



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

# **ANNUAL REPORT 2007/08**

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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.

This report covers the activities of the Civil Aviation Authority of New Zealand (including Aviation Security Service) for the financial year 01 July 2007 to 30 June 2008.

A handwritten signature in black ink, consisting of stylized, overlapping loops and a long horizontal stroke extending to the right.

**Rick Bettle**  
Chairman  
31 October 2008

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# 1 AUTHORITY'S OVERVIEW

Both the Aviation Security Service (Avsec) and the Civil Aviation Authority (the CAA) have performed well during the year considering the continually changing organisational contexts, significant domestic security issues, and business circumstances each has had to deal with.

## 1.1 CIVIL AVIATION AUTHORITY (CAA)

At the beginning of the year, we welcomed Steve Douglas to the position of Director of Civil Aviation. Steve has a wide experience both within the CAA and in the aviation industry as an engineer. He brings to the position a widely shared passion for the success of the CAA and a view that its work must always be done professionally, accurately and with integrity. Naturally, Steve has the full support and respect of the Authority.

From the Authority's vantage point, the year has essentially been characterised by a period of bedding in of new organisational structure and attention to the resources and capability needs and obligations of the CAA.

In particular, matters over the year within the governance oversight of the Authority included:

- The CAA continued its efforts to address the recommendations and findings of the 2006 International Civil Aviation Organization's (ICAO) Universal Safety Oversight Audit Programme (USAOP). The Authority recognises the importance of this work to the sustainability and acceptability of international aviation in New Zealand and will continue to seek ways and means to ensure such international obligations are met.
- Consultant PriceWaterhouseCoopers completed, in consultation with the Ministry of Transport and Treasury, the second phase of work to assess the costs associated with CAA functions, any material gaps between funding and costs, and the relationship of costs to identifiable "users" of activities and functions performed by the CAA. The consultant's report was accepted by the Authority in September 2007. Following on from this the CAA is considering how best to complete a full review of the gaps between funding and costs, and to assess the relationship of costs to identifiable "users" of activities and functions. This work is scheduled for completion by June 2009.
- In the budget process for 2008/09, the CAA was successful with its bid to cover the need to fund certain functions in Output Class 1: Policy Advice. This is a pleasing result but serves only as an interim measure until the full costs of meeting these obligations is evaluated.
- During the period, the Authority, through the Deputy Chairman, participated in the Board Reference Group (BRG) and the Tanner Ritchie and Co. review of that group. It is understood that the Minister has requested that the BRG continue to meet at least two to three times a year to share information and coordinate approaches on shared issues, both in the sector and across government. The Authority is keen to continue its participation in the reformed process. Similarly, the Authority is keen to see that CAA management representatives continue to work with the Planning Task Force to coordinate sectoral initiatives.
- The Authority continues to be mindful that the Civil Aviation Act is becoming increasingly in need of review given the changing global and domestic operating environments. In this regard, the CAA has been supporting the Ministry of Transport in undertaking that review, however, more resource and effort is required at the risk of the process becoming protracted and ineffective.
- The Rules development contract with the Ministry of Transport has been revised during the period. The new contract reflects the dynamic environment in which the rule maintenance and development takes place and in itself has allowed greater progress to be made in the area.

Finally, we are pleased to report that the CAA ended the financial year with a surplus of \$1.912 million against a budgeted deficit of \$214,000.

## 1.2 AVIATION SECURITY SERVICE (AVSEC)

The financial year 2007/08 was an extremely busy and challenging one for Avsec.

The Aviation Security Legislation Bill was enacted during 2007/08. Following the enactment of the Bill, proportional screening of airport workers was implemented at all New Zealand international airports. Avsec also developed new policies and procedures for an enhanced background checking process for Airport Identity Cards.

The operational implementation of international requirements for the screening of liquids, aerosols, and gels (LAGs) went relatively smoothly when introduced in March 2007. New problems arose from January 2008 when Avsec withdrew its LAGs education function from airport check-in lines, at the request of airlines. This lack of check-in line information, despite earlier government, airport, airline and travel agent publicity efforts, resulted in particularly disgruntled passengers and an increase in the number of identified LAGs.

In February 2008, an alleged hijack of a small, non-screened aircraft out of Blenheim resulted in the government seeking a review of domestic screening in New Zealand. Avsec has been a key contributor to this Review and looks forward to its recommendations.

The domestic and international passenger security charges on airlines were reviewed during the financial year, resulting in an increase to \$4.66 per domestic passenger on aircraft of 90 seats or more; and an increase to \$15.00 for each international passenger. These new charges came into effect in December 2007.

Explosive Trace Detection equipment also became fully operational at international airports during the financial year.

A major concentration for Avsec during the year has also been on capability enhancement, in particular:

- During the year Avsec was successful in its bid for capital expenditure funding for the 2007/08 and the following three financial years. The successful bid, together with the approval from the Minister of Finance to enter into finance leases for the purchase of specialised screening equipment, provides Avsec with certainty in its major capital replacement and expenditure programmes.
- Implementation of the first stage of the new leadership development courses for senior operational employees occurred during the year. The leadership development courses evolve from the comprehensive training review that was undertaken in 2006 and it is proposed to extend the courses to other areas within the organisation.

During the next twelve months, Avsec will focus principally on enhancing organisational capability and meeting the demands of the major airport companies that are in expansion mode as they progress the implementation of their long-term development plans.

Avsec will also further develop intelligence gathering and dissemination functions that provide a filter of quality security information to key business units and will continue to review and develop training programmes to ensure Pacific countries meet the rapidly changing aviation security environment.

Planning for the implementation of an integrated information management system, in line with the Public Records Act and working towards ISO: 4001 (Environmental management systems) certification are also high priority for Avsec during 2008/09.

Avsec's financial result for 2007/08 year was a surplus of \$14.437 million against a budgeted deficit of \$6.378 million. The \$20.815 million variance reflects the decision to exclude the anticipated income arising from the increase in passenger security charges, as these were not regulated at the time the 2007/10 Statement of Intent was submitted. The variance also reflects the growth in the domestic air passenger market following the commencement of Virgin Pacific Blue flights from 15 November 2007 that was not anticipated in either the 2007/08 budget or review of the passenger security charges.

Avsec's financial position is sound with a working capital of \$24.417 million.



**RICK BEETLE**

Chairman



**ERROL MILLAR**

Deputy Chairman - CAA



**DARRYLL PARK**

Deputy Chairman - Avsec



**SUSAN HUGHES**

Member



**ROSS CRAWFORD**

Member

## 2 THE CIVIL AVIATION AUTHORITY

### 2.1 ROLE OF THE AUTHORITY

The Civil Aviation Authority of New Zealand is the governing body of the Crown entity established under section 72A of the Civil Aviation Act 1990 (the Act).

In section 22 of the Act, the Minister may delegate to the five-member board, known as the Civil Aviation Authority (the Authority), any of the Minister's functions and powers under the Act.

The functions of the Authority are stipulated in section 72B of the Act.

### 2.2 AUTHORITY MEMBERS

The Authority Members are appointed for terms of up to three years by the Governor-General on the recommendation of the Minister of Transport. They are persons that the Minister considers will represent the public interest in civil aviation. The Authority reports to the Minister of Transport.

The Authority members are:

- Rick Bettle – Chairman
- Errol Millar – Deputy Chairman, Civil Aviation Authority (CAA)
- Darryll Park – Deputy Chairman, Aviation Security Service (Avsec)
- Susan Hughes – Member
- Ross Crawford - Member

The Authority's responsibilities include:

- communicating with the Minister and government stakeholders to ensure that their views are reflected in the planning of the CAA and Avsec;
- delegating responsibility for the achievement of statutory objectives to the Director of Civil Aviation and the General Manager of Aviation Security Service;
- monitoring organisational performance towards achieving these objectives;
- accounting to the Minister on plans and progress of the CAA and Avsec; and
- ensuring that internal system controls are maintained.

### 2.3 DIRECTOR OF CIVIL AVIATION AND GENERAL MANAGER OF AVIATION SECURITY SERVICE

The office of Director of Civil Aviation and the office of General Manager of Aviation Security Service are established by the Civil Aviation Act 1990. Under these two roles, two distinct parts are established to carry-out respectively the functions of the CAA and Avsec.

- Steve Douglas – Director of Civil Aviation
- Mark Everitt – General Manager of Aviation Security Service



## 3 GOVERNANCE AND ACCOUNTABILITY

### STATEMENT OF THE AUTHORITY

The Minister 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 the Authority's. 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 the specific objectives of the Authority will be achieved.

CAA and Avsec each have an internal audit function that monitors internal control of the respective 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 respective Audit and Risk Management Committees of the Authority. 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 is guided by its Code of Conduct while Avsec is guided by the Avsec Code of Conduct.

The CAA and Avsec, Crown entities as stipulated in Crown Entities Act 2004, 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. Both the CAA and Avsec are audited annually under this process.

### 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

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*Te Mana Rererangi Tumatanui o Aotearoa*

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## 4 FOREWORD FROM THE DIRECTOR OF CIVIL AVIATION

The CAA recognises that the public of New Zealand, our foreign visitors, the international civil aviation community, businesses, government, and civil aviation participants all require an aviation system that is safe, secure, and efficient. They look to the CAA to be a competent and effective regulator of civil aviation safety and security to maintain their confidence in the aviation system.

### A YEAR IN HIGHLIGHTS

This Annual Report covers my first year as the Director of Civil Aviation. The year has been a time of review coupled with management and operational consolidation. I am pleased to report that progress has been made in a number of areas to address both emerging challenges and issues that have been under action for some time.

One of my main priorities has been to reinforce a common understanding among CAA staff and the aviation sector of the CAA's role in the civil aviation system and its relationship with aviation participants. The CAA serves the public interest in aviation safety; its "customers" are the public and all who use the services of the civil aviation system. The CAA discharges this responsibility by working with participants in the aviation system: our aviation "clients" to achieve safety objectives. In order to better discharge this responsibility, the CAA is working to reinforce its entry control and surveillance functions.

To support this direction, the CAA completed a re-organisation of its management structure at the beginning of the year. Two new support groups were formed, the Safety Information Group and the Business Support Group. The senior management team of seven general managers (including the Chief Legal Counsel) includes four new members who have joined during the course of this year.

### *Safety performance of civil aviation*

In the 2007/08 Statement of Intent, the CAA identified a number of aviation safety target groups where safety performance was lagging behind or fluctuating with respect to their respective safety outcome targets. Of the groups identified as being at risk of not achieving the desired safety outcome target the safety performance of aeroplanes used in private operations has improved substantially. This group is now likely to achieve the desired outcome target. However, data shows that the safety performance of some other groups remains poor, and that their safety outcome targets will not be achieved by 2010. Of particular concern is the safety performance of:

- aeroplanes used in agricultural operations;
- non-public air transport commercial operations using aeroplanes and helicopters; and
- private operations using sport aircraft.

The CAA implemented a number of Aviation Risk Initiatives (ARI) during the year to address causal factors contributing to the poor safety performance of these three target groups. The impacts of this effort will only be evident in the medium to long-term.

Nevertheless, the public air transport category, comprise over 96% of available seat hours in the New Zealand civil aviation system, continues to yield acceptably good, internationally comparable safety performance.

Of concern is that some aviation system participants are still not meeting their regulatory obligation to implement CAA required corrective actions in the time prescribed. Only 57% of corrective actions identified by the CAA were implemented by clients within the agreed timeframes.

In the future, additional performance measures on aviation safety will be introduced. These new measures will provide rate and count information. The current "social cost" measure will be used at a higher aggregate level to enable comparisons with other modes of transport in New Zealand.

### *Regulatory systems*

Entry certification and proactive safety monitoring are key processes for the CAA. Over the past year, the CAA has been working to improve the consistency and effectiveness of these processes. Work on improving regulatory capability included:

- Near completion of the first phase of a project to re-engineer surveillance and certification systems.
- Implementation of new Certification Entry Processes.
- Steps were taken to ensure that monitoring programmes and interventions were based on assessed risks and corresponding prioritisation to yield the greatest safety benefit.
- Policy work was completed on the collection and use of safety information, in particular the identification of emerging safety trends, strategic planning, and the prioritisation of resources.
- Conclusion of a Memorandum of Understanding with the Transport Accident Investigation Commission (TAIC) on the application of respective responsibilities, collaboration, and assistance.

The use of safety information in enforcement investigations remains an issue for the aviation community. The CAA is working to clarify the use of information and the transparency of these processes, including the circumstances when enforcement investigations can be commenced.

### *Emerging issues*

The CAA continued to work over the year on emerging issues within the aviation sector that will have significant impact on New Zealand civil aviation, including:

- Work with operators and Airways Corporation on the implementation of Performance Based Navigation systems (PBN). This work has the potential to reduce fuel use and emission of greenhouse gases.
- The adoption of a policy to introduce ICAO mandated Safety Management Systems (SMS) to the New Zealand civil aviation system. This system will be progressively implemented with the first areas being the large aircraft air operations and their supporting maintenance organisations, air traffic organisations and aerodromes.

### *Rules programme highlights*

The CAA made good progress on its annual programme of rules development and drafting. Some 38 civil aviation rule amendments came into force during the reporting period.

The passage of some of these rules has addressed findings from New Zealand's audits under ICAO's Universal Safety Audit Programme and Universal Security Oversight Audit Programme.

### *Airline sector*

The CAA continues to put considerable effort into the enhancement of airline safety and efficiency. Some highlights from the year include:

- Work with Air New Zealand in monitoring their programmed acquisition of the Boeing B787 and 777-300 aircraft and use of bio-fuels.
- Certification of the new carrier Virgin Pacific Blue on the main domestic routes.
- Work with a number of airlines on both sides of the Tasman taking advantage of the Australia New Zealand Aviation (ANZA) Mutual Recognition Air Operators Certificate to simplify their regulatory accountabilities.

### *General aviation sector*

New Zealand has a large general aviation sector and the CAA continues to focus on the key safety issues in the sector including:

- Addressing training and airspace issues resulting from the rapid expansion of pilot training activity. This work includes priority development of rules requiring the certification of pilot training organisations.
- Implementation of the new Recreational Pilots Licences. Implementation of recommendations from the Coroner's report on the Air Adventures accident (refer to the Report on the CAA web site). The final process assessment report from the Auditor General is expected by the end of 2008.
- Promotional and regulatory work with the aviation community on the replacement of 121.5 MHz Emergency Locator Transmitters (ELT) with new satellite-compatible 406 MHz ELTs required by the end of June 2008.
- Continuing promotional and educational seminars and workshops such as the "AvKiwi" workshops. During the year, these workshops focused on fuel management and about 1000 people attended workshops at 26 locations.

### *Infrastructure and security*

Civil aviation infrastructure and security continued to be of significance during the period with three areas of note:

- The direction issued under section 77B of the Civil Aviation Act requiring the screening of a proportion of all persons that enter security enhanced areas at international aerodromes from 31 March 2008.
- The initiation of airspace risk reviews for Gisborne, Taupo, Paraparaumu, and Palmerston North aerodromes using a new risk assessment methodology.
- The completion of a tender process for the continued operation of the New Zealand Aeronautical Information System (AIS).

### *International responsibilities and co-operation*

The CAA continued its international relations role, building on successes in recent years. Some of the more significant work included:

- Negotiations were completed on a Maintenance Implementation Procedure (MIP) with the FAA under the US Bilateral Aviation Safety Agreement.
- Completion of a Working Arrangement on Airworthiness with the European Aviation Safety Agency (EASA). Preliminary discussions were held on the possibility of an EU-NZ Bilateral Aviation Safety Agreement (BASA).
- Continuing work and direction of resources to improve compliance with ICAO Standards and to reduce the backlog of reported deficiencies.
- Increased involvement in the development of the Pacific Aviation Safety Office (PASO).

### *Government engagement*

As a government organisation, the CAA has an obligation to work and co-ordinate with a number of other government agencies and departments. These responsibilities are making an increasing demand on CAA resources. Some of this work over the period included:

- Considerable assistance to the government's Domestic Aviation Security Review that was initiated after the attempted hijacking of a Jetstream J32 aircraft on 8 February 2008 enroute to Christchurch from Blenheim.

- Full participation in the Ruamoko national emergency management exercise from November 2007 to 13 March 2008. The CAA received praise for its responsive and organised input to the exercise.
- Work with other government agencies on the aviation safety hazard posed by the malicious use of new and powerful laser pointers.

#### ***Business systems and office accommodation***

The CAA continued to address the efficacy of its business systems during the period including:

- Commencement of IT business systems improvement work including the preparation of a full organisational IT and Knowledge Management Strategy.
- Commencement of work on an updated human resources policy and remuneration policy to ensure the CAA remains an attractive employer for both new and existing staff.
- Updating financial accounting systems and implementing the new accounting standards.
- Completion of a Workplace Strategy for the CAA to enable the CAA to commence a property search process to identify the most suitable sites in Wellington City for a future head office location.

#### **NEXT STEPS**

As I stated in the 2006/07 Annual Report, the CAA is committed to delivering against its government and statutory roles and obligations to its various key stakeholders. While much has been accomplished, we are already moving on to face the challenges of the next period. The CAA will do this by taking into account the following four main themes:

- ***stability and direction*** - promoting a common understanding among CAA staff of our role in the civil aviation system and our relationship with aviation participants;
- ***emphasis on core regulatory functions*** – emphasising the importance of our core regulatory functions (entry, participation, and exit) in the New Zealand civil aviation system and not just to do them, but to do them well;
- ***maintain and build relationships*** – maintaining, strengthening and building relationships between the CAA and the aviation industry, government and media; and
- ***core values*** – emphasising our independence, integrity, professionalism, openness, and honesty in all our dealings, and support of our colleagues.



**GRAEME HARRIS**

Acting Director of Civil Aviation

For:

**STEVE DOUGLAS**

Director of Civil Aviation



## 5 OVERVIEW OF THE CAA

### 5.1 WHO WE ARE

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

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

In *section 72I*, the Authority appoints a chief executive of the Authority known as the Director of Civil Aviation. The Authority may delegate functions and powers to the Director. In addition to the functions and powers delegated by the Authority, the Director has a range of functions and powers conferred by the *Civil Aviation Act 1990*.

Certain international civil aviation obligations of the Crown have been delegated to the CAA or the Director 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:

1. Airspace Authority;
2. Air Traffic Services Authority;
3. Aviation Security Authority;
4. Dangerous Goods Authority;
5. Meteorological Authority; and
6. Personnel Licensing Authority.

### 5.2 OUR RESOURCE BASE

The CAA has an established staff complement of 193 full-time equivalents (FTE). It is headed by the Director of Civil Aviation and supported by six General Managers (Airlines, General Aviation, Personnel Licensing and Aviation Services, Government Relations Planning and Strategy, Safety Information, and Business Support), and Chief Legal Counsel.

Some functions and powers of the Director of Civil Aviation are delegated with the consent of the Minister to individuals outside of the CAA.

1. Under *section 23B of the Civil Aviation Act 1990*, the Director has undertaken, with the consent of the Minister of Transport, to delegate written and practical flight examinations.
2. The CAA has contracted out the provision of ICAO-defined aeronautical information publication (AIP), aeronautical charts, and meteorological services for international air navigation.

## 5.3 AVIATION PARTICIPANTS IN THE NEW ZEALAND CIVIL AVIATION SYSTEM

**AVIATION PARTICIPANTS IN THE NEW ZEALAND CIVIL AVIATION SYSTEM AS AT 30 JUNE 2008**

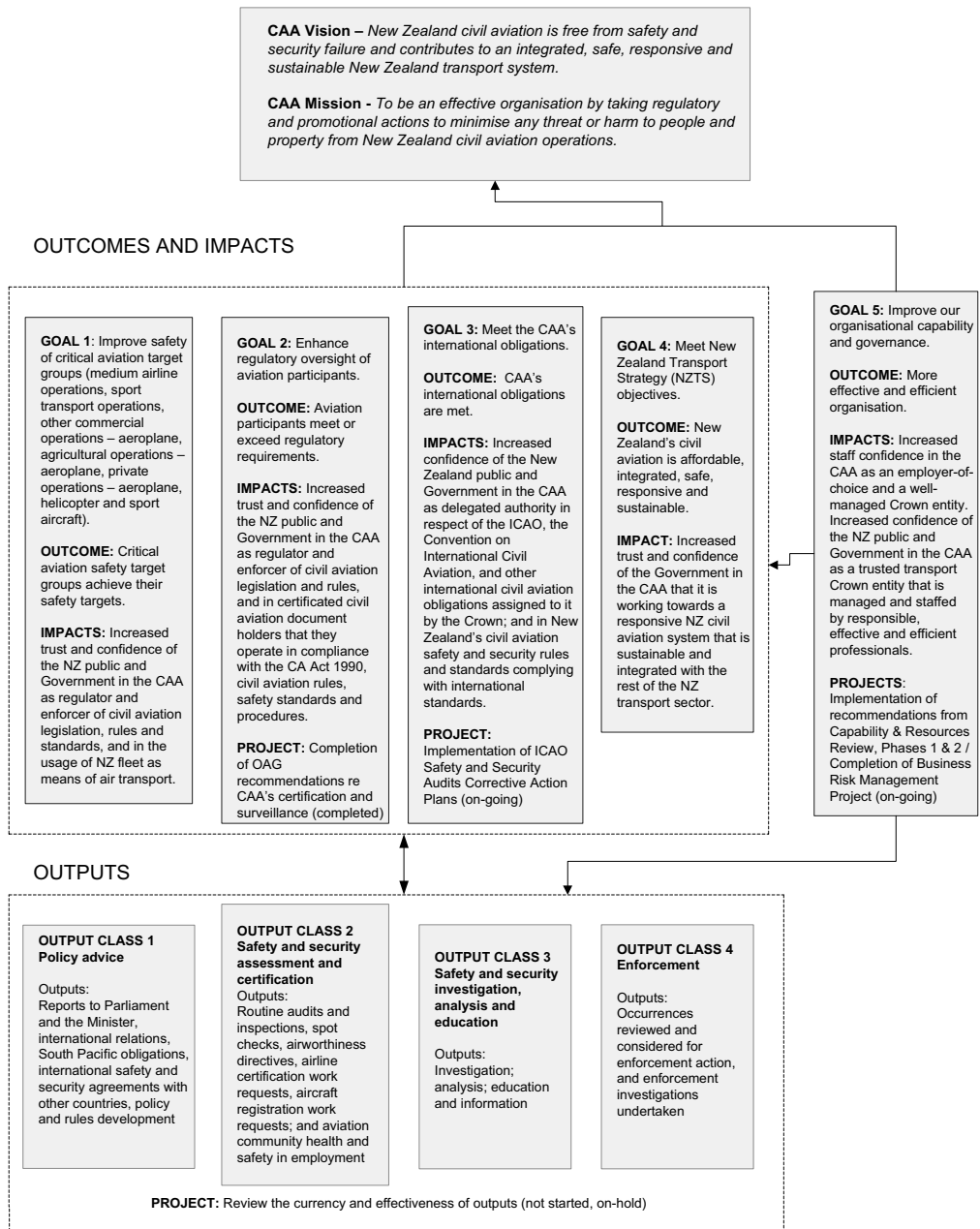
- 634 certificated organisations (refer to next table for details);
- 98 active non-certificated aerodromes and 38 heliports;
- five New Zealand-based airlines with international operations: Air New Zealand, Zeal 320, Jetconnect, Airwork NZ Limited and Pacific Blue Airlines;
- one New Zealand-based airline with international charter operations: Air National;
- 51 approved security program (21 Part 119, air operator, and 30 Part 129, foreign air operator);
- 9,791 active licensed pilots (up 5% compared to 9,311 as at 30 June 2007);
- 100 medical examiners responsible for the issue of medical certificates and surveillance of certificate holders;
- 730 air traffic service licence, of which 482 with active class 3 medical;
- 2,233 Part 66 aircraft maintenance engineers, 66 certificate of inspection authorisation and 211 certificate of maintenance approval; and
- 4,315 aircraft in the New Zealand fleet (up by 5% compared to 4,103 as at 30 June 2007, refer to table for details).

