149	149

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

The Authority has indemnified the Authority members for certain activities undertaken in the performance of the Authority's functions.

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

26 EMPLOYEE REMUNERATION

	2009 Actual number	2008 Actual number
Total remuneration paid or payable		
\$100,000 - \$109,999	16	10
\$110,000 - \$119,999	9	4
\$120,000 - \$129,999	5	6
\$130,000 - \$139,999	13	11
\$140,000 - \$149,999	6	8
\$150,000 - \$159,999	5	3
\$160,000 - \$169,999	1	1
\$170,000 - \$179,999	-	1
\$180,000 - \$189,999	5	2
\$190,000 - \$199,999	3	2
\$200,000 - \$209,999	2	-
\$210,000 - \$219,999	2	-
\$220,000 - \$229,999	1	-
\$230,000 - \$239,999	-	-
\$240,000 - \$249,999	-	-
\$250,000 - \$259,999	-	-
\$260,000 - \$269,999	-	-
\$270,000 - \$279,999	-	1
\$280,000 - \$289,999	-	-
\$290,000 - \$299,999	-	1
\$300,000 - \$309,999	1	-
\$310,000 - \$319,999	1	-
Total number of employees	70	50

During the year ended 30 June 2009, 15 (2008: 2) employees and Authority members received compensation and other benefits in relation to cessation totalling \$415,794 (2008: \$36,000).

27 EVENTS AFTER THE BALANCE SHEET DATE

There were no significant events after the balance sheet date.

28 CATEGORIES OF FINANCIAL LIABILITIES

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

	2009 Actual \$000	2008 Actual \$000
Loans and receivables		
Cash and cash equivalents	61,908	35,422
Debtors and other receivables	9,558	10,782
Total loans and receivables	71,466	46,204
Financial instruments at fair value through profit and loss		
Derivative financial instrument assets	-	16
Derivative financial instrument liabilities	(116)	-
Total financial instruments at fair value through profit and loss	(116)	16
Financial liabilities measured at amortised cost		
Creditors and other payables	4,169	5,172
Finance lease liabilities	-	4,281
Total financial liabilities measured at amortised cost	4,169	9,453

29 FINANCIAL INSTRUMENT RISK

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

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

Market risk

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

Interest rate risk

The Authority is exposed to interest rate risk on its balances of cash and cash equivalents. The Authority minimises its exposure to interest rate risk by investing surplus liquid funds at short-term fixed interest rates and limiting its floating rate deposit balances to daily funding requirements. As the Authority's short-term deposits are invested at fixed interest rates, any change in interest rates prior to deposit maturity has no impact on net surplus/ (deficit). As these financial assets are carried at amortised cost, rather than at fair value, there is no direct impact on taxpayers' equity from any change in interest rates.

Currency risk

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

As the Authority has no significant foreign currency monetary items at the balance sheet date, the effect on net surplus / (deficit) of any changes in foreign exchange rates is limited to the

impact on the fair value of foreign currency forward contract derivatives and is not considered to be material.

The Authority has no designated hedging instruments or foreign currency translation reserves therefore there is no direct impact on equity from changes in foreign currency exchange rates.

Credit risk

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

	2009 \$000	2009 concentration %	2008 \$000	2008 concentration %
<i>Debtors and other receivables</i>				
New Zealand airports	4	0.0%	4	0.0%
Domestic and International passenger airlines	7,068	74.0%	9,312	86.4%
Other	2,486	26.0%	1,466	13.6%
Total concentration of credit risk	9,558	100.0%	10,782	100.0%

Liquidity risk

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

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

	Less than 1 month \$000	Between 1 month & 6 months \$000	Between 6 months & 1 year \$000	Between 1 year & 5 years \$000
2009				
Creditors and other payables (Note 16)	3,320	849	-	-
Borrowings (Note 19)	280	1,400	353	320
Derivative financial instruments	-	116	-	-
Total contractual undiscounted cash flows	3,600	2,365	353	320
2008				
Creditors and other payables (Note 16)	4,440	732	-	-
Borrowings (Note 19)	272	1,306	1,534	1,169
Total contractual undiscounted cash flows	4,712	2,038	1,534	1,169

30 CAPITAL MANAGEMENT

The Authority's capital is its taxpayers' equity, which comprises accumulated surplus. Taxpayers' equity is represented by net assets.

The Authority is subject to the financial management and accountability provisions of the *Crown Entities Act 2004*, the *Public Finance Act 1957*, and the *Civil Aviation Act 1990*, which impose restrictions in relation to borrowings, the acquisition of securities, the issue of guarantees and indemnities, and the use of derivatives.

