

statement of intent

2009 / 12

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



Aviation Security Service
Kaiwhakamaru Rererangi



New Zealand Government

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Foreword from the Authority

The aviation sector in New Zealand is facing a number of challenges due to the international economic downturn. Some are already manifest in a number of changes in the New Zealand aviation environment.

In setting this Statement of Intent the Authority has established outcomes and priorities to ensure it meets its statutory obligations, New Zealand's international commitments and the expectations of government within the constraints of wider economic pressures.

For this period, the Authority has identified key priorities for each of its operating arms – the CAA and the Aviation Security Service (Avsec) – which take account of changes and developments in the aviation sector.

For the CAA, these changes relate to building the organisation's human resources and information technology to implement new regulatory approaches such as the introduction of New Zealand's State Safety programme and the Safety Management System approach to regulation.

For Avsec the key work programme initiatives identified are focused principally on enhancing the organisation's current capabilities and meeting the demands of airlines and airports as they progress the implementation of their immediate and longer term development programmes.

While the Authority operates in an international and domestic environment where significant technical responsibilities and obligations must be met, it also embraces the government's priority of achieving value for money.

Last year the Authority embarked on a programme of organisational capability review to ensure efficiency and effectiveness in both organisations. It will continue these efforts into this period to ensure that the Authority delivers its services in a cost effective way consistent with the Minister's Letter of Expectations. The Authority is mindful of the fact that many of the safety and security risks that it manages are accentuated during times of international and domestic economic hardship.

To ensure long-term financial stability, the Authority will continue its review of levy, fees and charges that it commenced in 2008/09. The work aims to establish a sustainable and equitable funding regime for the CAA.

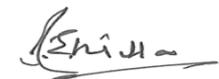
To achieve these expectations, the Authority has set tight and realistic budgets for 2009/10, and it is committed to managing within these budgets.

The Authority's 2009/10 total budgeted revenue is \$104.320m and budgeted operating expenditure is \$107.405m. Compared with 2008/09, this is a decrease of 8.2% and an increase of 10.5% respectively. The CAA is expected to register a deficit of \$4.499m, whereas Avsec will have a surplus of \$1.414m for 2009/10.

The Authority presents this Statement of Intent document in two parts, one for the CAA and another for Avsec, to ensure a clear distinction between the organisation's regulatory responsibilities and its mandated security operations.