<b>RULES PART</b>	<b>CERTIFICATED ORGANISATIONS</b>	<b>30 JUNE 2006</b>	<b>30 JUNE 2007</b>	<b>30 JUNE 2008</b>
Part 119	Air Operator	171	170	174
Part 129	Foreign air operator	42	41	38
Part 137	Agricultural aircraft operator	117	113	108
Part 139	Aerodrome certification, of which seven have international operations (Auckland, Hamilton, Palmerston North, Wellington, Christchurch, Dunedin and Queenstown) and 18 with purely domestic operations	26	25	25
Part 140	Aviation security organisation	1	1	1
Part 141	Training organisation	48	47	48
Part 145	Maintenance organisation	52	52	57
Part 146	Design organisation	12	12	11
Part 148	Manufacturing organisation	24	24	22
Part 149	Recreation organisation	6	7	8
Part 171	Telecommunication service organisation	3	3	3
Part 172	Air traffic service organisation	1	1	1
Part 174	Meteorological service organisation	2	2	2
Part 175	Information service organisation	2	2	2
Part 19F	Supply organisation	55	60	61
Part 92	Dangerous goods packaging	36	48	40
	Synthetic training device (airlines)	6	5	7
	Synthetic training device (general aviation)	14	23	26
	<b>Total certificated organisations</b>	<b>618</b>	<b>636</b>	<b>634</b>

<b>AIRCRAFT CLASS</b>	<b>30 JUNE 2006</b>	<b>30 JUNE 2007</b>	<b>30 JUNE 2008</b>
Microlight Class 2 (two or more seats, flight permit required)	591	632	693
Amateur built helicopter	12	15	19
Helicopter	654	677	739
Aeroplane	1,828	1,857	1,901
Amateur built aeroplane	231	245	266
Power glider	42	45	47
Balloon	58	61	67
Gyroplane	10	11	21
Amateur build glider	4	4	5
Microlight Class 1 (one seater, flight permit not required)	248	244	241
Glider	310	312	316
<b>Total aircraft in the New Zealand fleet</b>	<b>3,988</b>	<b>4,103</b>	<b>4,315</b>

# 6 PROGRESS REPORT ON OUR STRATEGIC GOALS

## LINKING THE CAA'S OUTCOMES, IMPACTS AND OUTPUTS – 2007/10



RESOURCES: 193 established FTE; 2007/08 budget expenditure of \$28.048 million and revenue of \$27.834 million; against actual 2007/08 expenditure of \$ 27.454 million and revenue of \$ 29.366 million.

The CAA's 2007/10 Statement of Intent is structured around five goals. Each goal has a number of activities and one or more outcome measures and targets. These goals are:

1. Goal 1: Improve safety of critical aviation target groups.
2. Goal 2: Clients meet or exceed regulatory requirements.
3. Goal 3: Meet New Zealand's international civil aviation obligations.<sup>1</sup>
4. Goal 4: Meet New Zealand's Transport Strategy objectives.
5. Goal 5: Improve our organisational capability and governance.

In the drafting of the CAA's strategic goals for 2007/10, the CAA considered the:

1. Letter of Expectation from the Minister of Transport to the Authority for 2007/08;
2. recommendations made by the Office of the Auditor General in their review of the CAA's Certification and Surveillance functions;
3. the Coroner's report into the Air Adventures accident;
4. corrective action plans relating to ICAO's Universal Safety Oversight audit of New Zealand;
5. recommendations from Phase 1 of the Capability and Resources Review of the CAA conducted by PriceWaterhouseCoopers;
6. Audit New Zealand's audit opinion of the CAA during the previous financial year;
7. data from the CAA Aviation Safety Reports; and
8. progress made on the CAA's previous strategic goals in 2005/08.

#### 6.1 GOAL 1: IMPROVE SAFETY OF CRITICAL AVIATION TARGET GROUPS.

**Objective:** To ensure that 2010 social cost of aviation accidents per unit of passenger exposure targets of critical aviation safety target groups are achieved.

**Outcome:** Critical aviation safety target groups achieve their safety targets.

**Impacts:** Increased confidence of the New Zealand public and government in the CAA as regulator and enforcer of civil aviation legislation, rules and standards; and in the safety and security of New Zealand fleet certificated by the CAA.

#### PROGRESS REPORT ON OUR ACTIVITIES

At the start of 2007/08, seven (target group no: 2, 5, 6, 8, 11, 12 and 13) of the 13 aviation safety target groups were not tracking towards their 2010 targets; these were identified as the critical groups. To assist reduction of social cost of these critical groups, 13 aviation risk initiatives were planned for 2007/08 of which seven involved amendments to various civil aviation rules, five to enhance education of stakeholders and one to review agricultural aeroplane design and engineering safety. Following is our progress report:

<sup>1</sup> Contributes to the government's Economic Transformation theme through the CAA's international linkages.

<b>AVIATION SAFETY TARGET GROUP</b>	<b>ACTIONS TAKEN IN 2007/08 TO REDUCE SOCIAL COST PER UNIT OF PASSENGER EXPOSURE</b>	<b>STATUS AS AT 30 JUNE 2008</b>
Airline operations – medium aeroplanes (2)	1. Rule Part 125 (air operations – medium aeroplanes) addressing remaining deficiencies and issues.	Ongoing technical drafting and industry consultation.
Sport aviation transport operations (5)	2. Rule Part 115, regulating the use of sport and recreational aircraft for the carriage of passengers for hire or reward.	
		3. Rule Part 21 (certification of products and parts) providing appropriate certification for the increasingly diverse range of sport and recreational aircraft, in newly defined sub-categories for private and commercial use.
Commercial operations (6-10)	4. New course for chief pilots of Rule Parts 119, 135, 137 and 141 operations. The objective is to equip chief pilots, flight operations managers, and chief flying instructors on their role and responsibilities.	Ongoing implementation of programme.
Other commercial operations – aeroplane (6)	5. Rule Part 141 (aviation training organisations – certification) new certification requirements covering all flight instruction operations.	Ongoing technical drafting and industry consultation.
Agricultural operations – aeroplane (8)	6. Agricultural aeroplane design and engineering safety review, in particular the use of old airframes with new components and significantly more powerful engines.	Ongoing; and on its final stage.
	7. Rule Part 137 (agricultural aircraft operations) improving operating standards (specific guidance relating to fatigue management, agricultural rating, chief pilot supervision, senior person responsibilities, aircraft performance, overloading, determination of hopper content and seating restraints, and definition of agricultural operations).	Ongoing technical drafting and industry consultation.
Private operations – aeroplane (11)	8. Conducted seminars for aeroplane and microlight instructors and private/recreational pilots.	Ongoing seminars conducted.
Private operations – helicopter (12)	9. Introduced safety liaison programme covering all private helicopter pilots.	Ongoing implementation.
	10. Provided safety education and promotion at private helicopter venues.	Ongoing implementation.
Private operations – sport aircraft (13)	11. Conducted seminars for aeroplane and microlight instructors and private/recreational pilots.	Ongoing implementation.
Multi-group ARI (excluding Airline operations – medium aeroplanes)	12. Rule Part 61 (pilot licences and ratings – stage 2) requirements and standards for the issue of pilot licenses and the associated ratings and authorisations and to prescribe the associated privileges that the licence holder may exercise. Stage 2 deals with the additional licence types that need to be introduced as well as other issues that require more detailed participation from the industry such as flight instructor and flight examiner requirements and privileges, and the transfer of relevant standards from the advisory circulars into the rule.	Ongoing technical drafting and industry consultation.
	13. Rule Part 91 (general operating and flight rules)	Completed.

Following is the status report on the ongoing rules development:

<b>Status report on rules development related to aviation safety target groups (ongoing status reflected above)</b> (Source: Rules Development contract with the Ministry of Transport)			
<b>CIVIL AVIATION RULES PART</b>	<b>ESTIMATED TIMELINES</b>		
	<b>DRAFT NPRM TO THE MINISTRY OF TRANSPORT</b>	<b>FINAL DRAFT RULE TO THE MINISTRY OF TRANSPORT</b>	<b>MINISTER SIGNS RULE</b>
Part 125 (air operations – medium aeroplane)	December 2008	July 2009	December 2009
Part 115 (regulating the use of sport and recreational aircraft for the carriage of passengers for hire or reward)	November 2008	September 2009	August 2010
Part 21 (certification of products and parts)	Completed	Completed	August 2008
Part 141 (aviation training organisations – certification)	November 2008	May 2009	September 2009
Part 137 (agricultural aircraft operations)	August 2008	January 2009	June 2010
Part 61 (pilot licences and ratings-stage 2)	March 2009	September 2009	March 2010

## PROGRESS AGAINST OUR OUTCOME MEASURES

Social cost is the outcome measure used by the CAA to gauge whether the aviation sector is improving its overall safety performance, and to track towards the goals set for 2010. The assumption is if the social cost is lower than or equal to the 2010 targets, then the safety performance of the civil aviation system is on track to meeting and maintaining the desired level of safety performance.

During 2007/08, three (sport aviation transport operations, private operations – aeroplane, and private operations – helicopter) of the seven critical groups, performed within their 2010 targets. Four (airline operations-medium aeroplanes, other commercial operations-aeroplane, agricultural operations – aeroplane, and private operations- sport aircraft) did not perform such that their respective 2010 target is not likely to be met.

Of the five groups classified as public air transport, four met their 2010 targets, excluding airline operations – medium aeroplanes.

The four groups with the highest social cost as at end of June 2008:

1. private operations – sport aircraft (\$111.44; increasing over the three-year period);
2. agricultural operations – aeroplane (\$88.28; erratic over the three-year period);
3. other commercial operations – helicopter (\$79.98; increasing over the three-year period); and
4. other commercial operations – aeroplane (\$57.44; erratic over the three-year period).

AVIATION SAFETY TARGET GROUPS (Source: Safety Analysis Unit, CAA)	SOCIAL COST PER UNIT OF PASSENGER EXPOSURE (\$)			
	JUN-06	JUN-07	JUN-08	2010 TARGETS
PUBLIC AIR TRANSPORT				
1. Airline operations – large aeroplanes	0.02	0.02	0.03	0.10
<b>2. Airline operations – medium aeroplanes</b>	<b>1.24</b>	<b>1.12</b>	<b>1.27</b>	<b>0.10</b>
3. Airline operations – small aeroplanes	0.0	0.0	0.11	6.50
4. Airline operations - helicopters	0.0	0.0	0.0	6.50
<b>5. Sport aviation transport operations</b>	<b>34.23</b>	<b>22.49</b>	<b>0.10</b>	<b>13.00</b>
OTHER COMMERCIAL OPERATIONS				
<b>6. Other commercial operations – aeroplane</b>	<b>40.24</b>	<b>0.09</b>	<b>57.44</b>	<b>6.50</b>
7. Other commercial operations – helicopter	0.43	37.15	79.98	6.50
<b>8. Agricultural operations – aeroplane</b>	<b>214.93</b>	<b>0.0</b>	<b>88.28</b>	<b>14.00</b>
9. Agricultural operations – helicopter	0.0	32.63	0.0	14.00
10. Agricultural operations – sport aircraft	Data not available			28.0
NON-COMMERCIAL OPERATIONS				
<b>11. Private operations – aeroplane</b>	<b>99.32</b>	<b>91.03</b>	<b>0.21</b>	<b>10.00</b>
<b>12. Private operations – helicopter</b>	<b>407.61</b>	<b>1.61</b>	<b>10.04</b>	<b>10.00</b>
<b>13. Private operations – sport aircraft</b>	<b>54.85</b>	<b>82.72</b>	<b>111.44</b>	<b>20.00</b>
NOTES:				
1. Critical target groups in italics (2, 5, 6, 8, 11, 12 and 13)				
2. 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.				
3. Estimates for large and medium aeroplane calculations use 10 years average, and one year is used for the rest of the target groups.				
4. For sport groups, calculation of target social cost is based on CAA estimates.				
5. 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.				

## OUR NEXT STEPS

The way in which social cost is used was reviewed during the 2007/08 year. As a consequence of the review, additional performance measures will be introduced. These new measures will provide rate and count information. In future, social cost will be used at a higher aggregate level.



## 6.2 GOAL 2: CLIENTS MEET OR EXCEED REGULATORY REQUIREMENTS.

- Objective:** To ensure that civil aviation community participants consistently meet regulatory requirements.
- Outcome:** Aviation participants meet or exceed regulatory requirements.
- Impact:** Increased confidence of the New Zealand public and government in the CAA as regulator and enforcer of civil aviation rules and standards and in civil aviation participants that they operate in compliance with the Civil Aviation Act 1990, civil aviation rules, safety standards, and conditions attached to their documents.

### PROGRESS REPORT ON OUR ACTIVITIES

The 2007/10 Statement of Intent sets out the intention to enhance CAA's regulatory oversight of aviation participants so that the public and the government are confident that the CAA delivers its statutory role and responsibilities. There is ongoing CAA work in enhancing:

1. policies in regulating entry, participation and exit in the New Zealand's civil aviation system;
2. enforcement of compliance to requirements under the *Civil Aviation Act 1990*, civil aviation rules, expositions, and the *Health and Safety in Employment Act 1992*;
3. work with stakeholders to ensure that legislation and rules are appropriate and current; and
4. Safety Management Systems (SMS) to amend the rules so New Zealand is compliant with ICAO safety management requirements, including the establishment of policies, regulations, oversight procedures, and safety performance targets.

In 2007/08 the CAA implemented three major projects (Surveillance, Risk Assessment and Intervention, and Certification) to address recommendations of the Office of the Auditor General in their *Certification and Surveillance Review in 2005*. These projects are expected to improve integration, consistency, and effectiveness of the certification and surveillance functions.

### PROGRESS AGAINST OUR OUTCOME MEASURES

To determine whether aviation participants are meeting regulatory requirements, the CAA's measures and targets include:

1. a decreasing rate of accidents (target met in four of the 13 aviation safety target groups);
2. a decreasing non-compliance findings (target met, from 2005 to mid-2008); and
3. 100% on-time implementation rate of corrective action (target not met for two consecutive financial years).

#### **(1) Target: Decreasing rate of accidents per 100,000 flying hours**

The CAA assumes that if accident rates are decreasing over time, it is meeting its target. For the past three financial years (2005/06 to 2007/08) rate of accidents per 100,000 flight hours of,

1. six (target groups 3,6,7,8,9,11) of the 13 aviation safety target groups show an erratic trend;
2. airline operations (large and medium aeroplanes) remain low and static; and
3. helicopters (airline and private operations) are decreasing.

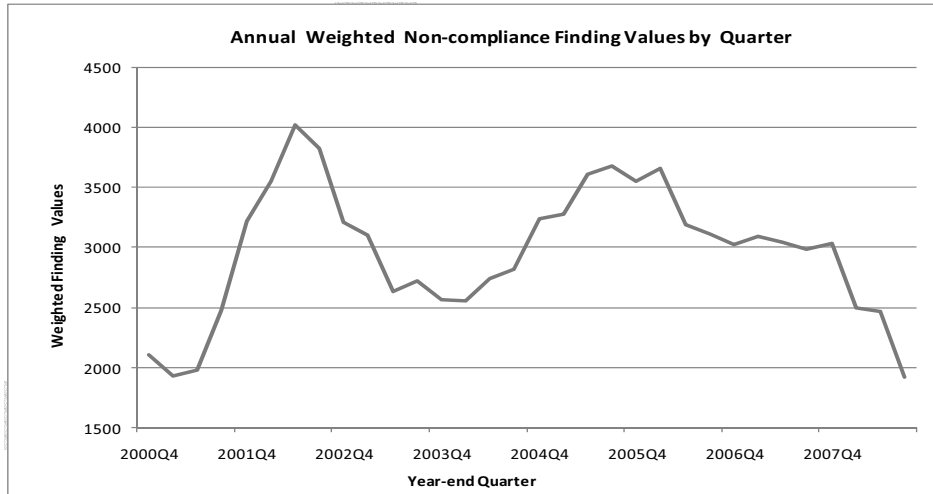
As at end of June 2008, the three groups with the highest rate of accidents:

1. private operations - helicopter (at 32.9, decreasing compared to previous years);
2. agricultural operations – aeroplane (at 24.1, increasing compared to previous years); and
3. and private operations – aeroplane (at 12.9, lowest in 2008 compared to the last two years).

AVIATION SAFETY TARGET GROUPS (ASTG) (Source: Safety Analysis Unit, CAA)	RATE OF ACCIDENT PER 100,000 FLIGHT HOURS		
	JUN-06	JUN-07	JUN-08
PUBLIC AIR TRANSPORT			
1. Airline operations – large aeroplanes	0.22	0.18	0.2
2. Airline operations – medium aeroplanes	1.86	1.26	1.3
3. Airline operations – small aeroplanes	4.40	1.09	6.6
4. Airline operations - helicopters	2.95	0.00	0.0
5. Sport aviation transport operations	Data not available*		
OTHER COMMERCIAL OPERATIONS			
6. Other commercial operations – aeroplane	4.27	8.89	5.8
7. Other commercial operations – helicopter	11.72	17.12	7.5
8. Agricultural operations – aeroplane	12.05	7.60	24.1
9. Agricultural operations – helicopter	10.50	6.16	7.1
10. Agricultural operations – sport aircraft	Data not available*		
NON-COMMERCIAL OPERATIONS			
11. Private operations – aeroplane	19.14	22.55	12.9
12. Private operations – helicopter	54.14	35.06	32.9
13. Private operations – sport aircraft	Data not available*		
*Note: For these three groups, the accident rate cannot be calculated, as the CAA does not hold data for the number of hours flown. Some population size is too small for statistical analysis.			

## (2) Target: Decreasing non-compliance findings

A surveillance finding is defined as “the act of identifying and concluding from objective evidence, a failure by a person or organisation to comply with a specified standard or a condition attached to an aviation document”. Non-compliance means failure to comply with Civil Aviation Act 1990, civil aviation rules, or a condition attached to an aviation document. The historical data show that the year-end quarterly data on total non-compliance finding values were decreasing from 2002 to 2003 and 2005 to mid-2008, as reflected in the following chart.



Source: Safety Analysis Unit, CAA

**Note:** With the introduction of the revised Surveillance Processes it is likely there will be more Non Compliance Findings (NCP) as the previous concept of recording Non Conformance Findings (NCF) has been discontinued. In future findings that might in the past have been recorded as NCF will be recorded as NCP leading to an increase in the number of NCP findings recorded. The CAA has implemented a new form of reporting which enables faster calculation of weighted values and which shows relevant history by combining NCF and NCP values. Findings resulting from Audit, Investigation, and Aviation Related Concerns are identified and weighted as 1 for Minor Severity, 2 for Major, and 30 for Critical. This is the same weighting that was used for the previous Non Compliance Index (up to December 2007). The sums of the weighted findings for each quarter are recorded and each quarter the sum of the weighted findings for the previous 4 quarters is reported.

### (3) Target: 100% on-time implementation rate of corrective action

The CAA conducts functional supervision of aviation participants operating in the civil aviation system by checking the participants' adherence to civil aviation legislation and rules. Corrective actions are identified during this process to bring the performance of a particular participant up to the standards required.

In 2007/08 and 2006/07, the rate of implementation of corrective action was almost static at 57% and 56% respectively. It means that, for every ten corrective actions to be implemented by the participant, a range of between five and six were implemented at their agreed due dates. The target is a rate of 100% implementation of corrective action by the established due date regardless of severity of an associated finding. The 100% target has not been met for two (2006/07 and 2007/08) consecutive years.

Total implementation of corrective actions by end of the financial year (total corrective actions closed by due date plus those closed after their due date but within the financial year) dropped by 2% in 2007/08 compared to 2006/07. That is, in 2007/08, 97% (1,449 of the total 1,504) of corrective actions due were implemented by end of the financial year compared to 99% (1,432 of the total 1,442) in 2006/07.

The decline in this year's performance of on-time implementation rate of corrective actions can be attributed to data entry problems associated with the introduction of a new computerised surveillance system and the adoption of a more rigorous assessment of outstanding corrective actions before they are closed, rather than a change in the rate at which audit findings are resolved. The implementation issues associated with the new system are still being worked through. With some fine-tuning in 2008/09 an overall improvement in outcomes in the next reporting period is expected.

<b>CORRECTIVE ACTIONS</b>									
(Source: Business Planning and Reporting, CAA)									
2006/07			SEVERITY OF FINDING	2006/07					
TOTAL DUE	% CLOSED BY DUE DATE	% CLOSED AT END OF YEAR		TOTAL DUE	CLOSED BY DUE DATE		CLOSED AFTER DUE DATE		% CLOSED AT END OF YEAR
					NUMBER.	%	NUMBER.	%	
23	26	100	<b>Critical</b>	9	6	<b>67</b>	3	33	<b>100</b>
580	51	100	<b>Major</b>	466	242	<b>52</b>	209	45	<b>97</b>
839	60	96	<b>Minor</b>	1,029	606	<b>59</b>	383	37	<b>96</b>
1,442	56	99	<b>Total</b>	1,504	854	<b>57</b>	595	40	<b>97</b>

Note: The finding is "critical" if an occurrence or deficiency that caused, or on its own had the potential; "major" if an occurrence of deficiency involving a major system that caused, or had the potential to cause, significant problems to the function or effectiveness of that system; and "minor" if an isolated occurrence or deficiency is not indicative of a significant system problem.

### OUR NEXT STEPS

The performance of civil aviation participants in meeting regulatory requirements needs to be improved, given it is critical in meeting safety and security standards; the CAA will continue to evaluate and implement initiatives to enhance the regulatory oversight of aviation participants. The CAA's 2008/11 Strategic Goal 2, appropriate exercise of regulatory functions and powers, addresses continuity of the outcome and desired achievement of targets.

In addition, the CAA is expecting a positive impact from the newly developed and implemented risk-based surveillance system, which assesses the aviation safety risk of each certificate holder, allowing for the deployment of participant-specific oversight. However, at present the CAA is still in the process of fine-tuning this new system, which we expect will improve our overall outcomes.

### 6.3 GOAL 3: MEET NEW ZEALAND'S INTERNATIONAL CIVIL AVIATION OBLIGATIONS.

**Objective:** To ensure that CAA's international civil aviation obligations are met.

**Outcome:** CAA's international civil aviation obligations are met.

**Impacts:** Increased confidence of the New Zealand public and government in the CAA as delegated authority in respect of the ICAO, the Convention on International Civil Aviation, and other international civil aviation obligations assigned to it by the Crown; and in New Zealand's civil aviation safety and security rules and standards complying with international standards.

#### PROGRESS REPORT ON OUR ACTIVITIES

To ensure that CAA's international obligations were met, during the year the CAA:

1. continued to implement the agreed corrective actions following the International Civil Aviation Organization's safety and security audits of New Zealand;
2. assessed New Zealand's compliance with the 2007 round of amendments to ICAO Annexes for which the CAA has responsibility and lodged any necessary differences;
3. attended the Triennial Meeting of the ICAO General Assembly as part of the New Zealand delegation to approve a number of resolutions on ICAO's direction, work plans and budget for the period 2008-10;
4. represented New Zealand at the Conference of Director Generals of Civil Aviation Asia and Pacific regions;
5. administered New Zealand's participation in the Asia/Pacific Air Navigation Planning and Implementation Group (APANPIRG) which coordinates air navigation procedures in the region;
6. administered the State letter system for official correspondence from both the ICAO Regional office in Bangkok and the ICAO Headquarters in Montreal;
7. carried out New Zealand's obligations as a Council Member of the Pacific Aviation Safety Office (PASO), and entered into a Working Arrangement with PASO for the provision of technical staff and advice to PASO, and continued to administer the current bilateral agreements with Samoa, Tonga, Cook Islands and Niue for aviation technical advice and assistance; and
8. attended meetings with overseas Aviation Authorities to monitor existing arrangements and develop further cooperative opportunities; and as a result of these, entered into a Technical Arrangement on aircraft maintenance with Transport Canada.

#### PROGRESS AGAINST OUR OUTCOME MEASURES

The measure of the CAA's compliance to international civil aviation standards is the level of implementation of the critical elements of a safety oversight system. As at 14 August 2008, the following table compares New Zealand's level of implementation with OECD States that have been audited and agreed to publish their audit results.

**LEVEL\* OF IMPLEMENTATION OF THE CRITICAL ELEMENTS OF A SAFETY OVERSIGHT SYSTEM  
(ICAO, 14 AUGUST 2008)**

Source: www.icao.int/fsix/auditRep1\_csa.cfm

CRITICAL ELEMENT	NZ	OECD States that have been audited, USOAP, and agreed to publish their audit results.					
		Belgium	Canada	Czech Rep.	Greece	Italy	Norway
1. Primary Aviation Legislation	8	9	10	7	7	8	9
2. Specific Operating Regulations	8	8	9	6	6	8	9
3. State Civil Aviation System and Safety Oversight Function	8	6	10	5	5	6	8
4. Technical Personnel Qualification and Training	8	3	9	4	4	4	6
5. Technical Guidance, Tools and the Provision of Safety-Critical Information	8	7	9	6	6	8	9
6. Licensing, Certification, Authorization and Approval obligations	9	9	9	6	6	8	9
7. Surveillance Obligations	9	7	10	6	6	6	8
8. Resolution of Safety Concerns	9	7	9	5	5	8	8

Notes: \*1 = not implemented, 10 = fully implemented / In time, as data become available, New Zealand's level of implementation will be compared with other OECD States like Australia, United Kingdom, USA, etc.