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

31 AVIATION SECURITY MEMORANDUM OF ACCOUNTS

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

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

	International Passenger Security Charges \$000	Domestic Passenger Security Charges \$000	Other Fees / Charges \$000	2008 Actual \$000	2008 Budget \$000	2007 Actual \$000
2008						
Aviation Security:						
Revenue	53,438	20,703	2,997	77,138	67,419	54,731
Expenditure	(42,437)	(16,759)	(3,505)	(62,701)	(73,797)	(56,434)
Net surplus / (deficit)	11,001	3,944	(508)	14,437	(6,378)	(1,703)
Opening balance at 1 July	923	(710)	(792)	(579)	(2,049)	1,706
NZ IFRS transitional adjustment	-	-	-	-	-	(582)
Closing balance at 30 June	11,924	3,234	(1,300)	13,858	(8,427)	(579)

24 Additional Financial Information

24.1 STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2009

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

Grouped		Aviation Safety		Security Service		Elimination		Grouped	
		2009 Actual \$000	2009 Budget \$000	2009 Actual \$000	2009 Budget \$000	2009 Actual \$000	2009 Budget \$000	2009 Actual \$000	2009 Budget \$000
	Income								
22,274	Levies revenue	21,729	22,926	-	-	-	-	21,729	22,926
79,851	Revenue from passenger security charges and other services	4,171	4,053	83,310	89,032	-	-	87,481	93,085
1,897	Crown funding revenue	2,261	2,261	156	145	-	-	2,417	2,406
1,962	Ministry contract revenue	1,439	1,418	690	400	-	-	2,129	1,818
2,178	Other income	465	383	2,400	2,233	-	-	2,865	2,616
108,162	Total income	30,065	31,041	86,556	91,810	-	-	116,621	122,851
	Expenditure								
68,029	Personnel costs	20,368	21,456	51,234	61,740	-	-	71,602	83,196
5,862	Depreciation and amortisation expense	789	742	5,444	6,456	-	-	6,233	7,198
1,845	Capital charge	688	570	1,331	2,262	-	-	2,019	2,832
600	Finance costs	29	11	417	248	-	-	446	259
15,477	Other cost of services	8,239	8,617	8,329	9,727	-	-	16,568	18,344
91,813	Total expenses	30,113	31,396	66,755	80,433	-	-	96,868	111,829
16,349	NET SURPLUS / (DEFICIT)	(48)	(355)	19,801	11,377	-	-	19,753	11,022

24.2 STATEMENT OF FINANCIAL POSITION FOR THE YEAR-ENDED 30 JUNE 2009

Grouped		Aviation Safety		Security Service		Elimination		Grouped	
		2009 Actual \$000	2009 Budget \$000	2009 Actual \$000	2009 Budget \$000	2009 Actual \$000	2009 Budget \$000	2009 Actual \$000	2009 Budget \$000
	CURRENT ASSETS								
35,422	Cash and cash equivalents	6,803	6,180	55,105	38,945	-	-	61,908	45,125
10,782	Debtors and other receivables	2,362	3,219	7,196	9,118	-	-	9,558	12,337
271	Inventories	262	480	72	40	-	-	334	520
16	Derivative financial instruments	-	-	-	-	-	-	-	-
46,491	TOTAL CURRENT ASSETS	9,427	9,879	62,373	48,103	-	-	71,800	57,982
	NON-CURRENT ASSETS								
12,690	Property, plant and equipment	1,790	1,004	9,948	13,223	-	-	11,738	14,227
1,715	Intangible assets	1,286	1,190	281	1,242	-	-	1,567	2,432
14,405	TOTAL NON-CURRENT ASSETS	3,076	2,194	10,229	14,465	-	-	13,305	16,659
60,896	TOTAL ASSETS	12,503	12,073	72,602	62,568	-	-	85,105	74,641
	CURRENT LIABILITIES								
5,172	Creditors and other payables	1,581	2,378	2,588	4,985	-	-	4,169	7,363
7,448	Employee entitlements	1,534	1,504	6,548	5,917	-	-	8,082	7,421
-	Provisions	-	-	-	-	-	-	-	-
2,864	Borrowings	-	-	1,645	1,417	-	-	1,645	1,417
-	Derivative financial instruments	-	-	116	-	-	-	116	-
15,484	TOTAL CURRENT LIABILITIES	3,115	3,882	10,897	12,319	-	-	14,012	16,201
	NON-CURRENT LIABILITIES								
2,699	Employee entitlements	346	500	2,965	2,748	-	-	3,311	3,248
263	Provisions	-	-	327	-	-	-	327	-
1,417	Borrowings	-	-	708	-	-	-	708	-
4,379	TOTAL NON-CURRENT LIABILITIES	346	500	4,000	2,748	-	-	4,346	3,248
19,863	TOTAL LIABILITIES	3,461	4,382	14,897	15,067	-	-	18,358	19,449
41,033	NET ASSETS	9,042	7,691	57,705	47,501	-	-	66,747	55,192
	TAXPAYERS' EQUITY								
25,235	General funds	9,042	7,691	21,702	41,780	-	-	30,744	49,471
640	Property, plant and equipment revaluation reserve	-	-	640	624	-	-	640	624
15,158	Passenger security charges reserves	-	-	35,363	5,097	-	-	35,363	5,097
41,033	TOTAL TAXPAYERS' EQUITY	9,042	7,691	57,705	47,501	-	-	66,747	55,192