RICK BETTLE
Chairman



ERROL MILLAR
Deputy Chairman - CAA



SUSAN HUGHES
Member



DARRYLL PARK
Deputy Chairman - Avsec

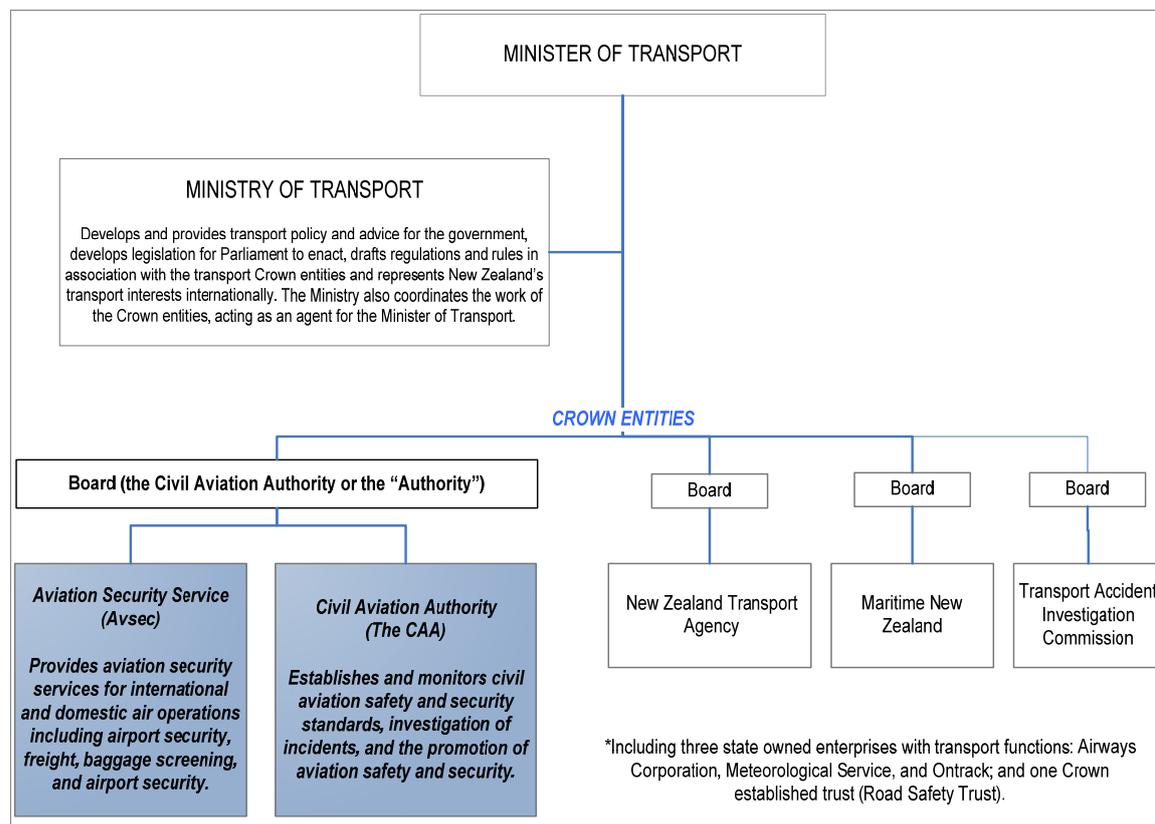


ROSS CRAWFORD
Member

Overview of the Authority

THE NEW ZEALAND TRANSPORT SECTOR STRUCTURE

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



THE AUTHORITY'S STRUCTURE

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

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

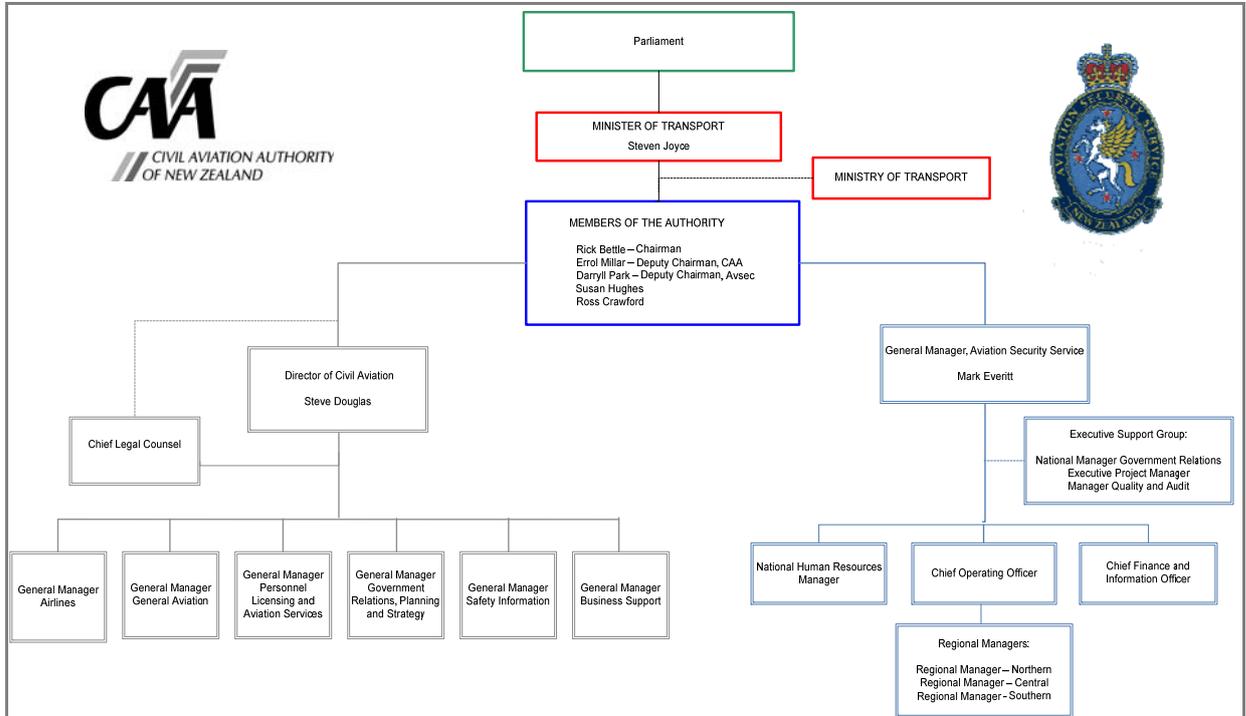
Under *section 72AA of the Act*, the objective of the Authority is to undertake New Zealand's civil aviation safety, security and other functions in a way that contributes to the aim of achieving an integrated, safe, responsive, and sustainable transport system.

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

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

- Avsec provides aviation security services (*section 72B (ca) of the Act*) for international and domestic air operations, including security of passengers, freight, baggage screening, and airport security.

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



OPERATING ENVIRONMENT, KEY FACTORS

Enabling legislation

- Civil Aviation Act 1990

Compliance with international standards

- New Zealand is a member of the International Civil Aviation Organization (ICAO) and is obliged to comply with its international safety and security standards.

Decreasing international and domestic air passenger traffic reduces the Authority's revenue

The current global economic slowdown is affecting New Zealand's domestic and international air passenger traffic. New Zealand tourism forecasters¹ estimate that the drop in international departures from New Zealand in 2009/10 will range from 4% to 10%, and domestic air travel from 3% to 6%.

Consequently, a contraction on the Authority's revenue generated from:

- Civil Aviation (Safety) Levies (for the CAA); and
- Aviation Passenger Security Charges (for Avsec)

is expected.

¹ These percentages are estimates only and should not be used to forecast 2009/10 and out-years. Significant changes to the global economy over the past six months mean that forecasts need to be treated with caution. New tourism forecast series (with 2008 as base) will be released in June 2009 by the New Zealand Tourism Research. Refer to www.tourismresearch.govt.nz for updates and forecasts.