Of the 138 corrective actions the CAA proposed, 43% have been completed as at 30<sup>th</sup> June 2008. The following tables describe the status of all deficiencies identified by ICAO that are within CAA's statutory obligation, and status of amendments to the Civil Aviation Rules.

**USOAP: CAA PROPOSED CORRECTIVE ACTION PLANS STATUS REPORT SUMMARY, 30 JUNE 2008**

(Source: Policy and International Relations, CAA)

CRITICAL ELEMENT	Number of findings	Number of corrective actions proposed by the CAA and accepted by ICAO			
		Completed	Ongoing	Not started	Total
1. Primary aviation legislation and civil aviation regulations (LEG)	4	0	9	2	11
2. Civil aviation organization (ORG)	1	0	3	0	3
3. Airworthiness of aircraft (AIR)	10	13	8	5	26
4. Air navigation services (ANS)	13	13	18	3	34
5. Aircraft operations certification and supervision (OPS)	6	12	0	4	16
6. Aerodromes (AGA)	9	11	7	2	20
7. Aircraft accident and incident investigation (AIG)	18	10	18	0	28
<b>TOTAL</b>	<b>61</b>	<b>59</b>	<b>63</b>	<b>16</b>	<b>138</b>
		<b>43%</b>	<b>46%</b>	<b>11%</b>	<b>100%</b>

<b>CAA STATUS REPORT ON RULES DEVELOPMENT RELATED TO ICAO'S USOAP, 30 JUNE 2008</b>			
<b>(Source: Rules Development contract with the Ministry of Transport)</b>			
<b>CIVIL AVIATION RULES PART</b>	<b>ESTIMATED TIMELINES</b>		
	<b>DRAFT NPRM TO THE MINISTRY OF TRANSPORT</b>	<b>FINAL DRAFT RULE TO THE MINISTRY OF TRANSPORT</b>	<b>MINISTER SIGNS RULE</b>
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	Dec 2009
ICAO - Operational compliance	Sep 2009	Apr 2010	Sep 2010
ICAO - Equipment compliance	Oct 2009	Jun 2010	Nov 2010
ICAO - Article 83bis	Post 2010		
ICAO - General Aviation modernisation	Post 2010		
ICAO - Security	Subject to Cabinet decision in Jul 2008 <sup>2</sup>		

## OUR NEXT STEPS

The CAA will continue its efforts to ensure that New Zealand's international civil aviation obligations are achieved under Goal 3 in 2008/11. The CAA is working to establish closer ties with the Air Navigation Bureau in ICAO with the purpose of being more proactive in its contribution to the work of ICAO. It is also working on ways to provide closer linkages among all agencies having an interest in the work of ICAO in New Zealand, to enable a New Zealand position to be represented at ICAO.

The CAA is also seeking amendments to the Civil Aviation Act 1990 to give authority to the CAA to enter into agreements with other States, mostly in the Pacific, for the provision of advice and assistance. The CAA's involvement with PASO and other Pacific Island countries is supported within the New Zealand Pacific Transport Security Strategy 2007/11 and specific initiatives have been funded by the Pacific Security Fund.

<sup>2</sup> Still awaiting Cabinet decision.

#### 6.4 GOAL 4: MEET NEW ZEALAND TRANSPORT STRATEGY (NZTS) OBJECTIVES

- Objective: To ensure that the CAA actively contributes to the updated NZTS objectives and Transport Sector Strategic Directions (TSSD) (refer to [www.transport.govt.nz](http://www.transport.govt.nz)).
- Outcome: New Zealand's civil aviation is affordable, integrated, safe, responsive and sustainable.
- Impact: Increased confidence of the government in the CAA that it is working towards a responsive New Zealand civil aviation system that is sustainable and integrated with the rest of the New Zealand transport sector.

#### PROGRESS REPORT ON OUR ACTIVITIES

The CAA continued to:

1. consider the Updated NZTS (uNZTS) objectives as “matters to be taken into account in developing Civil Aviation Rules”, section 33 of the Civil Aviation Act 1990, that are within its statutory responsibilities; and
2. participate in the uNZTS task force planning group such that the transport sector can collectively address nationally important cross-sector transport priorities.

#### PROGRESS AGAINST OUR OUTCOME MEASURES

Measuring performance during the year was not possible because the CAA's role and functions are limited to what is stipulated in section 72AA of the Civil Aviation Act 1990 which states that “the objective of the Authority is to undertake its safety, security and other functions in a way that contributes to the aim of achieving an integrated, safe, responsive, and sustainable transport system”.

Updated NZTS implementation policies that are within the CAA's statutory responsibility have yet to be developed by the Ministry of Transport.

#### OUR NEXT STEPS

The CAA will:

1. engage further with the Ministry of Transport in assessing the implications of the amended objectives of the CAA in the Civil Aviation Act 1990 reflecting the updated NZTS objectives, outcomes and targets;
2. continue to participate in transport sector forums to address nationally important cross-sector transport priorities that were identified in the recently released Updated NZTS 2008; and
3. be using the increase in Crown funding of \$500k, from 2008/09, to establish a new unit that will address the many elements of the uNZTS in an aviation context through a national airspace and navigation plan.



## 6.5 GOAL 5: IMPROVE OUR ORGANISATIONAL CAPABILITY AND GOVERNANCE

**Objective:** To ensure that the CAA is effective and efficient by being capable, responsive, forward-looking, trustworthy, evidence-based, and a good employer.

**Outcome:** More effective and efficient CAA.

**Impacts:** Increased staff confidence in the CAA as an employer-of-choice and a well-managed Crown entity.

Increased confidence of the New Zealand public and government in the CAA as a trusted transport Crown entity managed and staffed by efficient and effective professionals.

### PROGRESS REPORT ON OUR ACTIVITIES

To enable the CAA meet its organisational outcome, it has:

1. completed the implementation of a new organisational structure in July 2007 recommended in Phase 1 of the Capability and Resources Review done by PriceWaterhouseCoopers;
2. established the CAA Superannuation Scheme based on KiwiSaver where the CAA is contributing 4% of employee's gross salary or wages from 1 July 2007 (almost 50% of total staff have opted for the scheme);
3. started to implement the 40 recommendations from Phase 1 of the Capability Resource Review which the CAA expects to complete in June 2010 (refer to Section 9.3);
4. commenced a remuneration policy review;
5. completed its assessment of head-office location needs; and
6. submitted a budget bid for additional government funding in 2008 and consequently secured additional funding of \$500k from 2008/09 for increased capacity in Policy and International Relations work.

### PERFORMANCE AGAINST OUR OUTCOME MEASURES

The increasing recruitment competition from overseas; global shortage of pilots, aircraft engineers and aviation specialists; and the low unemployment rate (3.9% based on the June quarter report released by Statistics New Zealand) in New Zealand limit the CAA's recruitment and retention of staff to best meet the organisation's requirements. The CAA has a "Good Employer Programme", "Equal Employment Opportunity Programme", and has initiatives to ensure that its capability and resources are healthy. Despite that, recruitment and retention are a constant challenge to the CAA.

The CAA's turnover rate is estimated at 13%<sup>3</sup> in 2007/08 compared to 7% in 2005/06. That is, in 2007/08 the number of resignations increased to 23 compared to 12 in 2005/06. Retirements dropped to two in 2007/08 compared to six in 2005/06.

Total training hours dropped in 2007 at 4,806 compared to 5,977 in 2006 and 8,625 in 2005.

### OUR NEXT STEPS

The CAA is committed to improving its organisational and capability outcome by having in place a Human Resource Strategy. In addition, it will ensure that its business operations and systems are capable and efficient. These two activities in 2008/11 are expected to address the outcome of becoming a more effective and efficient organisation.

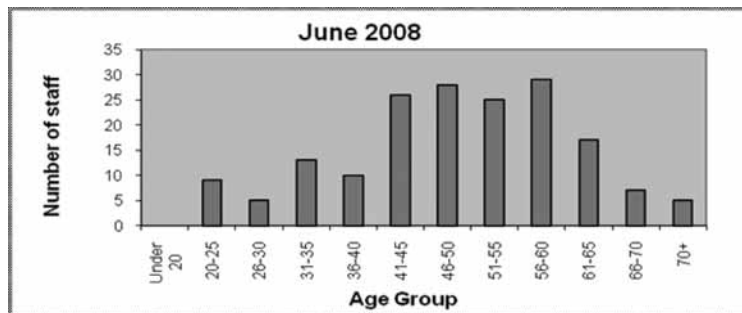
<sup>3</sup> Budgeted FTE of 181 in 2007/08 and 2005/06.

## 7 ORGANISATIONAL HEALTH AND CAPABILITY REPORT

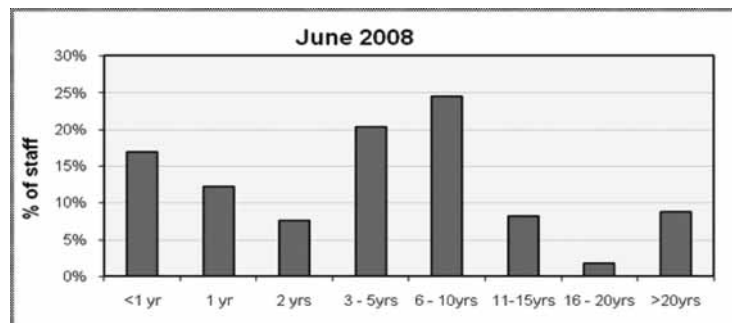
### 7.1 OUR STAFF PROFILE

The staff of the CAA:

1. come from diverse national backgrounds or ethnicity (e.g. Afghani, American, Australian, Canadian, English, Fijian, Filipino, French, Indian, Irish, Malaysian, New Zealand-European, New Zealand-Maori, Pacific Island, Scots, South African, Swiss, Zimbabwean);
2. of diverse age-groups; from mid-20s to mid-70s, and two-thirds are between 41 to 65 years old;



3. male staff comprising approximately 70% of total staff; and
4. almost a third has been with the CAA for a year or less, and more than 40% for more than six years.



## 7.2 OUR GOOD EMPLOYER PROGRAMME

The CAA's "*Good Employer Programme*" covers the following policies or practices:

SEVEN ELEMENTS OF A GOOD EMPLOYER <sup>4</sup>	CAA GOOD EMPLOYER POLICIES OR PRACTICES
1. Leadership, accountability and culture	<ul style="list-style-type: none"> <li>• Staff participation in CAA-wide decisions (e.g. organisational structure, office relocation).</li> <li>• Service charter.</li> <li>• CAA-wide quarterly forum with the Director of Civil Aviation.</li> <li>• Weekly web-based internal newsletter ("the Loop").</li> <li>• Social Club.</li> <li>• Ka Awatea.</li> <li>• Executive, group and unit meetings done regularly.</li> <li>• Register of Interest (managing conflicts of interest) maintained by Legal Services.</li> <li>• Code of conduct.</li> </ul>
2. Recruitment, selection and induction	<ul style="list-style-type: none"> <li>• Vacancies are advertised internally and externally (gender, ethnicity, age, and disability neutral).</li> <li>• Use of external marketing consultants to promote branding and appeal through the advertising process.</li> <li>• Relocation assistance.</li> <li>• 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.</li> <li>• Flexible working relationships (e.g. some retired staff still work with the CAA on temporary contract, and working from home).</li> <li>• New staff are introduced during the quarterly forum of the Director and web-based internal newsletter "the Loop".</li> </ul>
3. Employee development, promotion and exit	<ul style="list-style-type: none"> <li>• Due to the nature of our work, staff are trained in New Zealand and overseas to maintain their skills at international level.</li> <li>• Performance evaluation done annually.</li> <li>• Provision of on-the-job, experiential learning and external study assistance.</li> <li>• Career management and retirement education programmes provided.</li> </ul>
4. Flexibility and work design	<ul style="list-style-type: none"> <li>• Flexible working hours and design (some staff are working from home, e.g. Safety Investigators and Aviation Safety Advisers).</li> <li>• Provision of supporting tools and equipment to support remote and working from home environment.</li> <li>• Provision of appropriate health and safety education, training, and support structures to promote work flexibility.</li> </ul>
5. Remuneration, recognition and conditions	<ul style="list-style-type: none"> <li>• Ongoing remuneration review to align CAA salaries with the industry.</li> <li>• KiwiSaver Scheme at 4% employer contribution since 01 July 2007.</li> <li>• Currently working through a review of remuneration strategy and framework to more effectively align ongoing remuneration decision making with strategic direction.</li> </ul>
6. Harassment and bullying prevention	<ul style="list-style-type: none"> <li>• Bullying prevention policy.</li> <li>• Discrimination and harassment prevention policy.</li> <li>• Provision of internal employee assistance advisors and in-house chaplain services.</li> <li>• Presentations to staff on human rights, natural justice, and employee rights during induction and through internal seminars.</li> </ul>
7. Safe and healthy environment	<ul style="list-style-type: none"> <li>• Subsidised eye examinations and spectacles.</li> <li>• Critical Incident and Stress management framework and training with external and internal support providers.</li> <li>• Disputes resolution policy.</li> <li>• 14-week wellness programme and annual wellbeing programme.</li> <li>• Health and safety committee and employee representatives.</li> <li>• Availability of a wellness room.</li> <li>• In-house health and safety, and employee assistance framework and programme.</li> <li>• Health and Safety, Critical Incident, emergency response induction, and ongoing training.</li> </ul>

<sup>4</sup> From the Human Rights Commission, refer to [www.hrc.co.nz](http://www.hrc.co.nz) for guidelines.

### 7.3 OUR EQUAL EMPLOYMENT OPPORTUNITIES (EEO) PROGRAMME

The CAA is an EEO employer, a member of the EEO Trust and a working partner with the mainstream programme. The CAA's recruitment policy fully reflects its EEO status. The EEO Programme is monitored regularly to ensure compliance. Vacancies are advertised internally and externally (minimum in the New Zealand job site [www.jobs.govt.nz](http://www.jobs.govt.nz), and the CAA website) to give all interested parties an equal chance to be included in the recruitment selection process.

The CAA's EEO Programme is evident in the diversity profile of the CAA staff. As regulator and enforcer of the New Zealand civil aviation system, the CAA's major determinant in recruitment is that, the person is best qualified and has the relevant skill that the role requires. The selection of an applicant to the role is gender, ethnicity, age, or disability-neutral.

## 8 PROGRESS REPORT IN MANAGING OUR RISKS

### 8.1 MANAGING OUR EXTERNAL RISKS

*Following are external risks and mitigations that were identified prior to July 2007 and reflected accordingly in the CAA's 2007/10 Statement of Intent:*

#### 1. AGING AIRCRAFT

A growing number, estimated to be more than 1,000, of aging aircraft on the New Zealand register are being used on air transport operations. Aging aircraft are defined as those that are being used beyond their originally planned life of typically 20 to 25 years and up to 90,000 flight hours. Aviation safety oversight authorities globally accept that aircraft that exceed 30 years of age can be safely operated if properly maintained. The existing certification and monitoring programmes are no longer adequate to address issues related to the maintenance and use of aging aircraft.

Risk: Unacceptable level of latent safety risk.

Mitigation: The CAA has ongoing work in:

1. providing initial training for Airline Inspectors (Airworthiness personnel) to provide a sound understanding of aging aircraft issues;
2. establishing a database of applicable reference material;
3. developing an aging aircraft recurrent training programme;
4. developing an aging aircraft monitoring programme; and
5. establishing an industry forum aimed at promoting an awareness of aging aircraft issues.

#### 2. ADVENTURE AVIATION (SPORT AND RECREATIONAL AIRCRAFT)

Use of sport and recreational aircraft for carriage of passengers for hire or reward has increased significantly. Applicable civil aviation rules for this sector were written for amateur, private and recreation activities only and were largely based on the self-administration of participant organisations.

Risk: If not addressed, safety of passengers using sport and recreational aircraft is at risk.

Mitigation: The CAA undertook a comprehensive review of Rule Part 21 (Certification of Aircraft in the Special Category) and Rule Part 115 (Adventure Aviation) that will allow certification of operators of commercial adventure aviation operations. Final draft of Rule Part 21 was submitted to the Ministry of Transport in August 2008 and is expected to be signed by the Minister in March 2009. Draft NPRM of Rule Part 115 will be given to the Ministry in November 2008, final draft in September 2009 and expected to be signed by the Minister in August 2010.

#### 3. SECURITY

The international nature of the terrorist threat facing civil aviation means that 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 on other countries. Threat levels can change significantly at very short notice and at any time.

Risk: The consequence of serious acts of unlawful interference anywhere can have severe adverse effects on aviation and associated aviation interests globally. It must be recognised that the threat of terrorist attack must be considered unpredictable and that attacks are likely to be both indiscriminate and devastating in nature. While government agencies work to prevent terrorist activity and may uncover information suggesting pending attacks, it is prudent to assume that they cannot identify and resolve all possible threats. A robust and effective aviation security system has a significant

impact on the country's economic growth, tourism, and trade.

Mitigation: In an environment where there is no absolute certainty of timely or correct threat information and no guarantee of prior warning of an attack, the proactive development and consistent application of security measures required of all ICAO Contracting States, including New Zealand, remains necessary. Robust detection and identification of potential system vulnerabilities in practical and sustainable manner that ensures available security resources continue to be proportionally focused in the highest priority risk areas.

#### 4. AVIATION TECHNOLOGY

Advances in aviation technology are sometimes driven by economic (e.g. price of aviation fuel) and environmental factors. It is expected that wide-bodied and fuel-efficient aircraft will continue to be introduced in the New Zealand fleet (e.g. increase in number of Boeing 777s and introduction of Boeing 787 Dreamliner). Foreign operators (e.g. Emirates and Qantas) are expected to fly Airbus 380 services to New Zealand airports (Auckland and Christchurch).

Risk: Advances in aviation technology are expected to increase pressure in infrastructure and activities of regulators. As aircraft size changes, flight operations and traffic (passenger and air cargo) changes; this requires greater attention by aerodrome and air traffic management (ATM) operators as well as the CAA.

Mitigation: The CAA continues its collaborative planning with aviation participants, aircraft manufacturers and other external stakeholders to better address issues that affect technological changes. The CAA encourages training of its technical staff to update their knowledge on new aircraft and aerospace technology that will be introduced in the New Zealand civil aviation system.

#### 5. ENVIRONMENT

The International Civil Aviation Organisation, the International Air Transport Association, aircraft manufacturers, airlines, and governments are working together to reduce fuel consumption and CO<sub>2</sub> emissions.

One of the government's top priorities is currently focused on the environment, specifically the reduction of CO<sub>2</sub> emissions. How and who will oversee the regulation of emissions and other environmentally detrimental impacts of aviation in New Zealand, or emitted by New Zealand registered operators overseas, are yet to be determined.

Risk: Airlines and other aviation participants come under pressure to reduce emissions but there are no clear formulated policies to handle aviation-related environmental issues.

Mitigation: Carbon emissions trading adopted by New Zealand document holders reflects the government's Emissions Trading Scheme ("Projects to Reduce Emissions or PRE") is managed by the Ministry for the Environment. The CAA supports the government's scheme for the aviation sector.

*Following are external risks that were not identified prior to July 2007, but were identified and managed accordingly during the 2007/08 financial year:*

#### 6. SENIOR PILOTS FOR COMMERCIAL OPERATIONS

The shortage of senior pilots for commercial operations is a global aviation industry problem. In New Zealand, senior pilots in the general aviation sector (specifically those from Rule Part 119/135, charters, flying schools and to some extent Rule Part 137 agricultural operators) are heavily recruited by airlines.

Risk: Small operators are experiencing difficulty in maintaining satisfactory experience standards for Chief Pilot appointments. If not addressed, safety of Rule Part 119/135 (air operator certification/air operations-helicopters and small aeroplanes), or Rule Part 137 (agricultural aircraft operations) and Chief Flying Instructors in Rule Part 141 (aviation training organisations) is at risk.

Mitigation: To address this problem, the CAA conducted training workshops for “Senior Persons Responsible for Air Operations” for organisations holding Rule Part 119/135, air operator certification/air operations-helicopters and small aeroplanes, or Rule Part 137, agricultural aircraft operations, and Chief Flying Instructors in Rule Part 141, aviation training organisations, certificated (and potential) organisations.

## 7. FLIGHT TRAINING ACTIVITY

The very significant growth in flight training activity in recent years is putting considerable pressure on the civil aviation system.

Risk: The growth in flight training activity increases potential risks on safety and quality of training being delivered in certain areas.

Mitigation: To encourage responsible action by industry, the CAA is working on the introduction of requirements for pilot training by organisations certificated to Rule Part 141; aviation training organisations – certification, and increased surveillance of the flight-training sector; and English language proficiency testing before the pilot goes solo.

## 8. INADEQUATE COMMUNICATION

As a result of a number of global aviation accidents in which inadequate communication has been a contributing factor, ICAO introduced a requirement for English Language proficiency testing for pilots and Air Traffic Controllers.

Risk: Increased aviation accidents and incidents due to language miscommunication between pilots and air traffic controllers.

Mitigation: In response to the ICAO requirement, beginning 08 May 2008, all new applications in New Zealand for a Private Pilot Licence (PPL), Commercial Pilot Licence (CPL), or an Airline Transport Pilot Licence (ATPL) are required to include evidence that the applicant has demonstrated English Language Proficiency (ELP) to at least the Level 4 standard prescribed by the ICAO.

### 8.2 MANAGING OUR INTERNAL RISKS

*Following are internal risks and corresponding mitigations that were identified prior to July 2007 and reflected accordingly in the CAA's 2007/10 Statement of Intent:*

## 9. FINANCIAL

Over the last few years, the CAA has retained surpluses in order to build an appropriate level of taxpayer equity and ensure that adequate resources for the oversight or management of any significant unforeseen safety or security events are achieved. The target taxpayer equity level has been reached. However, the CAA is heavily dependent on the revenue it receives through passenger safety levy imposed on domestic and international operators through the Civil Aviation (Safety) Levies Order 2002.

Risk: Revenues from aviation safety levy, and fees and charges are not sustainable to finance additional ICAO requirements for the implementation of corrective actions following ICAO's safety and security audits, rising personnel costs, and provision of a satisfactory workplace for staff. Insufficient revenue increases the risk of lack of funding for the CAA.

Mitigation: The CAA successfully sought \$500k of government funding for 2008/09 and out years for its Policy and International Relations work. The CAA has started to review the aviation safety levy, fees and charges (in collaboration with the Ministry of Transport). The CAA is currently reviewing the basis and the objectives of the aviation safety levy, and fees and charges. The report is expected by the Minister in June 2009 as stated in the Minister's 2008/09 *Letter of Expectation to the Authority*.