24.3 STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2009

Grouped	Aviation Safety		Security Service		Elimination		Grouped	
	2009 Actual \$000	2009 Budget \$000	2009 Actual \$000	2009 Budget \$000	2009 Actual \$000	2009 Budget \$000	2009 Actual \$000	2009 Budget \$000
Opening balance of taxpayers' equity at 1 July								
25,130	9,090	8,046	31,943	30,162	-	-	41,033	38,208
Property, plant and equipment revaluation reserve								
16	-	-	-	-	-	-	-	-
16,349	(48)	(355)	19,801	11,377	-	-	19,753	11,022
41,495	9,042	7,691	51,744	41,539	-	-	60,786	49,230
Total recognised revenues and expenses								
	-	-	7,347	7,348	-	-	7,347	7,348
(462)	-	-	(1,386)	(1,386)	-	-	(1,386)	(1,386)
41,033	9,042	7,691	57,705	47,501	-	-	66,747	55,192
Closing balance at 30 June								

24.4 STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2009

Grouped		Aviation Safety		Security Service		Elimination		Grouped	
		2009 Actual \$000	2009 Budget \$000	2009 Actual \$000	2009 Budget \$000	2009 Actual \$000	2009 Budget \$000	2009 Actual \$000	2009 Budget \$000
CASH FLOWS FROM OPERATING ACTIVITIES									
22,274	Receipts from levies	22,316	22,926	-	-	-	-	22,316	22,926
79,851	Receipts from passenger security charges and other services	3,785	4,054	84,084	88,863	-	-	87,869	92,917
3,859	Receipts from Crown funding and Ministry contracts	3,700	3,678	835	545	-	-	4,535	4,223
1,964	Interest received	463	383	2,200	2,105	-	-	2,663	2,488
(65,333)	Payments to employees	(18,109)	(19,048)	(48,561)	(57,631)	-	-	(66,670)	(76,679)
(18,084)	Payments to suppliers	(10,344)	(11,036)	(10,431)	(12,779)	-	-	(20,775)	(23,815)
(464)	Interest paid	(1)	-	(417)	(248)	-	-	(418)	(248)
(1,845)	Payments to capital charge to the Crown	(755)	(570)	(1,331)	(2,262)	-	-	(2,086)	(2,832)
29	Goods and Services Tax (net)	22	-	(38)	(49)	-	-	(16)	(49)
22,251	Net Cash Flows from Operating Activities	1,077	387	26,341	18,544	-	-	27,418	18,931
CASH FLOWS FROM INVESTING ACTIVITIES									
166	Sale of property, plant and equipment	19	-	255	55	-	-	274	55
(2,951)	Purchase of property, plant and equipment	(819)	(742)	(4,269)	(9,840)	-	-	(5,088)	(10,582)
(372)	Purchase of intangible assets	(216)	(8)	-	-	-	-	(216)	(8)
(3,157)	Net Cash Flows from Investing Activities	(1,016)	(750)	(4,014)	(9,785)	-	-	(5,030)	(10,535)
CASH FLOWS FROM FINANCING ACTIVITIES									
-	Capital contributions	-	-	7,348	7,348	-	-	7,348	7,348
(462)	Repayment of capital	-	-	(1,386)	(1,386)	-	-	(1,386)	(1,386)
(2,691)	Repayment of external borrowings	(41)	(10)	(1,823)	(2,823)	-	-	(1,864)	(2,833)
(3,153)	Net Cash Flows from Financing Activities	(41)	(10)	4,139	3,139	-	-	4,098	3,129
15,941	Net increase/(decrease) in cash and cash equivalents	20	(373)	26,466	11,898	-	-	26,486	11,525
19,481	Opening cash and cash equivalents at 1 July	6,783	6,553	28,639	27,047	-	-	35,422	33,600
35,422	Closing cash and cash equivalents at 30 June	6,803	6,180	55,105	38,945	-	-	61,908	45,125