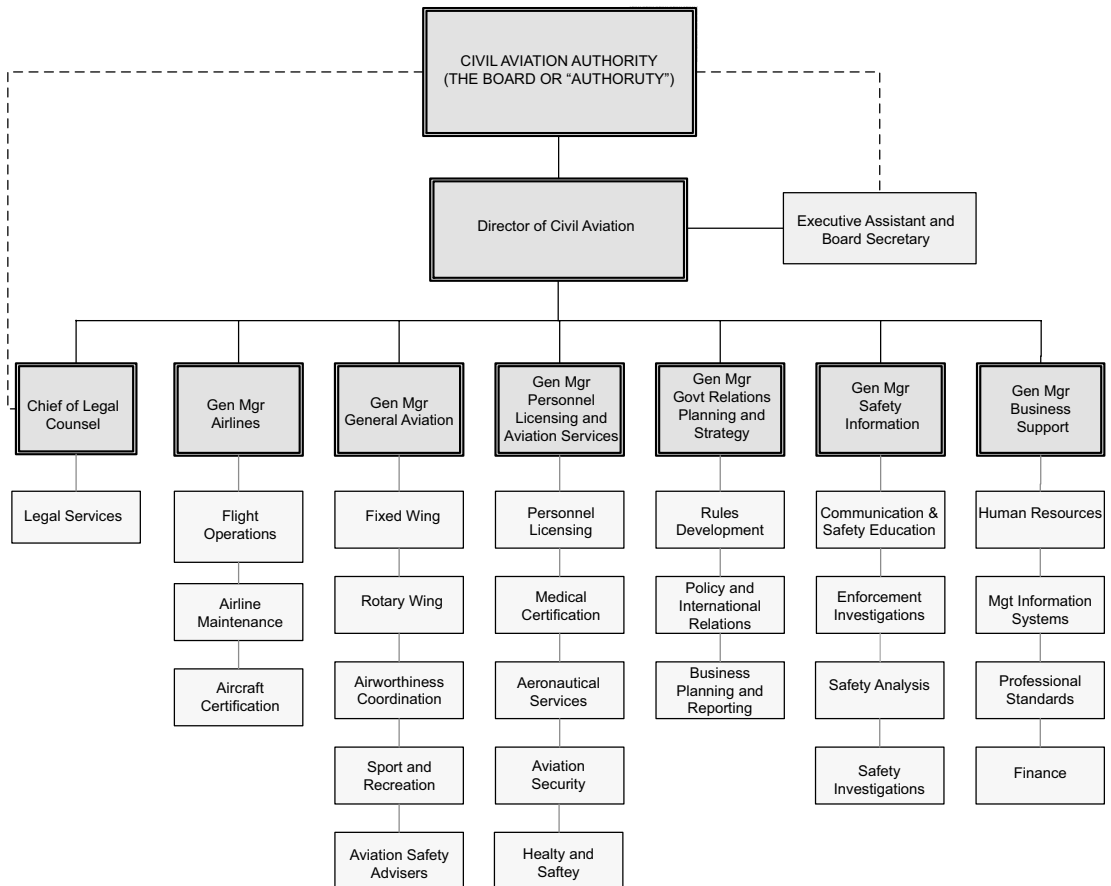
### 10. ORGANISATIONAL STRUCTURE

One of the recommendations from Phase 1 of the Capability and Resources Review undertaken by PriceWaterhouseCoopers was a change in the organisational structure to ensure that it best supports the strategic goals of the CAA through:

1. streamlining the existing structure; and
2. maintaining the industry-based focus but institute a business support group that knits the organisation together and promote consistency of approach.

**Risk:** Prior to July 2007, the structure was industry-based but had several shortcomings. Findings from PriceWaterhouseCoopers Review indicated that the CAA had a large number (11) of direct reports to the Director of Civil Aviation, which, according to the Review, was too many for effective accountability; the location of some functions appeared to create unnecessary disconnections within the organisation; there were multiple reporting lines which added complexity and diminished transparency and accountability; and the ratio of managers (34) to total personnel (180) indicated a management-heavy structure. The previous structure was unlikely to promote optimal organisational effectiveness of the CAA.

**Mitigation:** The Authority directed the interim Director of Civil Aviation to carryout a restructuring of the CAA. From the inputs of CAA staff, the Authority, and Review findings; the structure was streamlined without losing the advantages of the industry-based focus. The CAA's new structure took effect in July 2007 with a new Director of Civil Aviation, six General Managers, and Chief Legal Counsel. The executive management have complementary experiences, knowledge, and skill to make the CAA an effective and efficient Crown entity.





## 9 PROGRESS REPORT ON OUR WORK PROGRAMMES

In 2007 /10 Statement of Intent, the CAA had important work programmes that supported the overall advancement of the organisation through contribution to various strategic goals and outcomes. These programmes enhanced the CAA's service delivery for the expected benefit to the travelling public and aviation stakeholders. Progress on these programmes is as follows:

### 9.1 IMPLEMENTATION OF RECOMMENDATIONS FROM PHASES 1 AND 2 OF THE CAPABILITY AND RESOURCES REVIEW

- Description:** Phase 1 (the objective was to identify the capability and resources needed to enable the CAA to fulfil its statutory objectives and functions efficiently and effectively) and a scaled back version of Phase 2 (the objectives were to provide assurance that there is alignment between the costs associated with the CAA activities and the funding received in relation to those activities; and to provide assurance that costs are being recovered from those who give rise to the need for the CAA's activities and outputs) Review were completed in December 2006 and June 2007 respectively by PriceWaterhouseCoopers.
- Impact:** The review assessed the extent to which the CAA is focused on its statutory responsibilities, whether the CAA has the right level and mix of capabilities and resources to discharge its responsibilities, and the investment in capability and resource that is required, if any, to enable the CAA to operate efficiently and effectively.
- Progress:** Implementation of Phase 1 recommendations started in July 2007 and is projected to be completed in 2010. Expanding on Phase 2, the CAA is currently reviewing the basis and the objectives of the aviation safety levy, and fees and charges. The report is expected to the Minister in June 2009 as stated in her 2008/09 Letter of Expectation to the Authority.

<b>STATUS REPORT SUMMARY, 30 JUNE 2008</b>				
<b>IMPLEMENTATION OF RECOMMENDATIONS FROM PHASE 1 OF THE CAPABILITY AND RESOURCES REVIEW</b>				
<b>CRITICAL ELEMENT</b>	<b>NUMBER OF RECOMMENDATIONS</b>	<b>STATUS</b>		
		<b>COMPLETED</b>	<b>ONGOING</b>	<b>NOT STARTED</b>
1. Alignment with statutory responsibilities	1		1	
2. Strategic management	5		3	2
3. Leadership	3		2	1
4. Culture	6		4	2
5. Structure	2	1	1	
6. Management practices	10		4	6
7. Operational practices	7	4	2	1
8. Systems and technology	4		4	
9. Resource implications	2			2
<b>TOTAL</b>	40	5	21	14
	100%	12.5%	52.5%	35.0%

## 9.2 REVIEW THE CURRENCY AND EFFECTIVENESS OF OUTPUT CLASSES AND OUTPUTS

Description: The CAA's output classes and outputs have been in-place for more than ten years and there is a need to review to ensure that these are still effective and current.

Impact: Optimisation of CAA resources and capabilities.

Progress: The project was not started in 2007/08 and is on-hold for the time being.

## 9.3 BUSINESS RISK MANAGEMENT PROJECT

Description: A project to establish a new business risk management framework that clearly supports business risk management policies by establishing a process of identifying, assessing, and monitoring operational business and strategic risks.

Impact: Access to real-time computer-based decision information for management covering the guided assessment of risk in terms of likelihood and consequence, and identification of mitigation options, residual risks and corresponding management.

Progress: This project was renamed Corporate Risk Management System with an estimated completion date of 30 June 2009.

## 9.4 IMPLEMENTATION OF CORRECTIVE ACTION FOLLOWING ICAO SAFETY AND SECURITY AUDITS

Description: A project to implement corrective actions identified following the ICAO USAOP ([http://www.icao.int/fsix/AuditReps/CSAcomments/Newzealand\\_en.pdf](http://www.icao.int/fsix/AuditReps/CSAcomments/Newzealand_en.pdf)) and USAP audits of New Zealand on 14-24 March 2006 and 18-28 September 2006 respectively.

Impact: Adherence by the CAA and the New Zealand civil aviation rules system to the technical annexes of the Chicago Convention, such that New Zealand complies with international aviation safety and security standards.

Progress: Implementation of corrective actions that are within the statutory role and responsibilities of the CAA started in early 2007 and are estimated to be completely resolved not later than 2009/10. Of the 61 findings, CAA proposed 138 corrective actions of which 59 (43%) had been completed as at the 30<sup>th</sup> of June 2008, 63 (45%) are still ongoing and 16 (12%) have not been started (refer to Section 6.3 for the updated status of corrective action plans).

## 9.5 IMPLEMENTATION OF RECOMMENDATIONS OF THE OFFICE OF THE AUDITOR GENERAL ON ITS REVIEW OF THE CAA'S CERTIFICATION AND SURVEILLANCE FUNCTIONS

Description: The OAG released its report on CAA Surveillance and Certification in June 2005 and made ten recommendations for improvements in the CAA processes (refer to <http://www.oag.govt.nz/2005/caa/> for the full report).

Impacts: Three projects (surveillance, certification, and risk assessment and intervention) were completed and implemented in 2007.

PROJECTS	IMPACTS
Surveillance process	Improved auditor productivity and effectiveness, streamlined the implementation process both on and off-line, and increased the quality of information on audits and clients. The surveillance system allows the safety performance of every aviation operator to be scored based on the level of safety risk they pose to the public.
Risk assessment and intervention	Increased the ability of the CAA to assess both the sector and client safety risk. It provides robust decision information for the CAA management of surveillance programme and development, and specific safety risk assessment initiative.
Certification policy and procedures	Achieved a satisfactory solution in the exercise of entry control functions. The system developed is user-friendly with improved automated solutions, rule-based, interfaces with the surveillance system and it delivered and improved management, and integrated quality assurance system.

Progress: All ten OAG recommendations were completed and implemented by the CAA in 2007/08 with the integration of Certification, Surveillance, Risk Assessment, and Intervention projects. The Quality Index (QI) is replaced with an operator's risk profile on audit reports. It is expected that the OAG will conduct a follow-up review of the ten recommendations in late 2008.

*During the year, there was a government-directed project, which was not listed in the CAA's 2007/10 Statement of Intent, to review New Zealand's domestic aviation security.*

## 9.6 DOMESTIC AVIATION SECURITY REVIEW

Description: Following the attempted hijacking on 2 February 2008, the government directed officials to undertake a review of domestic aviation security in New Zealand for air operations that are covered under Rule Part 121 (air operations – large aeroplanes) and 125 (air operations – medium aeroplanes). (Refer to [www.caa.govt.nz](http://www.caa.govt.nz) or [www.transport.govt.nz](http://www.transport.govt.nz))

Impact: Increased domestic aviation security.

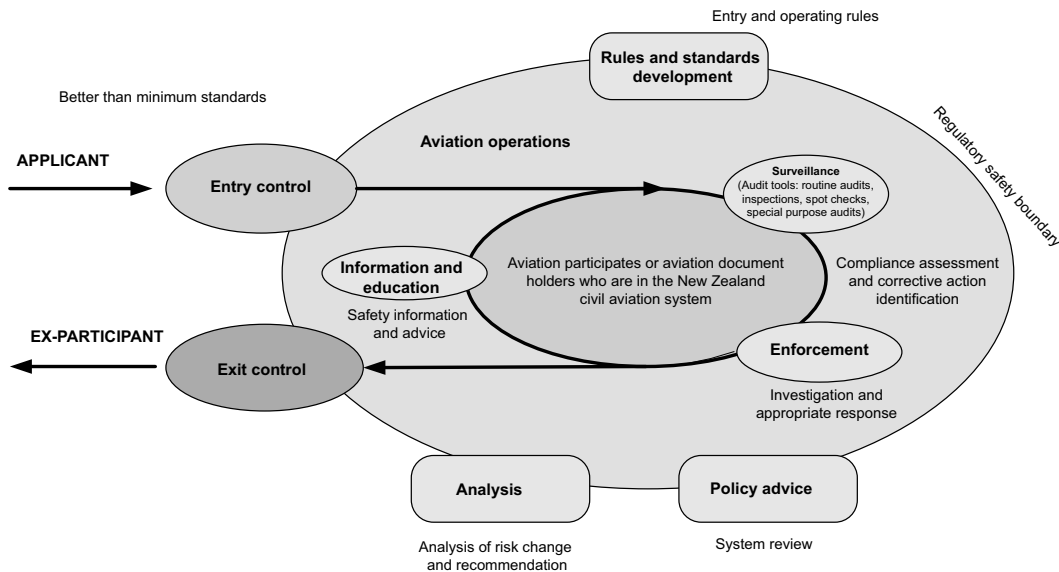
Progress: This review is ongoing. The Security Rules Update project will review the requirements for New Zealand's airport identity card regime and other security issues including proposals from the Domestic Security Review, subject to Cabinet decisions in July 2008<sup>5</sup>.

<sup>5</sup> Still awaiting Cabinet decision.

## APPENDIX 1: CAA SENIOR MANAGEMENT TEAM AND DIRECTORY

Director of Civil Aviation	Steve Douglas
General Manager, Airlines	Mark Hughes
General Manager, General Aviation	John Lanham
General Manager, Personnel Licensing and Aviation Services	Graeme Harris
General Manager, Government Relations, Planning and Strategy	Simon Clegg
General Manager, Safety Information	John Kay
General Manager, Business Support	Tim Bowron
Chief Legal Counsel	Leslie MacIntosh
National Office	Aviation House, 10 Hutt Road, Petone P.O. Box 31 441, Lower Hutt, New Zealand Tel: + 64-4-560 9400 Fax: +64-4-569 2024 E-mail: <a href="mailto:info@caa.govt.nz">info@caa.govt.nz</a> Web: <a href="http://www.caa.govt.nz">www.caa.govt.nz</a>
Airport offices	Auckland and Christchurch
Auditor	Audit New Zealand on behalf of the Auditor General
Solicitors	Crown Law Office
Bankers	Westpac Banking Corporation
Insurance Brokers	Marsh Limited

## APPENDIX 2: REGULATING THE NEW ZEALAND CIVIL AVIATION SYSTEM



### ENTRY

Aviation participants enter the civil aviation system when they have met the minimum standards and are issued with the relevant aviation document(s).

### OPERATION OR PARTICIPATION

While in the system, aviation participants must continue to operate in compliance with civil aviation standards and conditions of their documents. The CAA conducts functional supervision of participants operating in the civil aviation system through various tools of surveillance (e.g. routine audits and inspections, spot checks, special purpose audits). The CAA checks the participant's adherence to civil aviation rules and standards, and identifies any corrective actions necessary to bring their performance to the required standards. The CAA and participant agree on specific implementation dates for corrective actions. Failing to implement corrective actions invokes firm regulatory action from the CAA.

It is expected that participants should:

1. ensure that the appropriate aviation documents and all the necessary qualifications and other documents are held by that person or organisation;
2. fully understand the roles and responsibilities attached to their aviation document(s);
3. comply in full with the Civil Aviation Act 1990 and civil aviation rules, including Health and Safety in Employment Act 1992 and its regulations;
4. establish and follow documented safety and security standards and procedures;
5. demonstrate a commitment to safe and secure practices within their organisation so as to maintain compliance with the relevant safety and security standards and conditions attached to their aviation document(s);
6. report all safety (including health and safety in employment) and security occurrences to the CAA; and
7. implement all corrective actions required by the CAA at established due dates.

When a document holder's performance falls below the standard, the CAA seeks compliance in regaining the required level of performance. The CAA identifies areas of non-compliance via findings from its audits and inspections, and a return to an acceptable level of performance is managed through corrective actions and follow-up.

## EXIT

Aviation participants exit the civil aviation system, either voluntarily by surrendering their aviation documents or the CAA's decision to suspend or revoke the document. The CAA takes exit actions in the interests of safety and security when other regulatory tools have failed or are unacceptable.

The Director of Civil Aviation exercises his powers, when necessary to:

1. impose conditions for a specified period;
2. withdraw any conditions;
3. suspend any aviation document for a specified period;
4. revoke or partially revoke any aviation document under section 18 of the Civil Aviation Act 1990; and
5. impose permanent conditions under section 18 of the Civil Aviation Act 1990.

A person of whom a specified decision is taken may appeal against that decision to a District Court under section 66 of the Civil Aviation Act.

# Part 2: Aviation Security Service

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*Kaiwhakamaru Rererangi*

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## 10 FOREWORD FROM THE GENERAL MANAGER OF AVSECURITY SERVICE

I acknowledge the considerable input that management and staff have made to Avsec over the past twelve months.

### INTRODUCTION

Our prime focus is on making aviation transport more secure so that travellers and markets can be confident of getting to destinations and that New Zealand remains an attractive destination.

The aviation environment is changing at a rapid rate. The move to larger aircraft (e.g. A380s which carry some 600 passengers) and the huge increase in the low-cost airlines mean that Avsec has to be very proactive and responsive to the changing environment. In addition the rapid growth of developing nations such as China and India is also expected to have a significant impact on global aviation, with greater numbers of people flying. The aviation industry has also become very responsive to the global increase in fuel and economic meltdowns which are impacting on passenger travel, aircraft scheduling and route changes.

We are also operating in a security environment that is becoming increasingly sophisticated – more standards from the International Civil Aviation Organization (ICAO) and increasing requirements from other countries of which Avsec has to be mindful. There is a clear ongoing expectation by government for a whole-of-government approach to issues which means Avsec has to work even more closely with its colleagues in understanding threats and implementing mitigations.

The continuing speed of change is a significant challenge to Avsec. Relatively fast introductions of new regimes such as Liquids, Aerosols and Gels (LAGs) are becoming the norm. Avsec has developed the capability to respond swiftly and effectively to the changing environment.

The commencement of Virgin Pacific Blue domestic flights within New Zealand, from 15 November 2007, was smooth and did not have any significant impact on Avsec's operations or screening activities and did not require any significant additional resourcing.

During 2007/08 Avsec successfully bid for capital expenditure funding of \$14.88 million for the 2008/11 financial periods. In addition, approval is held from the Minister of Finance for Avsec to enter into finance leases for the purchase of specialised screening equipment for which the aggregate is not to exceed \$30 million by 2010. The successful capital bid provides Avsec with certainty for the next three financial years in its major capital expenditure programme, especially in the replacement of specialised screening equipment, which is nearing the end of its useful life.

### A YEAR IN HIGHLIGHTS

During the year we placed a considerable focus on planning for the development of the organisation over the next five years and beyond as well as furthering the strategic goals and activities set out in the 2007/10 Statement of Intent. In particular, significant areas where those strategic goals and activities have been progressed by Avsec include:

- A strong contribution to the development of new aviation security legislation, which was enacted in October 2007. All operational staff have been trained in the new processes and requirements of the new legislation.
- Following the enactment of the *Aviation Security Legislation Bill* during the 2007/08 financial year Avsec has:
  - o developed policies and procedures for an enhanced background checking process for airport identity cards; and

- o implemented proportional screening of airport workers.
- The new LAGs aviation security measures were introduced at all New Zealand international airports on 31 March 2007, necessitating the recruitment, and training of an additional 184 full-time and part-time staff. The implementation was subject to an intensive communications programme with the aviation industry and international passengers. At the request of airlines Avsec has ceased its assistance in check-in queues to departing international passengers re the new Liquids, Aerosols, and Gels (LAGs) security requirements.
- Explosive Trace Detection equipment became fully operational at international airports during November 2007.
- Working with the Ministry of Transport, CAA, DPMC, and NZ Police on the review of domestic aviation security. A key issue for Avsec, should increased screening / security at regional airports be required, will be ensuring there is an appropriate regulatory environment in which we might work. In the interim, Avsec has assisted in training regional airports and airline staff in security basics.
- Working with the Ministry of Transport and government border agencies (Customs, MAF-Bio-security, and Labour-Immigration) as part of the Border Sector Co-ordination Project.
- Implementation of Avsec's new leadership development programme for senior operational staff which ensures Avsec staff are trained and competent to deliver Avsec's business, and mentor and coach other operational staff. The programme was developed following the training review undertaken in 2006.
- Assisting Pacific countries in the development and enhancement of their aviation security functions. Such activity, which includes training, planning, equipment provision and coordination, is funded through the MFAT Pacific Security Fund. Avsec also continues to have a close relationship with its Australian government colleagues.
- Avsec's current two-year Collective Agreement expired on 30 June 2008. The union parties to the Agreement are PSA (Northern Region), EPMU (Central Region), and NUPE (Southern Region). Planning for the new Collective negotiations commenced during 2007/08 and formal negotiations commenced in the first quarter of 2008/09<sup>6</sup>.
- With the assistance of the Ministry of Transport, Avsec consulted with the airlines (BARNZ) on the review of the international and domestic passenger security charges. The review process involved analysis, consultation and regulation setting phases and the new passenger security charges became effective from 13 December 2007.
- The Cabinet decision to increase international and domestic passenger security charges also recommended that Avsec review its operations and level of efficiency. An internal efficiency review is currently underway and should be completed during the second quarter of 2008/09.
- As part of the working party arrangements, agreed to in the 2006/08 Collective Employment Agreement, Avsec has commenced a survey of all staff to determine preferences for the uniform worn by all operational staff. A representative review group will be established to implement any changes arising from the survey.
- Involved in rental negotiations with individual airports covering both regulatory and non-regulatory space that it occupies. Settlement has now been substantially concluded with all airports.
- Avsec reached agreement with the Treasury over the application and methodology of the Crown capital charge being levied upon Avsec net assets in order to address industry concerns about Avsec operating surpluses (memorandum accounts balances) being subject to the capital charge. It has been agreed that the capital charge will not apply in the domestic and international memorandum account balances.

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<sup>6</sup> Subsequent to balance date, Avsec and the Combined Unions successfully negotiated a three-year Collective Agreement to commence 1 July 2008.

- Following the review of superannuation options for our employees in 2006/07 Avsec decided the KiwiSaver option, with the benefits offered in the May 2007 budget, provided a simple and efficient solution in assisting employees to provide for their retirement. Avsec appointed a preferred KiwiSaver provider and all staff were provided information and workshops to aid them in understanding the options available to them during the lead-up period to the implementation of KiwiSaver on 1 July 2007. Avsec is contributing to KiwiSaver at an accelerated rate and 85% of the staff are now enrolled in KiwiSaver.

## CONCLUSION

Avsec remains firmly committed to working proactively with key stakeholders and security partners in providing security in the international and domestic air transportation system.

In fulfilling its mandate, Avsec will also be aligned to the key objectives of the *New Zealand Transport Strategy*, the Government's transport sector theme of "economic transformation" and embracing the *State Sector Development Goals*.



**MARK EVERITT**

**General Manager - Aviation Security Service**

# 11 OVERVIEW OF THE AVIATION SECURITY SERVICE

## 11.1 WHO WE ARE

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

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

The organisation is the public face of aviation security in New Zealand and its activities and mandate provide confidence and security to the travelling public and the aviation transportation industry.

Avsec has experienced substantial growth in the last five years as it has responded to real and emerging threats against the aviation industry, and now has a complement of approximately 826 employees at 30 June 2008. It operates at eight New Zealand airports and has a small National Office based in Wellington.

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

## 11.2 OUR AVIATION SECURITY MANDATE

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

### 1. Screening passengers and their carry-on baggage

Avsec is responsible for pre-board screening at eight designated airports<sup>7</sup>. 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 allowed quantity of liquids, aerosols and gels (LAGs) into the cabin of the aircraft.

### 2. Screening checked baggage

Utilising sophisticated explosive detection equipment, Avsec screens all checked passenger baggage at international airports for threat items.

### 3. Airport access controls

Avsec undertakes perimeter patrols at security designated aerodromes, together with guarding of aircraft and aircraft searches, to ensure the prompt interception of persons unlawfully in security areas and increased safety for the flying public.

### 4. Screening airport workers accessing security enhanced areas at international airports

Screening of airport workers with access to, and within enhanced security areas.

### 5. Managing and enhancing the airport ID Card system for access to restricted airside areas

By delegated authority from the Director of Civil Aviation, Avsec issues airport identity cards.

<sup>7</sup> 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.

### 11.3 OUR QUALITY MANAGEMENT PHILOSOPHY

The quality management philosophy is a significant driver of Avsec's business. It is a culture and principle that is embedded in the way we conduct our business, our approach to aviation security, staff training and our operational policies and procedures. Reflecting its commitment to quality management, Avsec has:

1. certification to ISO 9001:2000 (the first aviation security organisation to achieve this standard);
2. full internal audit capability within the organisation, both at national and regional level;
3. developed an exposition document (Policy and Procedures Manual), which meets Civil Aviation Rules Part 140 requirements and is approved and audited by the CAA;
4. established systems for reviewing and amending procedures; and
5. an established Quality Council, which consists of Avsec's Executive Management team and Senior Operations Managers.

Avsec's quality management policies and procedures are under constant review and are tested on a continuous basis against well-defined and measurable performance measures.

The organisation's quality management is also subject to an intensive annual recurrent audit regime, both internally and externally. Each airport that Avsec operates from is subject to two quality audits each year and each national management function is subject to one annual internal audit. These audits are also supplemented by the monthly audits undertaken by Regional Quality Officers at each airport. External audits of airports and key aviation security processes are also undertaken on a recurrent basis by the CAA.

During 2007/08 Avsec was subject to an annual Verification Surveillance Audit against the ISO 9000 specifications.

Avsec provides assistance in the development of quality systems and training in the South Pacific to ensure those nations can enhance their quality management and audit capability.

### 11.4 OUR OPERATING ENVIRONMENT

#### STATUTORY ENVIRONMENT

Under the *Crown Entities Act 2004*, the Civil Aviation Authority (the Authority) is designated as 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*. In addition, the *Maritime Security Act 2004* provides 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. The members are appointed for terms up to three years. It reports to the Minister of Transport.

#### INTERNATIONAL ENVIRONMENT

New Zealand is a signatory to the International Civil Aviation Organization (ICAO) Annex 17 to the Chicago Convention – Standards of Recommended Practices – Security – Safeguarding Civil Aviation against Acts of Unlawful Interference.

ICAO, the United Nations specialist aviation agency, has a significant impact on the development of aviation standards and practices within New Zealand. ICAO expects the 190 member states to adopt its standards and encourages them to adopt its recommended practices.

For New Zealand to continue to participate in international air transport it is essential that it meets the requirements imposed on states by Annex 17. The security obligations under the annex fall into three categories:

1. government administrative procedures, policy development, legislative and regulatory actions;
2. implementation of security procedures, practices and requirements by airline operators, air service providers, cargo, courier and mail agencies and other sections of the industry; and
3. direct preventative measures, incident prevention and response, and legal enforcement action.

The mandatory and recommended practices set by ICAO are reflected in New Zealand's National Aviation Security Programme (NASP) administered by the CAA. Under this regime each Contracting State is required to establish and implement a written national civil aviation security programme and make the appropriate parts of it available to all airports, aircraft operators and other entities with a role to play in the implementation of the programme.

The objective of the NASP is to protect the safety, regulation and efficiency of international civil aviation by providing, through legislation, practices and procedures, safeguards against acts of unlawful interference.

In addition, some States, such as the United States and Australia, periodically set higher levels of security on airlines entering their airspace. This impacts on New Zealand, as additional security measures need to be applied at airports from which flights to those destinations depart.

It is through the co-ordinated operational discharge of all of the above obligations and requirements that Avsec safeguards civil aviation against acts of unlawful interference.

## GLOBAL AVIATION SECURITY OPERATING ENVIRONMENT

The aviation sector continues to remain a potential target for terrorists. The threat target is continually changing and includes both aircraft and airport infrastructure.

The aviation security industry must continue to enhance its capability of not only detecting and deterring threats to aviation, but also responding effectively and efficiently to an event and recovering quickly afterwards.

ICAO continues to develop and recommend new international standards and when adopted by member states, they are reflected in enhanced global aviation security practices. In addition individual countries and airlines are introducing additional security requirements.

Avsec remains firmly committed to working proactively with key stakeholders and security partners in providing security in the international and domestic airport system.

## AVSEC'S OPERATING ENVIRONMENT

Avsec activities include the screening of international passengers and their hand and hold baggage for prohibited items, screening of domestic passengers and their hand baggage on aircraft of 90 seats or more, aerodrome access control, non-passenger screening at international airports, aircraft searches and the patrolling of the security areas of security designated airports.

The National Aviation Security Programme, the *Civil Aviation Act 1990* and Rule Part 140 form key domestic regulatory guidance for Avsec activities.

Avsec's key stakeholders are airlines, airports, the flying public, trade enterprises and the government of the day.

- **Pacific Activity**

An element of Avsec's approach to the management of New Zealand's aviation security risks involves aviation security assistance to the South Pacific. Such activity is generally funded through the Ministry of Foreign Affairs and Trade Pacific Security Fund.

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

Avsec's key activity with Pacific aviation security providers consists of quality systems development, training, equipment provision and maintenance, and assistance with planning and strategic direction.

- **Maritime Security**

In 2002 the International Maritime Organisation, of which New Zealand is a member State, mandated a new international maritime security regime, with effect from 1 July 2004. The impact on New Zealand has been significant, given the number of ports and the country's reliance on shipping trade and the cruise ship industry.

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

## 12 PROGRESS REPORT ON OUR STRATEGIC OUTCOME

**OUR DESIRED OUTCOME: A MORE SECURE NEW ZEALAND CIVIL AVIATION SYSTEM.**

### 12.1 PROGRESS AGAINST OUR OUTCOME MEASURES

Avsec's progress and performance against the desired outcome is assessed through:

OUTCOME MEASURES	PROGRESS AND PERFORMANCE DURING 2007/08
1. Avsec successfully meeting all international and other regulatory obligations.	<ul style="list-style-type: none"> <li>• All ICAO standards complied with.</li> <li>• All current New Zealand regulatory requirements complied with.</li> </ul>
2. Ongoing feedback from stakeholders.	<ul style="list-style-type: none"> <li>• Response from passenger surveys, meetings with Ministers and other stakeholders.</li> <li>• Regulatory and other audit findings responded to with urgency.</li> </ul>
3. Ongoing benchmarking of some key performance indicators against the Canadian Air Transport Security Authority (CATSA).	<ul style="list-style-type: none"> <li>• Participation on a CATSA-led working group to share "best practice" in performance management and measurement.</li> </ul>

### 12.2 OUR IMPACTS

To contribute to achieving the desired outcome, Avsec has created the following impacts, which are aligned to the respective goals of the *New Zealand Transport Strategy*.

#### 1. Assisting economic development:

- economic growth, tourism and trade are enhanced through a robust and effective aviation security system;
- users of aviation security services are familiar with the cost of providing the services;
- the aviation security sector is increasingly co-ordinated and resilient in terms of significant security events; and
- Avsec is recognised and respected for adding value to the transport sector.

#### 2. Assisting safety and personal security:

- acts of unlawful interference within aircraft at security designated airports and aviation installations are prevented;
- in-flight security offences against the *Aviation Crimes Act* are prevented;
- airside security offences against the *Aviation Crimes Act* are prevented;
- introduction of dangerous goods into aircraft is prevented;
- Avsec has a recognised highly rated international reputation of providing New Zealand's aviation security system; and
- Avsec's operational aviation security regime is aligned with international, regulatory and treaty requirements.



### 3. Improving access and mobility:

- the aviation security function facilitates lawful access by airport workers to appropriate areas of the airport.

### 4. Protecting and promoting public health:

- application of best practice health and safety standards in the selection and operation of security equipment to protect public and staff health; and
- Avsec is prepared for a pandemic response.

### 5. Ensuring environmental sustainability

- Avsec's activities contribute to reducing negative impacts on the human and natural environments.

## 12.3 PROGRESS AGAINST OUR IMPACTS

The table below shows Avsec's performance against the three high-level target impact measures that were set in the 2007/10 Statement of Intent:

SAFETY AND SECURITY IMPACTS	PERFORMANCE TARGET	PERFORMANCE ACHIEVED
<b>No in-flight security incidents</b>	To achieve a nil rate of in-flight security incidents involving offences against the Aviation Crimes Act 1972, on board aircraft which the Aviation Security Service has screened.	<b>Achieved. No in-flight security incidents.</b>
<b>No airside security incidents</b>	To achieve a nil rate of airside incidents involving offences against the Aviation Crimes Act 1972 at security designated aerodromes where the Aviation Security Service operates.	<b>Achieved. No airside security incidents.</b>
<b>No dangerous goods introduced into aircraft</b>	To achieve a nil rate of airside incidents involving the introduction of dangerous goods into aircraft which the Aviation Security Service has screened.	<b>Achieved. No dangerous goods introduced into aircraft.</b>

## 12.4 PROGRESS REPORT ON OUR SHORT AND LONGER TERM WORK PROGRAMMES

Avsec's principal operational strategies are underpinned by the following key project activities that were identified for the 2007/08 financial year. Progress in undertaking the activities during 2007/08 is also highlighted.

A. NATIONAL STRATEGIC OPERATIONAL ACTIVITY	
ACTIVITIES	PROGRESS DURING 2007/08
1. Providing input, as part of a consultative group, to assist CAA in its development of a new Rule, Part 109, relating to air cargo security. The rule will be progressed when the new aviation security legislation is enacted later in 2007.	Avsec assisted in policy development and consultation on this Rule, which will be implemented during 2008.
2. Development of an in-depth model to identify the processes, resources and costs in undertaking air cargo security on international passenger aircraft at various percentages or levels of screening. Operational policies and procedures will also be developed to support the air cargo security process.	Scenario and base modelling completed.
3. National review of Avsec's uniform requirements.	Project scoping and consultation with Unions completed. Survey of all Avsec staff commenced early 2008/09.

<b>A. NATIONAL STRATEGIC OPERATIONAL ACTIVITY</b>	
<b>ACTIVITIES</b>	<b>PROGRESS DURING 2007/08</b>
4. Review and redevelopment of scenario modelling for maritime security at both Auckland and other New Zealand ports.	Completed.
5. Multiple South Pacific project activities that will contribute to New Zealand's aviation security and assist aviation security development in these countries.	2007/08 programme completed.
6. Implement any changes in the ID card process resulting from the enactment of the Aviation Security Legislation Bill.	Completed
7. The identification of the processes, resources and costs in undertaking proportional screening of airport workers at security designated airport locations following enactment of the Aviation Security Legislation Bill.	Completed.

<b>B. CAPABILITY ENHANCEMENT AND DEVELOPMENT ACTIVITY</b>	
<b>ACTIVITIES</b>	<b>PROGRESS DURING 2007/08</b>
1. Implementation of the recommendations arising from the recent review of Avsec's training needs and national staff IT training.	2007/08 programme completed.
2. Further development and implementation of Avsec's communication strategy, targeted at both internal and external stakeholders, with research and roll-out of video conferencing technologies to enhance communications between stations.	Some aspects completed.
3. Phased rollout and deployment of new generation x-ray baggage inspection system to replace Avsec's existing equipment.	2007/08 programme completed.
4. Creation of Avsec / Combined Union working parties involving health and safety, relationship issues, remuneration, uniform review and superannuation. The activity will include implementation of key recommendations.	Working parties operational.
5. Research and development of an organisation brand to ensure Avsec's image encourages pride and job satisfaction.	Good progress made.
6. Provision of an improved intelligence gathering and dissemination unit that provides quality information to key business units.	Project behind time and scheduled to be operational 2008/09.
7. Enhancement to Avsec's existing statistical gathering and incident reporting system.	Project behind time and scheduled to be operational 2008/09.
8. 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.	Draft review completed. Project scope increased and due for completion 2008/09.
9. Review of Avsec's records management, electronic data management, filing, hard copy, storage and disposal processes to comply with the Public Records Act.	2007/08 programme completed.
10. Implementation of enhancements to Avsec's in-house payroll function to meet all internal and external requirements.	2007/08 programme completed.
11. Evaluation and deployment of the new Microsoft operating system and Microsoft Office Suite and related technologies throughout the organisation and the enhancement of existing specialist in-house software packages, reporting tools and platforms to ensure continuity and sustainability.	Project delayed.
12. Investigating the cost effectiveness and feasibility of consolidating current servers to two locations only.	Not completed.

<b>C. AIRPORT LOCATION ACTIVITY</b>	
<b>ACTIVITIES</b>	<b>PROGRESS DURING 2007/08</b>
1. Development and provision of a new or extended operations and administration base at Auckland Airport (due to increase in staff) and modifications to existing facilities at Christchurch, Palmerston North, Rotorua and Wellington Airports.	Auckland – in negotiation. Wellington – completed. Palmerston and Rotorua – on hold.
2. Activity specific to Auckland Airport's major development plan involves both the rollout of significant capital expenditure and staffing requirements:  a) construction of Pier 2 at the international terminal will require an additional four screening points, and is likely to consider wider options including gate lounge screening;  b) planning for six new domestic screening points in the redeveloped domestic terminal with an interim two screening points in both 2009 and 2010;  c) planning for the establishment of two additional gatehouses at the airport in 2008/09 and 2009/10 requiring 24 hour and 16 hour access control respectively;  d) planning for a second screening lane at the Qantas domestic terminal; and  e) planning and rollout of two additional hold baggage screening lines in the international baggage hall commencing 2009/10, involving a substantial capital investment.	Some delays due to airport decisions.
3. Scenario planning for the potential introduction of new international and domestic jet operations from specific airport locations, including Invercargill, Whenuapai and Rotorua.	Scenario planning completed and under ongoing review.
4. Planning for the impact of Airbus 380 flights operating out of New Zealand.	Completed for 2007/08.

## 13 ORGANISATIONAL HEALTH AND CAPABILITY REPORT

### 13.1 OUR CAPABILITY PROFILE

Capability is the mix of resources, leadership, skills, systems, technologies and structures that Avsec needs to efficiently and effectively deliver the outputs that contribute to the achievement of key outcomes for the travelling public, and other key stakeholders with reference to government policy, statute and other regulatory requirements.

Since 2001 Avsec has experienced three significant growth phases (September 11, 2001, hold baggage screening and the new requirements for liquids, aerosols and gels), each arising principally from Avsec's response to international aviation security events or threats.

Each of these responses has added to the organisation's knowledge base and the development of a culture of responsiveness, professionalism, and innovation. As a result, Avsec is now an established and mature aviation security organisation with well-developed capabilities including:

1. disciplined culture with a high standard of integrity and credibility that is respected by stakeholders and the international aviation industry;
2. established organisation with a proven ability and expertise to respond to new, urgent or phased, security demands;
3. highly rated quality systems and procedures that are subject to robust external and internal audits by different agencies and internal management;
4. well-developed risk management system that identifies risk, assesses the likelihood and severity of the risk, and implements processes to mitigate the risk occurrence;
5. well-developed research and development capability embracing new and emerging technology;
6. highly-rated staff training facilities and programmes; and
7. continued policy engagement with government agencies and other Crown organisations.

### FOCUS ON THE STATE SECTOR DEVELOPMENT GOALS

Avsec's capability enhancements embrace the State Services Commission's Development Goals for the State sector.

In particular, Avsec's focus on the development goals aims to attract, retain, and foster high achievers; develop a strong knowledge culture; use technology to improve outcomes; encourage co-ordination and shared accountabilities with other agencies; enhance responsiveness and effectiveness and to strengthen the public trust in the State sector.

### OUR CAPABILITY INVESTMENT IN CAPITAL ASSETS

A significant component of Avsec's capability development is its research and development into new technologies, which results in the investment in new generation capital assets.

The aviation security industry is changing rapidly and new technologies are evolving which will enhance screening and detection processes. The proposed prospective capital expenditure ensures the continuous upgrade of our aviation security screening equipment, routine replacements of computer software and hardware including the acquisition of new items as staff numbers increase, and the provision of additional infrastructure (Auckland operational base and national office accommodation) and routine replacement.

During 2007/08 Avsec successfully bid for capital expenditure funding for the 2008/12 financial periods

of \$14.88 million. In addition, approval is held from the Minister of Finance for Avsec to enter into finance leases for the purchase of specialised screening equipment for which the aggregate is not to exceed \$30 million by 2010.

The successful capital bid provides Avsec with certainty for the next three financial years in its major capital expenditure programme, especially in the replacement of specialised screening equipment, which is nearing the end of its useful life.

### 13.2 PROGRESS REPORT ON OUR KEY CAPABILITY DEVELOPMENTS FOR THE NEXT FIVE YEARS

In the 2007/10 Statement of Intent Avsec identified the following key strategies for enhancing Avsec's capability **over a five year time period**. Progress in developing the capability during 2007/08 is also highlighted.

KEY CAPABILITY DEVELOPMENTS	PROGRESS DURING 2007/08
1. Research and development into new technologies that will enhance aviation security.	Ongoing activity undertaken by Avsec's procurement and research function.
2. Review of all current job descriptions, core competencies and selection and appointment processes to ensure Avsec has a competent and cost effective work force.	Role mapping and core competencies completed, together with revised job descriptions for all functions.
3. Programmed replacement of security equipment to ensure Avsec is at the leading edge of technology and mitigating risk to the travelling public.	Capital funding was secured and the programmed replacement of screening equipment is underway.
4. Development of a superior learning culture through learning and development, leadership development and teams.	Management Development Programme developed during period, following a comprehensive training review. Leadership training programmes for senior operations staff has been developed and implemented.
5. Research and development of an employee reward and recognition programme that is linked to Avsec's business objectives.	Ongoing activity. During the year Avsec was proactive in undertaking remuneration benchmarking in preparation for Collective Bargaining.
6. Further development of the organisation's aviation security reporting system, which captures all relevant statistical information relating to Avsec's performance, activity, and events.	User requirement specification completed and proposals from suppliers are being analysed.
7. Further development of intelligence-gathering and dissemination to provide an ongoing filter of information that provides quality information to key business units and assists in mitigating aviation security risk.	Project scoping completed. Development phase planned for 2008/09.
8. Ongoing review of the organisation's training needs and programmes to ensure training is meeting the needs of our people and is consistent with our key business objectives.	Following the implementation of the Leadership Development programme for senior operations staff, the programme is now being extended to embrace other operational and administrative staff.
9. Ongoing international benchmarking (where appropriate) of our performance and capability against other aviation security providers to ensure we continue to be recognised as a leading international aviation security provider.	Ongoing benchmarking with international counterparts, both directly and through working parties.

### 13.3 OUR GOOD EMPLOYER PROGRAMME

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

<b>SEVEN ELEMENTS OF BEING A GOOD EMPLOYER<sup>8</sup></b>	<b>AVSEC GOOD EMPLOYER POLICIES OR PRACTICES</b>
1. Leadership, accountability and culture.	<ul style="list-style-type: none"> <li>• Regular staff newsletters.</li> <li>• Intranet.</li> <li>• Regular Executive and Operations Management meetings (Including Avsec's Quality Council).</li> <li>• Various social activities.</li> <li>• Register of interests maintained.</li> </ul>
2. Recruitment, selection and induction.	<ul style="list-style-type: none"> <li>• Special recruitment days.</li> <li>• Vacancies advertised internally.</li> <li>• Relocation, transfer, and secondment assistance.</li> <li>• Basic training courses, induction programmes, and the on-job training.</li> </ul>
3. Employee development, promotion and exit.	<ul style="list-style-type: none"> <li>• Training and leadership development programmes.</li> <li>• Senior staff represent Avsec at international and domestic fora.</li> <li>• Internal promotion through the ranks.</li> <li>• Special allowances for training and education, including On Job Trainers.</li> <li>• Exit interviews.</li> </ul>
4. Flexibility and work design.	<ul style="list-style-type: none"> <li>• Consideration of flexible working arrangements policy (subject to rostering in 24/7 operation).</li> <li>• Long service leave.</li> </ul>
5. Remuneration, recognition and conditions.	<ul style="list-style-type: none"> <li>• Equitable, transparent, and gender-neutral remuneration system.</li> <li>• Equal access to job opportunities and conditions</li> <li>• 78% of Avsec belong to a collective agreement.</li> <li>• KiwiSaver provider and 2% employer contribution.</li> <li>• Remuneration benchmarking and ongoing Hays remuneration reviews.</li> </ul>
6. Harassment and bullying prevention.	<ul style="list-style-type: none"> <li>• Discrimination and harassment prevention policy.</li> <li>• Harassment and bullying workshops for employees.</li> <li>• Code of conduct.</li> </ul>
7. Safe and healthy environment.	<ul style="list-style-type: none"> <li>• Wellness programme.</li> <li>• Uniform provided to all operational staff (including protective and safety kit).</li> <li>• Subsidised eye examinations and spectacles.</li> <li>• Life and trauma cover for all employees.</li> <li>• Disputes resolution process.</li> <li>• First Aid Officers at airport locations.</li> <li>• Health and safety committees and education.</li> <li>• Employee assistance programme.</li> <li>• Vaccinations (Hepatitis A &amp; B, Flu, Tetanus).</li> </ul>

<sup>8</sup> Guidelines from Human Rights Commission (refer [www.hrc.co.nz](http://www.hrc.co.nz) for details).

### 13.4 OUR STAFF PROFILE

Avsec's staff profile as at 30 June 2008 is analysed by employee numbers, gender, and age. Statistics profiling by ethnicity has commenced during 2008/09.

PROFILE AS AT 30 JUNE 2008	NUMBER	%
<b>Total Staff Number:</b>		
Headcount	<b>826</b>	100%
<b>Gender:</b>		
Women	294	35.60
Men	532	64.40
<b>Age:</b>		
Under 20	5	0.63
20-29	54	6.53
30-39	183	22.15
40-59	300	36.31
50-59	236	28.57
Over 60	48	5.81
<b>Union Membership:</b>		
Members of Collective	644	77.97
Individual Employment Agreements	182	22.03
<b>TOTAL FTE</b>	<b>826</b>	<b>100%</b>

### 13.5 OUR EQUAL EMPLOYMENT OPPORTUNITIES PROGRAMME

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

Avsec is staffed with personnel from diverse cultural backgrounds. Ethnicity, age, and gender, are not a determinant in recruitment selection. The major 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. In addition it reflects specific needs.

## 14 PROGRESS REPORT IN MANAGING OUR RISKS

### 14.1 OUR RISK MANAGEMENT

The identification and management of risk forms both an essential part of Avsec's day to day activities and is a key component of the organisation's strategic and business planning processes. The mitigation of the identified risk is also integrated in specific work programmes during the next three years.

Avsec has a comprehensive formal risk management plan, modelled on Risk Management Standard AS/NZS 4360:2004. The risk management plan focuses on both external (operations and regulatory) and internal (predominantly personnel-related) risks.

The key objectives of the risk plan are:

1. identification of the key risks that the organisation is exposed to;
2. analysis and evaluation of the identified risks and their impact on the organisation in the context of:
  - a) operational activity;
  - b) financial impact;
  - c) regulatory compliance;
  - d) human resources;
  - e) public relations; and
  - f) technology and systems.
3. assessment of the risks in terms of severity and likelihood;
4. identification and implementation of strategy to manage and mitigate the risks; and
5. identification of any residual risks and determining if the residual risks will be managed in the normal course of business.



## 14.2 MANAGING OUR OPERATIONAL RISKS

In the 2007/10 Statement of Intent Avsec highlighted high level internal and external risk areas that Avsec was exposed to. Over the last twelve months Avsec implemented risk mitigation strategies to address these risks. The table below shows the risk mitigation strategies that have been progressed during 2007/08.

NO.	HIGH LEVEL RISK EXPOSURE	SPECIFIC MITIGATION STRATEGIES IMPLEMENTED DURING 2007/08
1.	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.	Ongoing airport company awareness and information sharing; scenario planning; intelligence gathering.
2.	Ongoing international terrorist threat against the aviation industry and other modes of transportation.	Implementation of new and enhanced security measures (including non passenger screening, enhancement of Airport Identity Cards process including air cargo security employees; capability development; intelligence gathering and dissemination of quality information to key business units; research, development and procurement of new and emerging aviation security technology and equipment, including the phased replacement of Avsec's x-ray baggage systems.
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.
4.	Current instability and under-resourcing in the South Pacific increases the aviation security risk in the South Pacific.	Completed the 2007/08 South Pacific project activities that contribute to New Zealand's aviation security and assisted aviation security development in these countries. Avsec support is principally in the form of capability development, 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.	Strategic awareness planning and scenario planning during lead-up process; capability development, especially involving capital equipment, staff recruitment, training and development of appropriate policies and procedures; strategic risk identification 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.	Proportional screening of airport workers commenced March 2008 following the passing of the Aviation Security Legislation Bill.
7.	Loss of key staff, staff recruitment and retention issues.	Capability development, in particular the implementation of the first phase of recommendations from the training review (a specific leadership development course for senior operations staff).
8.	Failure of contingency or business continuity plans.	Continual review and update of plans as part of Avsec's quality management philosophy, which also involves extensive internal audit regimes.
9.	Financial and operational impacts of the extra week's annual leave entitlement (pursuant to the Holidays Act 2003) which is impacting on the organisation's annual leave liability.	Commencement of a review of Avsec's roster system including consideration of an electronic solution.
10.	Essential equipment failure.	Ongoing dedicated research and development into new and emerging aviation security technology and equipment; planning for the phased replacement of Avsec's major capital equipment.

## APPENDIX: AVSEC SENIOR MANAGEMENT TEAM AND DIRECTORY

General Manager	Mark Everitt
Chief Operating Officer	Chris Tosswill
National Manager, Government Relations	Helen Hanify
Acting National Human Resources Manager	Noel Sundgren
Chief Finance and Information Officer	Jeffery Bull
Manager, Quality & Audit	Warren Tatham
National Office	Level 5, 109 Featherston St. PO Box 2165 Wellington, New Zealand Tel: +64-4-495 2430 Fax: +64-4-495 2432 E-mail: reception@avsec.govt.nz Web: www.avsec.govt.nz
Airport offices	Auckland, Christchurch, Dunedin, Hamilton, Palmerston North, Queenstown, Rotorua and Wellington
Auditor	Audit New Zealand on behalf of the Auditor General
Solicitors	Crown Law Office
Bankers	Westpac Banking Corporation
Insurance Brokers	Marsh Limited

## Part 3:

Statement of service performance

and

Consolidated (CAA and Avsec)

financial statements

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## CONSOLIDATED FINANCIAL STATEMENTS, 01 JULY 2007 TO 30 JUNE 2008

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:

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

## 15 STATEMENT OF RESPONSIBILITY

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

1. The preparation of the financial statements and the statement of service performance for the judgements used therein.
2. 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.
3. 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 2008.

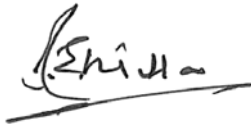
Signed on behalf of the Board:



**RICK BETTLE**

Chairman

Date: 31.10.08



**ERROL MILLAR**

Deputy Chairman – CAA

Date: 31.10.08



**DARRYLL PARK**

Deputy Chairman – Avsec

Date: 31.10.08

## 16 MINISTERIAL DIRECTIONS

There were no ministerial directions to the CAA and Avsec during the financial year 2007/08.

# 17 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 2008

The Auditor-General is the auditor of Civil Aviation Authority (the Authority). The Auditor-General has appointed me, John O'Connell, using the staff and resources of Audit New Zealand, to carry out the audit on his behalf. The audit covers the financial statements and statement of service performance included in the annual report of the Authority for the year ended 30 June 2008.

#### Unqualified Opinion

In our opinion:

- The financial statements of the Authority on pages 85 to 120:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect:
    - the Authority's financial position as at 30 June 2008; and
    - the results of its operations and cash flows for the year ended on that date.
- The statement of service performance of the Authority on pages 69 to 84:
  - complies with generally accepted accounting practice in New Zealand; and
  - fairly reflects for each class of outputs:
    - its standards of delivery performance achieved, as compared with the forecast standards outlined in the statement of forecast service performance adopted at the start of the financial year; and
    - its actual revenue earned and output expenses incurred, as compared with the forecast revenues and output expenses outlined in the statement of forecast service performance adopted at the start of the financial year.

The audit was completed on 31 October 2008, and is the date at which our opinion is expressed.

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

## **Basis of Opinion**

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

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

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

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

Audit procedures generally include:

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

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

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

## **Responsibilities of the Board and the Auditor**

The Board is responsible for preparing the financial statements and statement of service performance in accordance with generally accepted accounting practice in New Zealand. The financial statements must fairly reflect the financial position of the Authority as at 30 June 2008 and the results of its operations and cash flows for the year ended on that date. The statement of service performance must fairly reflect, for each class of outputs, the Authority's

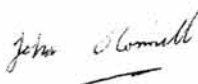
standards of delivery performance achieved and revenue earned and expenses incurred, as compared with the forecast standards, revenue and expenses adopted at the start of the financial year. The Board's responsibilities arise from the Crown Entities Act 2004.

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

### **Independence**

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

In addition to the audit we have carried out an assurance review over the Authority's over aspects of aviation security service's procurement practices during the reporting period. This assignment is compatible with those independence requirements. Other than the audit and this assignment, we have no relationship with or interests in the Authority.



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

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

This audit report relates to the financial statements and statement of service performance of the Civil Aviation Authority for the year ended 30 June 2008 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 31 October 2008 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.



## 18 STATEMENT OF SERVICE PERFORMANCE

The consolidated financial statements comprise the following output classes:

18.1 Civil Aviation Authority	Output Class 1: Policy advice Output Class 2: Safety and security assessment and certification Output Class 3: Safety and security investigation, analysis and education Output Class 4: Enforcement
18.2 Aviation Security Service	Output Class 1: Aviation security services Output Class 2: Maritime security services

### 18.1 CIVIL AVIATION AUTHORITY

#### 18.1.1 OUTPUT CLASS 1: POLICY ADVICE

##### DESCRIPTION

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

1. 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);
2. administration of aviation security matters arising from the work of the ICAO Aviation Security and Facilitation Branch;
3. participation in appropriate ICAO international and regional fora;
4. development and administration of bilateral agreements with the civil aviation safety regulatory authorities of other countries;
5. working with Pacific Island States to develop safety and security objectives;
6. provision of policy advice to government;
7. development and review of legislation;
8. ministerial servicing, including Ministerial Correspondence, Parliamentary Questions, and reports to the Minister and Select Committees; and
9. rules development services under contract to the Ministry of Transport.

## IMPACTS AND CONSEQUENCES

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

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

1. the government's obligations in respect of international aviation safety and security agreements with other regulatory agencies are administered in a competent manner;
2. international requirements relating to civil aviation safety and security are reflected in the New Zealand environment where applicable; and
3. 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*.

OUTPUT 1.1: POLICY ADVICE OUTPUTS	PERFORMANCE STANDARDS 2007/08			
	QUANTITY		QUALITY	TIMELINESS
	ACTUAL	TARGET		
<b>REPORTS TO PARLIAMENT AND THE MINISTER</b>				
1. Draft responses to Ministerial correspondence (number).	07/08 = 36 06/07 = 33 05/06 = 23	Demand-driven number and provided 100% of the time. (20-50 estimated range.)	Target: 100% of responses to Ministerial correspondence and Parliamentary questions are accepted by the Minister's advisers as robust and without any further questions. 07/08 = 100% of responses were accepted by the Minister's advisers.	Target: Responded within due dates. Replies to Ministerial correspondence forwarded to the MoT within 10 working days of receipt by CAA. 07/08 = Reports and correspondence to Parliament, the Ministers and MoT were responded within due dates.
2. Reports and briefings to the Minister (number).	07/08 = 52 06/07 = 59 05/06 = 65	Demand-driven and provided 100% of the time. (30-50 estimated range.)		
3. Responses to Parliamentary Questions (number).	07/08 = 2 06/07 = 16 05/06 = 7	Demand-driven and provided 100% of the time. (15-50 estimated range.)		
4. Reports and responses to Select Committees (number).	07/08 = 2 06/07 = 3 05/06 = 7	Demand-driven and provided 100% of the time. (4-8 estimated range.)		
<b>INTERNATIONAL RELATIONS</b>				
5. Provide responses on behalf of New Zealand to ICAO State letters on aviation safety and security matters.	100% provided as required.	Demand-driven and provided 100% of the time.	Target: 100% of New Zealand civil aviation policies, rules and standards comply with international civil aviation standards. 07/08= All differences were filed accordingly with ICAO.	Target: Responded, and or completed within due dates. 07/08 = Correspondence and other requirements related to international relations were responded and completed within due dates.
6. Review ICAO decisions notified to New Zealand, including amendments to Annexes, and file acceptances or differences as necessary.	Ongoing			
7. Implement decisions arising from review of CAA's ICAO obligations. <i>Note: Projects currently exist to address alignment of standards.</i>	Delayed			

OUTPUT 1.1: POLICY ADVISE OUTPUTS	PERFORMANCE STANDARDS 2007/08			
	QUANTITY		QUALITY	TIMELINESS
	ACTUAL	TARGET		
8. Liaison with other international civil aviation authorities on matters of mutual interests.	100% provided as required.	Demand-driven and provided 100% of the time.	Target: 100% compliance with international civil aviation standards that are within the CAA's statutory responsibility. 07/08 = Ongoing work is still being done to meet 100% compliance.	Target: Responded, and or completed within due dates. 07/08 = Correspondence and other requirements related to international relations were responded and completed within due dates.
9. Provide advice and representation in support on international agreements, projects and other forums.	100% provided as required.			
10. Promote the development of technical arrangements and agreements with other aviation authorities where this will have demonstrable benefits for the New Zealand aviation system.	100% provided as required.			
<b>SOUTH PACIFIC OBLIGATIONS</b>				
11. New Zealand representation on the council of the Pacific Aviation Safety Office (PASO).	NZ is represented as required.	Demand-driven and provided 100% of the time.	Target: 100% of agreements are signed-off between New Zealand and South Pacific countries. 07/08 = Work is still ongoing to address the CAA's South Pacific obligations.	Target: Completed within due dates. 07/08 = Work related to the CAA's South Pacific obligations was completed within their respective due dates.
12. Oversight of safety support agreements with Pacific Island countries.	100% provided as required.			
<b>INTERNATIONAL SAFETY AND SECURITY AGREEMENTS WITH OTHER COUNTRIES</b>				
13. USA: Bilateral Aviation Safety Agreement (BASA) Maintenance Implementation Procedures (MIP).	Ongoing.	1	Target: 100% of agreements are signed-off between New Zealand and corresponding countries. 07/08 = Work is ongoing on outputs 13 and 16 to finalise agreements.	Target: To be completed by end of December 2008. 07/08 = Ongoing agreements are targeted to be completed in December 2008.
14. Canada: Develop opportunities for a Technical Arrangement	Completed.	1		
15. Australia: Mutual Recognition project covering the acceptance of airline Air Operator Certificates.	Completed.	1		
16. Europe: Develop opportunities for a Mutual Recognition Agreement/ Technical Arrangement (Design and Production approvals).	Ongoing.	1		
<b>POLICY</b>				
17. Provision of advice and comment on government policy initiatives that impact on the aviation community and travelling public or any matter connected with aviation.	100% provided as required.	Demand-driven and provided 100% of the time.	Target: 100% of policy-related work is signed-off by MoT or by the Minister of Transport. 07/08 = Advice provided was signed-off by the MoT or by the Minister.	Target: Completed by due dates. 07/08 = Target met; completed within due dates.

OUTPUT 1.1: POLICY ADVICE OUTPUTS	PERFORMANCE STANDARDS 2007/08			
	QUANTITY		QUALITY	TIMELINESS
	ACTUAL	TARGET		
18. Provide 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.	100% provided as required.	Demand-driven and provided 100% of the time.	Target: Signed-off by the Minister. 07/08 = Policy work is still ongoing.	Target: Completed by due dates. 07/08 = Target met; completed within due dates.
19. Policy input to rules programme.	Ongoing.		Target: Signed-off by the Rules Unit. 07/08 = Work still ongoing.	Target: Completed by due dates. 07/08 = Inputs to rules programme were completed within due date
20. Review of structure and content of key CAA safety policy documents.	Ongoing.		Target: Signed-off by stakeholders. 07/08 = Work is still ongoing.	Target: Completed by due dates. 07/08 = Ongoing.
21. 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 services, managing environmental and public health impacts, and monitoring and evaluation.	Ongoing.		Target: CAA inputs signed-off by TSSD working groups. 07/08 = CAA inputs to NZTS were signed-off by TSSD working group.	Target: Completed by due dates. 07/08 = Inputs were completed within due dates.
22. Review of Civil Aviation Act 1990.	Ongoing.		Target: Signed-off by immediate civil aviation stakeholders. 07/08 = Work is still ongoing.	End of 2010.
23. Review of requirements for operator Security Management Systems.	Ongoing.			End of 2008.
24. Review of New Zealand's State Safety Programme.	Not started (on hold).			End of 2009.
25. Collection and use of safety information.	Policy completed.			End of 2009.

OUTPUT 1.2: RULES DEVELOPMENT	PERFORMANCE STANDARDS 2007/08		
	QUANTITY	QUALITY	TIMELINESS
<p>The Authority undertakes Rules Development services under a separate contract to the Ministry of Transport. This includes:</p> <ol style="list-style-type: none"> <li>1. draft and publish rules and rule amendments required by the Minister;</li> <li>2. research and development of appropriate safety and security standards;</li> <li>3. publish notices of intention to make or amend ordinary rules;</li> <li>4. give interested parties a reasonable time to make submissions on the proposed rules or amendments; and</li> <li>5. consult with such persons as in each case is considered appropriate on the proposed rules or amendments.</li> </ol>	<p>Target: Demand driven in consultation with MoT. 07/08 = Rules contract signed between the MoT and the CAA's Rules Development unit.</p>	<p>Target: Rules signed-off by the Minister. 07/08 = Target met; rules were eventually signed off by the Minister.</p>	<p>Target: Completed within due dates. 07/08 = Those within the CAA's control were completed within due dates.</p>

## FINANCIAL PERFORMANCE OF OUTPUT CLASS 1: POLICY ADVICE

2006/07 ACTUAL (\$000)		2007/08 ACTUAL (\$000)	2007/08 BUDGET (\$000)
1,321	Crown revenue (Vote Transport)	1,321	1,320
1,417	Ministry (Rules contract)	1,439	1,418
<b>2,738</b>	<b>Total output revenue</b>	<b>2,760</b>	<b>2,738</b>
<b>(3,348)</b>	<b>Total output expenses</b>	<b>(3,249)</b>	<b>(2,738)</b>
<b>(610)</b>	<b>Output surplus / (deficit)</b>	<b>(489)</b>	<b>-</b>

### 18.1.2 OUTPUT CLASS 2: SAFETY AND SECURITY ASSESSMENT AND CERTIFICATION

#### DESCRIPTION

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

1. exercise of control over entry into the New Zealand civil aviation system through the issuance or amendment of aviation documents and approvals to organisations, individuals and products (refer to section 7 of the Civil Aviation Act 1990);
2. exercise of control over exit from the civil aviation system through the amendment of aviation documents including the suspension, revocation or imposition of conditions on documents where such action is necessary in the interests of safety and security;
3. monitoring of adherence to safety and security standards by participants in the civil aviation system including the carrying out of inspections and audits;
4. identification and follow-up of corrective actions that need to be taken by participants and holders of aviation documents to ensure adherence to safety and security standards and compliance with the conditions of their documents (now an outcome measure, refer to section 6.2(d));
5. updating of entry, exit and monitoring information in our database, including maintenance of the New Zealand Register of Aircraft;
6. provision of information and advice to applicants for aviation documents and approvals, plus support and advice to participants to assist them achieve compliance with the Civil Aviation Rules;
7. maintenance of an effective Aviation Safety Advisor presence;
8. assessment of overseas information such as airworthiness directives and manufacturer's service information, and adoption in New Zealand if applicable;
9. development and review of New Zealand airworthiness directives;
10. assessment and approval of alternative means of compliance with airworthiness directives;
11. 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
12. 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 AND CONSEQUENCES

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.

OUTPUT CLASS 2: SAFETY AND SECURITY ASSESSMENT AND CERTIFICATION OUTPUTS	PERFORMANCE STANDARDS 2007/08			QUALITY	TIMELINESS
	QUANTITY		TARGET		
	ACTUAL				
<b>AIRLINES</b>					
26. Routine audits and inspections (number of hours)	07/08 = 4,348 06/07 = 5,139 05/06 = 5,054  <i>Note: 05/06 (6,577 hrs) and 06/07 (7,511 hrs) data were previously erroneously reported due to an incorrect programming link.</i>	4,000 hours	Target: 100% of Airlines' safety assessment and certification closed meet the specified accuracy and completeness requirements in CAA procedures. 07/08 = Target met.	Target: 100% completed by due date. 07/08 = Data not available. <i>Note: The surveillance project changes have negated system's ability to review timeliness of audits. Remedial work is under way.</i>	
27. Spot checks (number of hours, issue-driven)	07/08 = 208 06/07 = 155 05/06 = 35	200 hours			
28. Airworthiness directives to be developed and published (issue-driven number)	07/08 = 239 06/07 = 323 05/06 = 327	150-250 estimated range.			Target: 100% of programmes completed by due dates. 07/08 = Not applicable. <i>Note: The surveillance project changes have negated system's ability to review timeliness of audits. Remedial work is under way.</i>
29. Airline certification work requests (demand-driven number)	07/08 = 743 06/07 = 904 05/06 = 663	200-500 estimated range			
30. Aircraft Certification work requests (demand-driven number).	07/08 = 820 06/07 = 1,053 05/06 = 925	800-1,000 estimated range			
31. Aircraft Registration work request (demand-driven number)	07/08 = 1,721 06/07 = 1,740 05/06 = 1,782	1,000-2,000 estimated range			
<b>GENERAL AVIATION</b>					
32. Routine audits and inspections (number of hours)	07/08 = 3,138 06/07 = 2,821 05/06 = 3,291	3,500-4,500 hours estimated range.	Target: 100% of General Aviation's safety assessment and certification closed meet the specified accuracy and completeness requirements in CAA procedures. 07/08 = Target met.	Target: 100% completed by due date. 07/08 = Data not available. <i>Note: The surveillance project changes have negated system's ability to review timeliness of audits. Remedial work is under way.</i>	
33. Spot checks (number of hours, issue-driven)	07/08 = 473 06/07 = 1,058 05/06 = 1,483  <i>Note: 07/08 target not met due introduction of the surveillance system.</i>	1,500-1,900 hours estimated range.			
34. Operator Certification work requests (demand-driven number)	07/08 = 1,285 06/07 = 1,518 05/06 = 1,141	1,000-1,400 estimated range.			Target: No delays recorded 07/08 = Targets met.

OUTPUT CLASS 2: SAFETY AND SECURITY ASSESSMENT AND CERTIFICATION OUTPUTS	PERFORMANCE STANDARDS 2007/08			QUALITY	TIMELINESS
	QUANTITY		ACTUAL		
	ACTUAL	TARGET			
<b>PERSONNEL LICENSING AND AVIATION SERVICES</b>					
35. Routine audits and inspections (number of hours)	07/08 = 1,373 06/07 = 1,123 05/06 = 1,367	1.050 hours	Target: 100% of PLAS' safety assessment and certification closed meet the specified accuracy and completeness requirements in CAA procedures.	Target: 100% completed by due date 07/08 = Data not available. <i>Note: The surveillance project changes have negated system's ability to review timeliness of audits. Remedial work is under way.</i>	
36. Spot checks (number of hours, issue driven).	07/08 = 205 06/07 = 160 05/06 = 128	50-170 hours estimated range.	07/08 = Target met.	Target: 100% of programmes completed by due dates. 07/08 = Not applicable. <i>Note: The surveillance project changes have negated system's ability to review timeliness of audits. Remedial work is under way.</i>	
37. Personnel licensing work requests (demand-driven number).	07/08 = 6,859 06/07 = 5,733 05/06 = 4,822	4,500-5,000 estimated range (demand-driven).		Target: No delays recorded. 07/08 = Target met.	
38. Part 109 Regulated air cargo agent certification (security) – (demand-driven number).	07/08 = Part 109, Minister to sign rule in 4 <sup>th</sup> quarter 08	120		Target: No delays recorded. 07/08 = Part 109 not signed yet by Minister.	
39. Release General Directions for consultation (demand-driven number).	07/08 = 0 06/07 = 2 05/06 = 4 Nil in 07/08 due FTE reduction.	2		Target: 100% of programmes completed by due dates. 07/08 = Not applicable	
40. Petitions for rule exemptions processed - (demand-driven number).	07/08 = 72 06/07 = 124 05/06 = 104	100-200 estimated range (demand-driven).		Target: No delays in liaison with petitioner 07/08 = No delays in liasing with petitioner	
<b>AVIATION COMMUNITY HEALTH AND SAFETY IN EMPLOYMENT</b>					
41. HSE investigations (including accidents and incidents), enquiries and complaints received (demand-driven number). <i>Note: New output in 2007/08.</i>	07/08 = 56	55 – 75 estimated range.	Target: 100% of HSE's safety assessment and investigations closed meet the specified accuracy and completeness requirements in CAA procedures. 07/08 = Target met.	Target: 70% of all investigations of occurrences completed within 6 months of registration. 07/08 = 86% Target: 90% completed within 12 months of registration. 07/08 = 100% Target: 100% completed within 2 years of registration. 07/08 = 100%	
42. HSE audits/ inspections of selected clients (number).	07/08 = 21 06/07 = 3 05/06 = 11	20		100% completed by due date. 07/08 = Target met; 100% completed by due date.	
43. Provision of information and education to clients and stakeholders (demand-driven number).	07/08 = 13 06/07 = 10 05/06 = 9	10			

FINANCIAL PERFORMANCE OF OUTPUT CLASS 2: SAFETY AND SECURITY ASSESSMENT AND CERTIFICATION OUTPUTS

<b>2006/07 ACTUAL (\$000)</b>		<b>2007/08 ACTUAL (\$000)</b>	<b>2007/08 BUDGET (\$000)</b>
440	Crown revenue (Vote Labour, aviation community health and safety in employment)	440	440
19,291	Levies and fees and charges	20,037	18,956
<b>19,731</b>	<b>Total output revenue</b>	<b>20,477</b>	<b>19,396</b>
<b>(19,542)</b>	<b>Total output expenses</b>	<b>(18,512)</b>	<b>(19,610)</b>
<b>189</b>	<b>Output surplus / (deficit)</b>	<b>1,965</b>	<b>(214)</b>



### 18.1.3 OUTPUT CLASS 3: SAFETY AND SECURITY INVESTIGATION, ANALYSIS AND EDUCATION

#### DESCRIPTION

Output Class 3 covers the following outputs and activities:

1. investigation and identification of causes to a civil aviation safety and security occurrences, received by way of occurrence information and complaints;
2. publishing of feedback information to the industry in the form of accident briefs, defect summaries, and accident and incident trends;
3. investigation and review of civil aviation accidents and incidents in accordance with the Authority's capacity as the responsible aviation safety and security authority (subject to the limitations stipulated in section 14, paragraph 3 of the Transport Accident Investigation Commission Act);
4. notification to the Transport Accident Investigation Commission of accidents and incidents reported to the Authority in accordance with section 27 of the Civil Aviation Act 1990;
5. responses to safety and security recommendations made by the Transport Accident Investigation Commission and Coroner's inquests, and taking appropriate actions, tracking and reporting progress on a quarterly basis;
6. advice and research on the safety and security performance of the civil aviation system;
7. assessment and solution to any problems that may arise regarding overseas information, aircraft reliability data and flight operations information;
8. 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;
9. establishment of safety and security planning to clearly describe the CAA's intended safety and security actions and priorities;
10. 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
11. provision of information for the New Zealand Aeronautical Information Service.

#### IMPACTS AND CONSEQUENCES

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 MEASURES AND TARGETS

OUTPUT CLASS 3: SAFETY AND SECURITY INVESTIGATION, ANALYSIS AND EDUCATION OUTPUTS	PERFORMANCE STANDARDS 2007/08			
	QUANTITY		QUALITY	TIMELINESS
	ACTUAL	TARGET		
<b>OUTPUT 3.1: SAFETY AND SECURITY INVESTIGATION</b>				
44. Number of safety and security investigations carried out.	07/08 =2,655 06/07 = 2,582 05/06 = 2,296	1,700-2,200 estimated range.	Target: 100% of safety and security investigations closed meet the specified accuracy and completeness requirements in CAA procedures. 07/08 = Target met.	Target: 70% of all investigations of occurrences completed within 6 months of registration. 07/08 = 87% Target: 90% completed within 12 months of registration. 07/08 = 96% Target: 100% completed within 2 years of registration. 07/08 = 99%
<b>OUTPUT 3.2: SAFETY AND SECURITY ANALYSIS</b>				
45. Aviation safety summary reports (number).	07/08 = 4 06/07 = 4 05/06 = 4	1 per quarter or 4 times a year.	Target: 100% of safety data released are accurate. 07/08 = Target met.	Target: Disseminated within 40 working days at the end of the quarter to which the report relates to. 07/08 = Target met.
<b>OUTPUT 3.3: SAFETY AND SECURITY EDUCATION AND INFORMATION</b>				
46. Vector periodicals released (number).	07/08 = 6 06/07 = 6 05/06 = 6	6 per year	Target: 100% of information provided is accurate. 07/08 = Target met.	Target: 100% of safety education and information materials are released by due date. 07/08 = Target met.
47. CAA safety videos released (number).	07/08 = 0 06/07 = 1 05/06 = 2	Demand-driven and provided 100% of the time. Ongoing review of educational materials.		
48. Safety seminars conducted (number).	07/08 =26 06/07 = 28 05/06 = 25	Minimum of 10 seminars.		
49. Aviation security risk context statement ( <i>new in 07/08</i> ) (number).	07/08 = 0 Not achieved; high work load of 2 staff due to CAA investigation and government directive to review domestic aviation security.	1		Target: Completed and disseminated by April 2008. 07/08 = not applicable.
50. Security special notices ( <i>new in 07/08</i> ) (number).	07/08 = 1 (100% provided as required.)	Demand-driven and provided 100% of the time.		Target: Completed by due dates. 07/08 = Target met.
51. Security awareness presentations ( <i>new in 07/08</i> ) (number).	07/08 = 3	3-10 estimated range.		Target: 100% of presentations requested within FY were delivered. 07/08 = Target met.

FINANCIAL PERFORMANCE OF OUTPUT CLASS 3: SAFETY AND SECURITY INVESTIGATION,  
ANALYSIS AND EDUCATION OUTPUTS

<b>2006/07 ACTUAL (\$000)</b>		<b>2007/08 ACTUAL (\$000)</b>	<b>2007/08 BUDGET (\$000)</b>
4,227	Levies, and fees and charges	4,846	4,892
<b>4,227</b>	<b>Total output revenue</b>	<b>4,846</b>	<b>4,892</b>
<b>(4,559)</b>	<b>Total output expenses</b>	<b>(4,626)</b>	<b>(4,892)</b>
<b>(332)</b>	<b>Output surplus / (deficit)</b>	<b>220</b>	<b>-</b>

#### 18.1.4 OUTPUT CLASS 4: ENFORCEMENT

##### DESCRIPTION

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

1. recording of complaints of alleged or suspected offences;
2. investigation of allegations of breaches to the *Civil Aviation Act 1990*; and
3. 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 AND CONSEQUENCES

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

The Authority's primary concern is not to secure prosecution but to promote a high standard of aviation safety. However, 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:

1. 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;
2. ensure fair and consistent treatment of all participants in the civil aviation system; and
3. deter future incidents of non-compliance.

##### PERFORMANCE MEASURES AND TARGETS

OUTPUT CLASS 4: ENFORCEMENT OUTPUTS	PERFORMANCE STANDARDS 2007/08			
	QUANTITY		QUALITY	TIMELINESS
	ACTUAL	TARGET		
52. Number of occurrences reviewed by the Law Enforcement Unit (LEU) in order to consider enforcement action (demand-driven number).	07/08 = 307 06/07 = 335 05/06 = 231	260-300 estimated range	Target: 100% of Enforcement's investigations closed meet the specified accuracy and completeness requirements in CAA procedures. 07/08 = Target met	Target: 100% of detailed investigations completed within 12 months of commencement 07/08 = 100%
53. Detailed enforcement investigations undertaken (demand-driven number).	07/08 = 98 06/07 = 75 05/06 = 81	70-90 estimated range	07/08 = Target met	Target: 90% within 6 months of commencement. 07/08 = 98%

##### FINANCIAL PERFORMANCE OF OUTPUT CLASS 4: ENFORCEMENT OUTPUTS

2006/07 ACTUAL (\$000)		2007/08 ACTUAL (\$000)	2007/08 BUDGET (\$000)
774	Levies, and fees and charges	1,283	808
774	<b>Total output revenue</b>	<b>1,283</b>	<b>808</b>
(937)	<b>Total output expenses</b>	<b>(1,067)</b>	<b>(808)</b>
(163)	<b>Output surplus / (deficit)</b>	<b>216</b>	<b>-</b>

## 18.2 AVIATION SECURITY SERVICE

### 18.2.1 OUTPUT CLASS 1: AVIATION SECURITY SERVICE

#### DESCRIPTION

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

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

#### AVIATION SECURITY SERVICE OUTPUTS

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

PERFORMANCE MEASURES 2007/08		2007/08	
		ACTUAL	TARGET
<b>GENERAL PERFORMANCE MEASURES</b>			
1.	Forecast numbers of screened international passengers.	4,491,376	4,356,610 (+/-3%)
2.	Forecast numbers of screened domestic passengers on aircraft of 90+ seats.	5,603,410	4,990,245 (+/- 3%)
3.	Percentage of international hold baggage screened.	100%	100%
4.	Number of verified unauthorised or prohibited items discovered post screening points (system failure).	7	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).	Nil	Nil
<b>WAITING TIME PERFORMANCE MEASURES</b>			
8.	Average passenger wait times at international departure screening points (tested 6 monthly at Auckland & Christchurch international airports; also note that airport infrastructure can have a direct impact on wait times).	1 minute 30 seconds Auckland; 1 minute 58 seconds Christchurch.	No more than 5 minutes.
9.	Average passenger wait times at domestic departure screening points (tested 6 monthly at Auckland & Christchurch international airports; also note that airport infrastructure can have a direct impact on wait times).	1 minute 16 seconds Auckland; 1 minute 37 seconds Christchurch.	No more than 5 minutes.

PERFORMANCE MEASURES 2007/08		2007/08	
		ACTUAL	TARGET
<b>TRAINING AND TESTING PERFORMANCE MEASURES</b>			
10.	Percentage of Aviation Security Officers involved in the screening function trained in key aviation security functions (searching, wandung, 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, wandung, X-ray proficiency).	100%	100%
12.	Percentage of practicing Aviation Security Officers who pass recurrent testing for proficiency in screening functions.	99.09%	100%
13.	Percentage of practicing Aviation Security Officers who pass recurrent testing for proficiency in the aircraft search function.	98.70%	100%
<b>COMPLAINTS AND AUDIT PERFORMANCE MEASURES</b>			
14.	Number of complaints against Aviation Security Officers involved in the screening function (includes 'free riders'). <sup>9</sup>	One complaint per 518,861 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.	2	Nil

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

PERFORMANCE MEASURES 2007/08		2007/08	
		ACTUAL	TARGET
1.	Number of corrective action requests pertaining to access control issued by external auditors.	1	Nil
2.	Percentage of responses to any security-related emergency within 5 minutes of being requested.	100%	100%
3.	Forecast number of Airport Identity Cards issued: Permanent: Temporary:	7,924 61,136	7,500 (+/- 5%) 50,000 (+/- 5%)
4.	Percentage compliance by Aviation Identity Cardholders per CAA Rule 19.357. <sup>10</sup>	98.50%	100%

<sup>9</sup> "Free riders" refers to some screened domestic passengers for which no levy is recovered from airlines. The situation arises due to infrastructural configurations at certain airports.

<sup>10</sup> CAA Rule 19.237 sets out the requirement for which Airport Identity Cards are required to be worn in a designated security area.

## FINANCIAL PERFORMANCE OF OUTPUT CLASS 1: AVIATION SECURITY SERVICE

<b>OUTPUT (A): PREVENTION OF IN-FLIGHT SECURITY INCIDENTS</b>			
<b>2006/07 ACTUAL (\$000)</b>		<b>2007/08 ACTUAL (\$000)</b>	<b>2007/08 BUDGET (\$000)</b>
1,708	Contracted services	907	951
51,100	Passenger security charges	74,141	64,302
916	Other income	1,318	788
<b>53,724</b>	<b>Total output revenue</b>	<b>76,366</b>	<b>64,041</b>
<b>(44,972)</b>	<b>Total output expenses</b>	<b>(50,584)</b>	<b>(61,435)</b>
<b>8,752</b>	<b>Output surplus / (deficit)</b>	<b>25,782</b>	<b>4,606</b>

<b>OUTPUT (B): PREVENTION OF AIR-SIDE SECURITY INCIDENTS</b>			
<b>2006/07 ACTUAL (\$000)</b>		<b>2007/08 ACTUAL (\$000)</b>	<b>2007/08 BUDGET (\$000)</b>
1,758	Contracted services	1,954	2,021
253	Other income	358	162
<b>2,011</b>	<b>Total output revenue</b>	<b>2,312</b>	<b>2,183</b>
<b>(12,574)</b>	<b>Total output expenses</b>	<b>(13,657)</b>	<b>(13,167)</b>
<b>(10,563)</b>	<b>Output surplus / (deficit)</b>	<b>(11,345)</b>	<b>(10,984)</b>

<b>OUTPUT (C): TOTAL OUTPUT REVENUE</b>			
<b>2006/07 ACTUAL (\$000)</b>		<b>2007/08 ACTUAL (\$000)</b>	<b>2007/08 BUDGET (\$000)</b>
3,466	Contracted services	2,861	2,972
51,100	Passenger security charges	74,141	64,302
1,169	Other income	1,676	950
<b>55,735</b>	<b>Total output revenue</b>	<b>78,678</b>	<b>68,224</b>
<b>(57,546)</b>	<b>Total output expenses</b>	<b>(64,241)</b>	<b>(74,602)</b>
<b>(1,811)</b>	<b>Output surplus / (deficit)</b>	<b>14,437</b>	<b>(6,378)</b>

## 18.2.2 OUTPUT CLASS 2: MARITIME SECURITY SERVICES

## DESCRIPTION

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

**Output (c): Maritime Security Services**

PERFORMANCE MEASURE 2007/08		2007/08 ACTUAL	TARGET
1.	Percentage of Avsec responses within 4 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.	No high level threat situation occurred.	100%

## FINANCIAL PERFORMANCE OF OUTPUT CLASS 2: MARITIME SECURITY SERVICES

2006/07 ACTUAL (\$000)		2007/08 ACTUAL (\$000)	2006/07 BUDGET (\$000)
165	Crown	136	145
<b>165</b>	<b>Total output revenue</b>	<b>136</b>	<b>145</b>
<b>(165)</b>	<b>Total output expenses</b>	<b>(136)</b>	<b>(145)</b>
-	<b>Output surplus</b>	-	-



# 19 CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008 Actual \$000	2008 Budget \$000	2007 Actual \$000
<b>Income</b>				
Levies revenue	2	22,274	20,890	20,589
Revenue from passenger security charges and other services	2	79,851	70,710	57,358
Crown funding revenue	3	1,897	1,905	1,926
Ministry contract revenue	3	1,962	1,458	1,897
Other income	4	2,178	1,240	1,596
<b>Total income</b>		<b>108,162</b>	<b>96,203</b>	<b>83,366</b>
<b>Expenditure</b>				
Personnel costs	5	68,029	75,260	61,697
Depreciation and amortisation expense	14,15	5,862	6,722	5,545
Capital charge	6	1,845	1,742	1,908
Finance costs	7	600	473	760
Other cost of services	8	15,477	18,598	16,183
<b>Total expenses</b>		<b>91,813</b>	<b>102,795</b>	<b>86,093</b>
<b>NET SURPLUS / (DEFICIT)</b>		<b>16,349</b>	<b>(6,592)</b>	<b>(2,727)</b>

Explanation of significant variances in financial performance:

- a) The net operating surplus for the year was higher than expected due to increased revenue from passenger security charges (see (b)) and decreased personnel costs (see (c)).
- b) Revenue from passenger security charges for the year was higher than expected due to an increase in the amount of the charge and passenger numbers, during the year.
- c) Expenditure for the year was lower than expected due primarily to decreased costs for Avsec in the area of personnel.

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

## 20 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2008

	Note	2008 Actual \$000	2008 Budget \$000	2007 Actual \$000
<b>Assets</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	9	35,422	11,460	19,481
Debtors and other receivables	10	10,782	7,363	9,682
Inventories	11	271	440	418
Derivative financial instruments	12	16	-	-
<b>TOTAL CURRENT ASSETS</b>		<b>46,491</b>	<b>19,263</b>	<b>29,581</b>
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	14	12,690	15,342	15,320
Intangible assets	15	1,715	749	1,710
<b>TOTAL NON-CURRENT ASSETS</b>		<b>14,405</b>	<b>16,091</b>	<b>17,030</b>
<b>TOTAL ASSETS</b>		<b>60,896</b>	<b>35,354</b>	<b>46,611</b>
<b>Liabilities</b>				
<b>CURRENT LIABILITIES</b>				
Creditors and other payables	16	5,172	5,021	6,226
Employee entitlements	17	7,448	7,210	5,992
Provisions	18	-	-	-
Borrowings	19	2,864	2,895	2,691
Derivative financial instruments		-	-	21
<b>TOTAL CURRENT LIABILITIES</b>		<b>15,484</b>	<b>15,126</b>	<b>14,930</b>
<b>NON-CURRENT LIABILITIES</b>				
Employee entitlements	17	2,699	2,640	2,071
Provisions	18	263	-	199
Borrowings	19	1,417	1,417	4,281
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>4,379</b>	<b>4,057</b>	<b>6,551</b>
<b>TOTAL LIABILITIES</b>		<b>19,863</b>	<b>19,183</b>	<b>21,481</b>
<b>NET ASSETS</b>		<b>41,033</b>	<b>16,171</b>	<b>25,130</b>
<b>TAXPAYERS' EQUITY</b>				
General funds	20	25,235	15,547	24,293
Property, plant and equipment revaluation reserve	20	640	624	624
Passenger security charges reserves	20	15,158	-	213
<b>TOTAL TAXPAYERS' EQUITY</b>		<b>41,033</b>	<b>16,171</b>	<b>25,130</b>

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

## 21 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008 Actual \$000	2008 Budget \$000	2007 Actual \$000
<b>Opening balance as at 1 July</b>		25,130	23,225	26,009
<i>Amounts recognised directly in equity</i>				
<b>Property, plant and equipment</b>				
Revaluation gains / (losses) taken to equity	20	16	-	-
Net surplus / (deficit)		16,349	(6,592)	(2,727)
<b>Total recognised revenues and expenses</b>		<b>41,495</b>	<b>16,633</b>	<b>23,282</b>
Capital contributions		-	-	1,848
Repayment of capital		(462)	(462)	-
<b>Closing balance at 30 June</b>	<b>20</b>	<b>41,033</b>	<b>16,171</b>	<b>25,130</b>

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

## 22. CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008 Actual \$000	2008 Budget \$000	2007 Actual \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from levies		22,274	20,506	20,570
Receipts from passenger security charges and other services		79,851	70,649	55,995
Receipts from Crown funding and Ministry contracts		3,859	3,363	3,206
Interest received		1,964	1,220	1,451
Payments to employees		(65,333)	(69,030)	(55,778)
Payments to suppliers		(18,084)	(20,410)	(19,697)
Interest paid		(464)	(457)	(663)
Payments of capital charge to the Crown		(1,845)	(1,742)	(1,908)
Goods and Services tax (net)		29	72	(117)
<b>Net Cash Flows from Operating Activities</b>	<b>21</b>	<b>22,251</b>	<b>4,171</b>	<b>3,059</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Maturity of investments		-	-	6,000
Sale of property, plant and equipment		166	50	102
Placement of investments		-	-	(2,000)
Purchase of property, plant and equipment		(2,951)	(4,925)	(2,518)
Purchase of intangible assets		(372)	-	(749)
<b>Net Cash Flows from Investing Activities</b>		<b>(3,157)</b>	<b>(4,875)</b>	<b>835</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Capital contributions		-	-	1,848
Proceeds from external borrowings		-	-	-
Repayment of capital		(462)	(462)	-
Repayment of external borrowings		(2,691)	(2,686)	(2,493)
<b>Net Cash Flows from Financing Activities</b>		<b>(3,153)</b>	<b>(3,148)</b>	<b>(645)</b>
Net increase/(decrease) in cash and cash equivalents		15,941	(3,852)	3,249
Opening cash and cash equivalents at 1 July		19,481	15,312	16,232
<b>Closing cash and cash equivalents at 30 June</b>	<b>9</b>	<b>35,422</b>	<b>11,460</b>	<b>19,481</b>

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

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

## 23 CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

### 1 STATEMENT OF ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2008

#### 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 in line with the New Zealand Transport Strategy (NZTS).

To fulfil these statutory responsibilities, the Authority comprises the aviation safety and regulatory services of the Civil Aviation Authority (collectively known as 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 the 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 2008. The financial statements were approved by the Authority on 31 October 2008. Neither the Authority, the Crown, nor any other party has the power to amend the financial statements after this date.

#### BASIS OF PREPARATION

##### *Statement of compliance*

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

##### *First year of preparation under NZ IFRS*

The Authority has adopted NZ IFRS with effect from 1 July 2007. The transition to NZ IFRS is accounted for in accordance with NZ IFRS-1 'First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards' with 1 July 2006 as the date of transition. This is the first set of financial statements prepared using NZ IFRS and comparatives for the year ended 30 June 2007 have been restated to NZ IFRS accordingly.

An explanation on how the transition from previous NZ GAAP to NZ IFRS has affected the Authority's financial position, financial performance, and cash flows is discussed in Note 32.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing an opening NZ IFRS statement of financial position as at 1 July 2006 for the purposes of transition to NZ IFRS.

##### *Measurement base*

The financial statements have been prepared based on historical cost, 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.

### *Functional and presentation currency*

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 2008; and 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 is yet to decide whether it will prepare a single statement of comprehensive income or 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 Civil Aviation Act 1990* 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. Unrealised and realised 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 to 24 years	(10%–4%)
Leasehold improvements	10 years	(10%)
Furniture and fittings	10 years	(10%)
Plant and equipment	5 to 10 years	(20%-10%)
Office equipment	5 years	(20%)
Motor vehicles	4 to 5 years	(25%-20%)
Computer equipment	3 years	(33%)
Leased hold-baggage screening (HBS) equipment	5 years	(20%)

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%
ALS 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 revalued 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 twelve 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, when it is probable that expenditures will be required to settle the obligation, and when 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.

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

## CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Preparing financial statements to conform to 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, 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 as finance leases.

## 2 REVENUE FROM LEVIES AND SERVICES

	Actual 2008 \$000	Actual 2007 \$000
<b>Levies revenue</b>		
International passenger levies	3,944	3,891
Domestic passenger levies	17,434	15,808
Other levies	896	890
<b>Total levies revenue</b>	<b>22,274</b>	<b>20,589</b>
<b>Revenue from passenger security charges and other services</b>		
International passenger security charges	53,438	35,155
Domestic passenger security charges	20,701	15,945
Aviation regulatory and safety services	3,392	3,273
Other contracted aviation security services	2,320	2,985
<b>Total revenue from passenger security charges and other services</b>	<b>79,851</b>	<b>57,358</b>

### 3 CROWN FUNDING AND MINISTRY CONTRACT REVENUE

#### CROWN FUNDING REVENUE

The Authority has been provided with funding from the Crown for the following specific purposes of the Authority as set out in the *Civil Aviation Act 1990* and the scope of the relevant government appropriations. Apart from these general restrictions, there are no unfulfilled conditions or contingencies attached to government funding (2007: nil).

	<b>Actual 2008 \$000</b>	<b>Actual 2007 \$000</b>
Policy	1,321	1,321
Health and safety in employment	440	440
Maritime security	136	165
<b>Total revenue from the Crown</b>	<b>1,897</b>	<b>1,926</b>

#### *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.

### 3 CROWN FUNDING AND MINISTRY CONTRACT REVENUE (CONTINUED)

	<b>Actual 2008 \$000</b>	<b>Actual 2007 \$000</b>
Rules Development	1,419	1,417
Pacific Security Fund	543	480
<b>Total Ministry contract revenue</b>	<b>1,962</b>	<b>1,897</b>

### 4 OTHER INCOME

	<b>Actual 2008 \$000</b>	<b>Actual 2007 \$000</b>
Interest income	2,083	1,537
Net gain on sale of property, plant and equipment	91	59
Net foreign exchange gains	4	-
<b>Total other income</b>	<b>2,178</b>	<b>1,596</b>

### 5 PERSONNEL COSTS

	<b>Actual 2008 \$000</b>	<b>Actual 2007 \$000</b>
Salaries and wages	60,860	52,892
Employer contributions to defined contribution plans	365	112
Other personnel expenses	4,720	7,094
Increase/(decrease) in long-term employee entitlements (Note 17)	2,084	1,599
<b>Total personnel costs</b>	<b>68,029</b>	<b>61,697</b>

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 2008 was 7.5% (2007: 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 1 January to 30 June 2008. For periods prior to 1 January 2008 the capital charge was levied on the Authority's total taxpayers' equity.

## 7 FINANCE COSTS

	Actual 2008 \$000	Actual 2007 \$000
Interest on finance leases	464	663
Discount unwind on long-term employee entitlements	136	97
Discount unwind on provisions (Note 18)	-	-
<b>Total finance costs</b>	<b>600</b>	<b>760</b>

## 8 OTHER COST OF SERVICES

	Actual 2008 \$000	Actual 2007 \$000
Fees to auditor:		
Audit fees for financial statements audit	78	105
Audit fees for NZ IFRS transition	10	-
Audit fees – other Audit New Zealand fees	11	-
Audit related fees for assurance and related services	1	16
Operating lease expense	2,235	2,105
Building operating expenses	513	613
Information technology expenses	1,431	1,833
Staff travel	2,900	2,962
Insurances	857	1,046
Donations	35	76
Impairment of receivables	3	37
Website development expenses	-	8
Safety information services	1,552	1,467
Consultancy	1,290	1,674
Consumables and maintenance	1,708	1,604
Grants	-	-
Net foreign exchange losses	-	23
Inventories consumed	-	-
Net loss on sale of property, plant and equipment	-	-
Impairment of property, plant and equipment	-	98
Other expenses	2,853	2,516
<b>Total other cost of services</b>	<b>15,477</b>	<b>16,183</b>

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

	Actual 2008 \$000	Actual 2007 \$000
Cash on hand and in bank	1,932	761
Cash equivalents - short-term deposits	33,490	18,720
<b>Total cash and cash equivalents</b>	<b>35,422</b>	<b>19,481</b>



## 9 CASH AND CASH EQUIVALENTS (CONTINUED)

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 these deposits.

The weighted average effective interest rate for the short-term deposits held is 8.4% (2007:7.8%).

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

## 10 DEBTORS AND OTHER RECEIVABLES

	Actual 2008 \$000	Actual 2007 \$000
Debtors	10,472	9,438
Other receivables	312	245
Less: provision for impairment	(2)	(1)
<b>Total debtors and other receivables</b>	<b>10,782</b>	<b>9,682</b>

The carrying value of receivables approximates their fair value due to the short period of time in which they are expected to be collected. As at 30 June 2008 and 2007, 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	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
<b>2008</b>						
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
<b>Total debtors and other receivables</b>	<b>10,234</b>	<b>493</b>	<b>44</b>	<b>7</b>	<b>4</b>	<b>10,782</b>
<b>2007</b>						
Not past due and not impaired	8,967	-	-	-	-	8,967
Past due but not impaired	-	633	54	21	3	711
Impaired assets – gross	-	-	-	4	1	5
Impairment	-	-	-	(1)	-	(1)
Impaired assets – net	-	-	-	3	1	4
<b>Total debtors and other receivables</b>	<b>8,967</b>	<b>633</b>	<b>54</b>	<b>24</b>	<b>4</b>	<b>9,682</b>

## 11 DEBTORS AND OTHER RECEIVABLES (CONTINUED)

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:

	Actual 2008 \$000	Actual 2007 \$000
Opening balance at 1 July	(1)	(6)
Additional provisions made during the year	(1)	-
Receivables written-off during the period	-	-
Provisions reversed during the year	-	5
<b>Closing balance at 30 June</b>	<b>(2)</b>	<b>(1)</b>

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

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

## 11 INVENTORIES

	Actual 2008 \$000	Actual 2007 \$000
Inventories held for use in the provision of services	28	37
Services work in progress	243	381
<b>Total inventories</b>	<b>271</b>	<b>418</b>

### *Inventories held for use in the provision 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 (2007: \$nil) or reversals of write-downs (2007:\$nil) for inventories during the year.

## 12 DERIVATIVE FINANCIAL INSTRUMENTS

The Authority has taken a forward exchange contract for USD 450,000 (2007: USD 470,000) 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 (2007: \$nil).

## 14 PROPERTY, PLANT AND EQUIPMENT

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

	Buildings (incl components)	Leasehold improvements	Furniture & fittings	Plant & equipment	Office equipment	Motor vehicles	Computer equipment	Leased HBS screening equipment	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Cost or valuation</b>									
Opening balance at 1 July 2006	924	1,818	902	8,258	836	2,174	2,416	10,675	28,003
Additions	-	466	165	418	76	411	938	-	2,474
Revaluation increase	-	-	-	-	-	-	-	-	-
Disposals	-	-	(7)	(235)	-	(235)	(108)	-	(585)
Transfer to assets held for sale	-	-	-	-	-	-	-	-	-
<b>Closing balance at 30 June 2007</b>	<b>924</b>	<b>2,284</b>	<b>1,060</b>	<b>8,441</b>	<b>912</b>	<b>2,350</b>	<b>3,246</b>	<b>10,675</b>	<b>29,892</b>
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)
Transfer to assets held for sale	-	-	-	-	-	-	-	-	-
<b>Closing balance at 30 June 2008</b>	<b>808</b>	<b>2,370</b>	<b>1,095</b>	<b>8,893</b>	<b>883</b>	<b>2,798</b>	<b>3,413</b>	<b>10,675</b>	<b>30,935</b>
<b>Accumulated depreciation and impairment losses</b>									
Opening balance at 1 July 2006	(24)	(366)	(210)	(4,576)	(450)	(1,015)	(1,784)	(1,422)	(9,847)
Depreciation expense	(78)	(270)	(96)	(1,061)	(140)	(480)	(476)	(2,669)	(5,270)
Eliminate on disposal	-	-	7	336	-	194	106	-	643
Eliminate on revaluation	-	-	-	-	-	-	-	-	-
Transfer to assets held for sale	-	-	-	-	-	-	-	-	-
Impairment losses	-	-	-	(98)	-	-	-	-	(98)
<b>Closing balance at 30 June 2007</b>	<b>(102)</b>	<b>(636)</b>	<b>(299)</b>	<b>(5,399)</b>	<b>(590)</b>	<b>(1,301)</b>	<b>(2,154)</b>	<b>(4,091)</b>	<b>(14,572)</b>
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
Transfer to assets held for sale	-	-	-	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-	-	-	-
<b>Closing balance at 30 June 2008</b>	<b>(73)</b>	<b>(954)</b>	<b>(403)</b>	<b>(5,358)</b>	<b>(710)</b>	<b>(1,534)</b>	<b>(2,454)</b>	<b>(6,759)</b>	<b>(18,245)</b>
<b>Carrying amounts</b>									
At 1 July 2006	900	1,452	692	3,682	386	1,159	632	9,253	18,156
At 30 June 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

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 FFINZ. The total amount of property, plant and equipment in the course of construction is \$64,000 (2007:\$nil). The net carrying amount of office equipment held under finance leases is \$36,000 (2007:\$109,000). 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 development \$000	Total \$000
<b>Cost</b>					
Opening balance at 1 July 2006	688	554	1,069	233	2,544
Additions	23	514	147	50	734
Transfer to available for use	-	-	233	(233)	-
Disposals	-	-	-	-	-
<b>Closing balance at 30 June 2007</b>	<b>711</b>	<b>1,068</b>	<b>1,449</b>	<b>50</b>	<b>3,278</b>
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)	-
Disposals	-	-	-	-	-
<b>Closing balance at 30 June 2008</b>	<b>739</b>	<b>1,238</b>	<b>1,652</b>	<b>20</b>	<b>3,649</b>
<b>Accumulated amortisation and impairment losses</b>					
Opening balance at 1 July 2006	-	(260)	(1,033)	-	(1,293)
Amortisation expense	-	(208)	(67)	-	(275)
Disposals	-	-	-	-	-
Impairment losses	-	-	-	-	-
<b>Closing balance at 30 June 2007</b>	<b>-</b>	<b>(468)</b>	<b>(1,100)</b>	<b>-</b>	<b>(1,568)</b>
Balance at 1 July 2007	-	(468)	(1,100)	-	(1,568)
Amortisation expense	-	(253)	(113)	-	(366)
Disposals	-	-	-	-	-
Impairment losses	-	-	-	-	-
<b>Closing balance at 30 June 2008</b>	<b>-</b>	<b>(721)</b>	<b>(1,213)</b>	<b>-</b>	<b>(1,934)</b>
<b>Carrying amounts</b>					
At 1 July 2006	688	294	36	233	1,251
At 30 June 2007	711	600	349	50	1,710
At 30 June 2008	739	517	439	20	1,715

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

	Actual 2008 \$000	Actual 2007 \$000
Creditors	4,001	4,277
Other payables	1,171	1,949
<b>Total creditors and other payables</b>	<b>5,172</b>	<b>6,226</b>

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

## 17 EMPLOYEE ENTITLEMENTS

	Actual 2008 \$000	Actual 2007 \$000
<b>Current employee entitlements are represented by:</b>		
Accrued salaries and wages	1,619	802
Annual leave	5,494	4,937
<b>Current portion of long-term employee entitlements:</b>		
Sick leave	145	136
Retiring and long service leave	190	117
<b>Total current portion</b>	<b>7,448</b>	<b>5,992</b>
<b>Non-current employee entitlements are represented by:</b>		
<i>Long-term employee entitlements</i>		
Retiring and long service leave	2,689	2,071
Sick leave	10	-
<b>Total non-current portion</b>	<b>2,699</b>	<b>2,071</b>
<b>Total employee entitlements</b>	<b>10,147</b>	<b>8,063</b>

The present value of the retirement, long service leave, and sick leave obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Two key assumptions used in calculating this liability include the discount rate and the salary inflation factor. Any changes in these assumptions will impact 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 6.8% per annum (2007: 6.8% per annum) and an inflation factor of 3.6% per annum (2007: 3.5% 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 \$176,000 lower / \$204,000 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 \$166,000 higher/ \$184,000 lower respectively.

## 18 PROVISIONS

	Actual 2008 \$000	Actual 2007 \$000
<i>Current provisions are represented by:</i>	-	-
HBS screening equipment decommissioning	-	-
Leasehold refurbishment	-	-
<b>Total current portion</b>	<b>-</b>	<b>-</b>
<i>Non-current provisions are represented by:</i>		
HBS screening equipment decommissioning	164	118
Leasehold refurbishment	99	81
<b>Total non-current portion</b>	<b>263</b>	<b>199</b>
<b>Total provisions</b>	<b>263</b>	<b>199</b>

Movements for each class of provision are as follows:

	HBS screening equipment decommissioning \$000	Leasehold refurbishment \$000	Total \$000
<b>2008</b>			
Balance at 1 July	118	81	199
Additional provisions made	46	18	64
Amounts used	-	-	-
Unused amounts reversed	-	-	-
Discount unwind (Note 7)	-	-	-
<b>Balance at 30 June</b>	<b>164</b>	<b>99</b>	<b>263</b>
<b>2007</b>			
Balance at 1 July	72	63	135
Additional provisions made	46	18	64
Amounts used	-	-	-
Unused amounts reversed	-	-	-
Discount unwind (Note 7)	-	-	-
<b>Balance at 30 June</b>	<b>118</b>	<b>81</b>	<b>199</b>

## HBS SCREENING EQUIPMENT DECOMMISSIONING

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

## LEASEHOLD REFURBISHMENT

In respect of leased office space in Wellington, 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 Note 19 and 22.

## 19 BORROWINGS

	Actual 2008 \$000	Actual 2007 \$000
<b>Current borrowings are represented by:</b>		
Finance leases	2,864	2,691
<b>Total current portion</b>	<b>2,864</b>	<b>2,691</b>
<b>Non-current borrowings are represented by:</b>		
Finance leases	1,417	4,281
<b>Total non-current portion</b>	<b>1,417</b>	<b>4,281</b>
<b>Total borrowings</b>	<b>4,281</b>	<b>6,972</b>
<b>Analysis of finance leases</b>		
	Actual 2008 \$000	Actual 2007 \$000
<b>Minimum lease payments payable:</b>		
Not later than one year	3,114	3,155
Later than one year and not later than five years	1,458	4,572
Later than five years	-	-
<b>Total minimum lease payments</b>	<b>4,572</b>	<b>7,727</b>
Future finance charges	(291)	(755)
<b>Present value of minimum lease payments</b>	<b>4,281</b>	<b>6,972</b>
<b>Present value of minimum lease payments payable:</b>		
Not later than one year	3,112	3,148
Later than one year and not later than five years	1,169	3,824
Later than five years	-	-
<b>Total present value of minimum lease payments</b>	<b>4,281</b>	<b>6,972</b>

## DESCRIPTION OF LEASING ARRANGEMENTS

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

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

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

There are no restrictions placed on the Authority by any of these finance-leasing arrangements. Finance lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

## 20 EQUITY

	Actual 2008 \$000	Actual 2007 \$000
<b>Taxpayers' equity</b>		
Opening balance at 1 July	25,130	26,009
Revaluations	16	-
Net surplus / (deficit)	16,349	(2,727)
Capital contribution	-	1,848
Repayment of capital	(462)	-
<b>Closing balance at 30 June</b>	<b>41,033</b>	<b>25,130</b>
<b>Comprising:</b>		
<b>Property, plant and equipment revaluation reserve</b>		
Opening balance at 1 July	624	624
Impairment charges	-	-
Reversal of impairment	-	-
Revaluations	16	-
Transfer to general funds on disposal	-	-
<b>Closing balance at 30 June</b>	<b>640</b>	<b>624</b>
<b>Passenger security charges reserves</b>		
Opening balance at 1 July	213	-
<i>Transfer from general funds to:</i>		
Passenger security charges additions	13,164	213
Passenger security contingency reserve	1,781	-
<b>Closing balance at 30 June</b>	<b>15,158</b>	<b>213</b>
<b>General funds</b>	<b>25,235</b>	<b>24,293</b>
<b>Taxpayer's equity at 30 June</b>	<b>41,033</b>	<b>25,130</b>

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



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

	Actual 2008 \$000	Actual 2007 \$000
<b>Net surplus / (deficit)</b>	<b>16,349</b>	<b>(2,727)</b>
<b>Add/(less) non-cash items:</b>		
Depreciation and amortisation expense	5,862	5,545
Impairment of receivables	3	37
Net foreign exchange (gains) / losses	(36)	21
Discount unwind on employee entitlements	23	23
Non-current employee entitlements	628	102
<b>Total non-cash items</b>	<b>6,480</b>	<b>5,728</b>
<b>Add/(less) items classified as investing or financial activities</b>		
(Gains) / losses on disposal of property, plant and equipment	(91)	(59)
(Gains) / losses on disposal of intangible assets	-	-
Impairment losses – property, plant and equipment	-	98
<b>Total items classified as investing or financial activities</b>	<b>(91)</b>	<b>39</b>
<b>Add/(less) movements in working capital items:</b>		
Debtors and other receivables	(1,100)	(2,486)
Inventories	147	17
Creditors and other payables	(1,054)	303
Employee entitlements	1,456	2,121
Provisions	64	64
<b>Net movements in working capital items</b>	<b>(487)</b>	<b>19</b>
<b>Net cash from operating activities</b>	<b>22,251</b>	<b>3,059</b>

## 22 CAPITAL AND OPERATING COMMITMENTS

<b>Capital commitments</b>	<b>Actual 2008 \$000</b>	<b>Actual 2007 \$000</b>
Property, plant and equipment	-	-
Intangible assets	280	-
<b>Total capital commitments</b>	<b>280</b>	<b>-</b>

**NON-CANCELLABLE OPERATING COMMITMENTS**

<b>Operating leases as lessee</b>	<b>Actual 2008 \$000</b>	<b>Actual 2007 \$000</b>
Not later than one year	2,278	3,155
Later than one year and not later than five years	4,007	6,169
Later than five years	1,020	1,076
<b>Total non-cancellable operating leases</b>	<b>7,305</b>	<b>10,400</b>

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

<b>Other non-cancellable operating commitments</b>	<b>Actual 2008 \$000</b>	<b>Actual 2007 \$000</b>
Not later than one year	966	507
Later than one year and not later than five years	4,918	-
Later than five years	-	-
<b>Total non-cancellable operating commitments</b>	<b>5,884</b>	<b>507</b>

## 23 CONTINGENCIES

## CONTINGENT LIABILITIES

*Legal actions*

The Authority has taken, or is responding to, legal actions involving 2 (2007: 5) aviation participants. The Authority has relied on advice from legal counsel in forming the view that contingent liabilities with an estimated value of \$55,000 (2007: \$35,000) 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.

The Authority has purchase card facilities with Westpac New Zealand Limited with a total limit of \$1,050,000 as at 30 June 2008. This facility is to allow personnel to incur business related expenses.

In the event that these contingent liabilities crystallise, there are no arrangements in place that would allow the Authority to receive any material reimbursement (2007: \$nil).

## CONTINGENT ASSETS

The Authority has no contingent assets (2007: \$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 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	
		2008 \$	2007 \$	2008 \$	2007 \$
R Bettle (Authority chairman) Provision of services	(i)	12,500	-	-	-
R Crawford (Authority member) CAA Instructor renewal flight test fee	(ii)	550	-	-	-
<b>Total transactions</b>		<b>13,050</b>	<b>-</b>	<b>-</b>	<b>-</b>

- (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.

No provision has been required, nor any expense recognised for impairment of receivables from related parties (2007: \$nil).

### KEY MANAGEMENT PERSONNEL COMPENSATION

	Actual 2008 \$000	Actual 2007 \$000
Salaries and other short-term employee benefits	2,516	2,062
Post-employment benefits	40	9
Other long-term benefits	86	45
Termination benefits	-	22
<b>Total key management personnel compensation</b>	<b>2,642</b>	<b>2,138</b>

## KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

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:

	Actual 2008 \$000	Actual 2007 \$000
R Bettle (Chair – appointed October 2006)	49	34
E Millar (Deputy Chair – appointed April 2007)	28	14
D Park (appointed November 2003)	24	17
S Hughes (appointed November 2004)	24	24
R Crawford (appointed April 2007)	24	6
R Tannock (Chair – retired September 2006)	-	56
H Armstrong (Deputy Chair – retired March 2007)	-	36
R Reid (retired March 2007)	-	28
<b>Total Authority member remuneration</b>	<b>149</b>	<b>215</b>

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

The Authority has 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

Total remuneration paid or payable	Actual 2008 Number	Actual 2007 Number
\$100,000 - \$109,999	10	12
\$110,000 - \$119,999	4	6
\$120,000 - \$129,999	6	2
\$130,000 - \$139,999	11	17
\$140,000 - \$149,999	8	5
\$150,000 - \$159,999	3	2
\$160,000 - \$169,999	1	2
\$170,000 - \$179,999	1	3
\$180,000 - \$189,999	2	2
\$190,000 - \$199,999	2	3
\$200,000 - \$209,999	-	1
\$210,000 - \$219,999	-	-
\$220,000 - \$229,999	-	-
\$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
<b>Total number of employees</b>	<b>50</b>	<b>56</b>

During the year ended 30 June 2008, 2 (2007: 3) employees and Authority members received compensation and other benefits in relation to cessation totalling \$36,000 (2007: \$47,500).

## 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:

	Actual 2008 \$000	Actual 2007 \$000
<b><i>Loans and receivables</i></b>		
Cash and cash equivalents	35,422	19,481
Debtors and other receivables	10,782	9,682
<b><i>Total loans and receivables</i></b>	<b>46,204</b>	<b>29,163</b>
<b><i>Financial instruments at fair value through profit and loss</i></b>		
Derivative financial instrument assets	16	-
Derivative financial instrument liabilities	-	(21)
<b><i>Total financial instruments at fair value through profit and loss</i></b>	<b>16</b>	<b>(21)</b>
<b><i>Financial liabilities measured and amortised cost</i></b>		
Creditors and other payables	5,172	6,226
Finance lease liabilities	4,281	6,972
<b><i>Total financial liabilities measured at amortised cost</i></b>	<b>9,453</b>	<b>13,198</b>

## 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.

	2008 \$000	2008 Concentration %	2007 \$000	2007 Concentration %
<i>Debtors and other receivables</i>				
New Zealand airports	4	0.0%	216	2.2%
Domestic and International passenger airlines	9,312	86.4%	8,037	83.0%
Other	1,466	13.6%	1,429	14.8%
<b>Total concentration of credit risk</b>	<b>10,782</b>	<b>100.0%</b>	<b>9,682</b>	<b>100.0%</b>

## 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
<b>2008</b>				
Creditors and other payables (Note 16)	4,440	732	-	-
Borrowings (Note 19)	272	1,306	1,534	1,169
<b>Total contractual undiscounted cash flows</b>	<b>4,712</b>	<b>2,038</b>	<b>1,534</b>	<b>1,169</b>
<b>2007</b>				
Creditors and other payables (Note 16)	5,729	497	-	-
Borrowings (Note 19)	272	1,306	1,570	3,824
<b>Total contractual undiscounted cash flows</b>	<b>6,001</b>	<b>1,803</b>	<b>1,570</b>	<b>3,824</b>

### 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:

	<b>International Passenger Security Charges \$000</b>	<b>Domestic Passenger Security Charges \$000</b>	<b>Other Fees / Charges \$000</b>	<b>Actual 2008 \$000</b>	<b>Budget 2008 \$000</b>	<b>Actual 2007 \$000</b>
<b>2008</b>						
<b>Aviation Security:</b>						
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
Prior period NZ IFRS adjustment	-	-	-	-	-	(582)
<b>Closing balance at 30 June</b>	<b>11,924</b>	<b>3,234</b>	<b>(1,300)</b>	<b>13,858</b>	<b>(8,427)</b>	<b>(579)</b>

	<b>International Passenger Security Charges \$000</b>	<b>Domestic Passenger Security Charges \$000</b>	<b>Other Fees / Charges \$000</b>	<b>Actual 2007 \$000</b>	<b>Budget 2007 \$000</b>	<b>Actual 2006 \$000</b>
<b>2007</b>						
<b>Aviation Security:</b>						
Revenue	35,171	15,949	3,611	54,731	50,471	44,810
Expenditure	(36,660)	(15,993)	(3,781)	(56,434)	(49,805)	(45,527)
Net surplus / (deficit)	(1,489)	(44)	(170)	(1,703)	666	(717)
Opening balance at 1 July	2,813	(516)	(591)	1,706	620	2,423
NZ IFRS transitional adjustment	(401)	(150)	(31)	(582)	-	-
<b>Closing balance at 30 June</b>	<b>923</b>	<b>(710)</b>	<b>(792)</b>	<b>(579)</b>	<b>1,286</b>	<b>1,706</b>



## 32 EXPLANATION OF TRANSITION TO NEW ZEALAND IFRS

### TRANSITION TO NZ IFRS

As stated in Note 1, these are the Authority's first financial statements prepared in accordance with NZ IFRS. The Authority's transition date is 1 July 2006 and the opening NZ IFRS balance sheet has been prepared as at that date. The Authority's NZ IFRS adoption date is 1 July 2007.

### EXEMPTIONS FROM FULL RETROSPECTIVE APPLICATION ELECTED BY THE AUTHORITY

In preparing these financial statements in accordance with NZ IFRS 1, the Authority has not applied any optional exemptions from full retrospective application of NZ IFRS.

The only mandatory exception from retrospective application that applies to the Authority is the requirement for estimates under NZ IFRS at 1 July 2006 and 30 June 2007 to be consistent with estimates made for the same date under previous NZ GAAP.

## 32 EXPLANATION OF TRANSITION TO NEW ZEALAND IFRS (CONTINUED)

## RECONCILIATION OF EQUITY

The following table shows changes in equity, resulting from the transition from previous NZ GAAP to NZ IFRS as at 1 July 2006 and 30 June 2007.

	Explanatory Note	As at 1-Jul-06			As at 30-Jun-07		
		Previous NZ GAAP	Effect on transition to NZ IFRS	NZ IFRS	Previous NZ GAAP	Effect on transition to NZ IFRS	NZ IFRS
<b>Assets</b>							
<b>Current assets</b>							
Cash & cash equivalents		20,232	(4,000)	16,232	19,481	-	19,481
Debtors & other receivables		7,384	-	7,384	9,682	-	9,682
Inventories (incl WIP)		435	-	435	418	-	418
Investments		-	4,000	4,000	-	-	-
<b>Total current assets</b>		<b>28,051</b>	<b>-</b>	<b>28,051</b>	<b>29,581</b>	<b>-</b>	<b>29,581</b>
<b>Non-current assets</b>							
Property, plant & equipment	a, b, c	18,798	(642)	18,156	16,332	(1,012)	15,320
Intangible assets	b, c	-	1,251	1,251	-	1,710	1,710
<b>Total non-current assets</b>		<b>18,798</b>	<b>609</b>	<b>19,407</b>	<b>16,332</b>	<b>698</b>	<b>17,030</b>
<b>Total assets</b>		<b>46,849</b>	<b>609</b>	<b>47,458</b>	<b>45,913</b>	<b>698</b>	<b>46,611</b>
<b>Liabilities</b>							
<b>Current liabilities</b>							
Creditors & other payables		5,386	-	5,386	6,247	(21)	6,226
Employee entitlements	d, f	4,257	229	4,486	5,739	253	5,992
Provisions	g	-	-	-	-	-	-
Borrowings		2,492	-	2,492	2,691	-	2,691
Derivative financial instruments		-	-	-	-	21	21
<b>Total current liabilities</b>		<b>12,135</b>	<b>229</b>	<b>12,364</b>	<b>14,677</b>	<b>253</b>	<b>14,930</b>
<b>Non-current liabilities</b>							
Employee entitlements	d, f	1,890	87	1,977	1,969	102	2,071
Provisions		-	135	135	-	199	199
Borrowings		6,972	-	6,972	4,281	-	4,281
<b>Total non-current liabilities</b>		<b>8,862</b>	<b>222</b>	<b>9,084</b>	<b>6,250</b>	<b>301</b>	<b>6,551</b>
<b>Total liabilities</b>		<b>20,997</b>	<b>451</b>	<b>21,448</b>	<b>20,927</b>	<b>554</b>	<b>21,481</b>
<b>Net assets</b>		<b>25,852</b>	<b>158</b>	<b>26,010</b>	<b>24,986</b>	<b>144</b>	<b>25,130</b>
<b>Taxpayers' equity (inc/(dec))</b>							
General funds		25,228	158	25,386	24,362	144	24,506
Reserves		624	-	624	624	-	624
<b>Total taxpayers' equity</b>		<b>25,852</b>	<b>158</b>	<b>26,010</b>	<b>24,986</b>	<b>144</b>	<b>25,130</b>
<b>Taxpayers' equity</b>							
The adjustments to Taxpayers' equity are as follows:				<b>1-Jul-06</b>		<b>30-Jun-07</b>	
				<b>\$000</b>		<b>\$000</b>	
Property, plant & equipment	a			(82)		184	
Intangible assets	b, c			691		514	
Employee entitlements	d			(316)		(355)	
Provisions	g			(135)		(199)	
<b>Total adjustment to Taxpayers' equity</b>				<b>158</b>		<b>144</b>	

## 32 EXPLANATION OF TRANSITION TO NEW ZEALAND IFRS (CONTINUED)

*Reconciliation of deficit for the year ended 30 June 2007*

The following table show changes in the Authority's deficit, resulting from the transition from previous NZ GAAP to NZ IFRS for the year ended 30 June 2007:

	Explanatory Note	Year ended 30-Jun-07		
		Previous NZ GAAP	Effect on transition to NZ IFRS	NZ IFRS
<b>Income</b>				
Levies revenue		20,589	-	20,589
Revenue from Passenger security charges and other services		57,358	-	57,358
Crown funding revenue		1,926	-	1,926
Ministry contract revenue		1,897	-	1,897
Other income		1,584	12	1,596
Total income		83,354	12	83,366
<b>Expenses</b>				
Personnel costs	d, e	61,754	(57)	61,697
Depreciation & amortisation expense	a	5,611	(66)	5,545
Capital charge		1,908	-	1,908
Finance costs	e	664	96	760
Other cost of services	c	16,130	53	16,183
Total expenses		86,067	14	86,093
<b>Net surplus / (deficit)</b>		<b>(2,713)</b>	<b>(14)</b>	<b>(2,727)</b>

*Statement of cash flows*

On transition of NZ IFRS, the *Statement of Cash Flows* presents the increase and decrease in short-term deposits with maturities of four to twelve months on a gross basis as part of investing activities, rather than as part of cash and cash equivalents. Computer software purchased and developed is presented as the purchase of intangible assets rather than as the purchase of property, plant and equipment or operating expense.

The changes have impacted on the *Statement of Cash Flows* for the year ended 30 June 2007 where:

Net cash flows from investing activities have increased by \$3.765 million from a net outflow of \$2.930 million to a net inflow of \$ 835,000 from the following:

- net maturities of longer term deposit investments of \$4.000 million; and
- the transfer of \$514,000 of previously classified property, plant and equipment purchases together with \$235,000 of previous operating expense to the purchase of intangible assets for \$749,000.

Opening cash and cash equivalents have decreased from \$20.232 million to \$16.232 million reflecting the reclassification of longer-term deposits to investments.

There have been no other material adjustments to the *Statement of Cash Flows* for the year ended 30 June 2007 on transition to NZ IFRS.

*Explanatory notes:*

- a. On transition to NZ IFRS, computer software and databases that were previously classified as items of property, plant and equipment no longer qualify for recognition within that asset class. Associated depreciation has been reversed.
- b. Purchased and internally developed computer software that is not integral to the associated computer hardware has been recognised as an intangible asset rather than as an item of property, plant and equipment.
- c. The Aeronautical Information Services Database that was acquired prior to transition to NZ IFRS has been recognised as an indefinite life intangible asset rather than as an item of property, plant and equipment. This intangible asset is not amortised and is instead impairment tested annually. There has been no impairment since acquisition and the database is recognised at its original cost plus additions.
- d. Some employment contracts provide for an entitlement to accumulating sick leave and a corresponding liability has been recognised for this.
- e. The cost of the discount unwind, as provisions for long service leave and retiring leave get closer to their expected settlement dates, has been transferred from personnel costs to finance costs.
- f. The current portion of employee benefits for long service leave and retiring leave has been re-classified from non-current to current liabilities.
- g. Decommissioning and refurbishment provisions have been recognised for HBS screening equipment and a building lease respectively.