GROUP² PROJECTED FINANCIAL PERFORMANCE INDICATORS

GROUP PROJECTED FINANCIAL INDICATORS For the year ending 30 June 2010	2008/09		2009/10	2010/11	2011/12
	Budget	Forecast	Budget	Budget	Budget
Revenue (\$000)	122,851	113,619	104,320	104,964	105,936
Output expenses (\$000)	111,830	97,202	107,405	113,057	120,177
Net surplus/(deficit) (\$000)	11,021	16,417	(3,085)	(8,093)	(14,241)
Working capital					
Net working capital (\$000)	41,426	53,081	50,844	37,076	24,242
Current ratio (Ratio:1)	3.58	4.70	5.18	4.20	3.10
Average age of debtors (days)	34	37	51	44	47
Average age of creditors (days)	52	54	65	51	53
Resource utilisation					
Resource utilisation (%)	90%	83%	103%	107%	112%
Cash and cash equivalents (\$000)	45,125	55,605	56,768	44,709	33,473
Physical assets at year end (NBV) (\$000)	16,659	14,154	20,074	22,580	19,901
Capital expenditure (\$000)	10,590	5,263	13,412	9,718	4,460
Capital expenditure as % of physical assets (NBV)	64%	37%	67%	43%	22%
Physical assets as % of total assets	22%	17%	23%	28%	30%
Taxpayers' equity					
Taxpayers' equity at year-end (\$000)	55,192	62,786	66,756	58,943	45,006
Taxpayers' equity as % of total assets	74%	77%	75%	74%	68%
<i>Note: Refer to the respective Forecast Financial Statements of the CAA (pages 43 to 56 of the CAA's 2009/12 SOI) and Avsec (pages 89 to 105 of Avsec's 2009/12 SOI) for details.</i>					

²"Group" means the combined financial indicators of the CAA and Avsec.



Civil Aviation Authority

(The CAA)

Financial Year 2009/12

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Part A:
Statement of Intent 2009/12

1. Introduction from the Director of Civil Aviation

The CAA regulates safety and security in the civil aviation system. To carry out this role the CAA issues licences and approvals to individuals and organisations entering the civil aviation system, monitors their activities and provides safety information and advice. The CAA adopts a risk-based approach to its safety monitoring activities to ensure that resources for safety audits, inspections, and spot checks are directed to obtain the greatest safety improvements.

The CAA collects information and data from participants operating in the system and from its proactive safety monitoring activities. It analyses this information to identify trends in safety performance and adjust its safety activities to achieve better safety outcomes.

The CAA undertakes rule making for the aviation sector. It is assisted in this process by ad hoc working groups and by the Aviation Community Advisory Group. An essential focus of the rules programme is the adoption of International Civil Aviation Organisation (ICAO) Standards.

Under New Zealand's international obligations, the CAA is designated as the authority for licensing, airworthiness, air traffic services and aviation security. The CAA actively participates in ICAO panels and working groups in the development of international standards and recommended practices. Under these obligations, services are provided by organisations certificated under the relevant Civil Aviation Rules. For example, air traffic services provided by Airways Corporation, and security screening by the Aviation Security Service.

In 2006, New Zealand was audited by ICAO as part of its universal safety oversight programme. The scope of the audit was comprehensive, including accident investigation and security. New Zealand achieved a good result compared with the principal states in our region, and scored in the top half of the OECD states. This demonstrates the effectiveness of New Zealand's regulatory system and its operation. Nevertheless, there is significant work to be done to implement all of the findings from the ICAO audit. Initiatives to address these findings are reflected in this Statement of Intent.

The Statement of Intent for 2009/12 outlines the CAA's operating intentions for the medium-term. It describes a number of initiatives, which are designed to ensure that the CAA becomes more effective and efficient as a safety and security regulator.

The priority for the CAA is to focus on making the civil aviation system work well for the benefit of improved safety and security. This Statement of Intent embodies a series of initiatives developed to ensure that the CAA is able to:

- access the information it needs to make good decisions;
- make decisions using well developed principles and policies;
- effectively engage with the civil aviation sector domestically and internationally;
- respond appropriately to changes in technologies, markets and international regulations;
- and
- invest in skilled and capable people, and efficient business systems.

The work involved with each initiative is significant, and will in some cases, takes longer than the three-year span of this Statement of Intent.

The way ahead has many challenges. Those challenges include doing business differently; working within a constrained economic environment; and positively influencing safety attitudes and behaviours. The CAA must maintain its capability with respect to new technologies, and keep the regulatory framework and requirements up to date.

In the planned adoption of safety management systems across the rules framework, new requirements for the identification and management of operating risks will build on the current

management systems adopted in the Civil Aviation Rules. As much as each of these changes will be challenging to the civil aviation sector, they also pose challenges for the CAA.

In 2008/09, the CAA commenced a review of its current funding regime to ensure that it has the revenue and resources to undertake its full range of safety and security regulatory activities, to implement these initiatives, and to respond to current and emerging safety issues.

In the interim, the economic environment will be especially demanding on the CAA. For the 2009/10 financial year, the CAA is forecasting a budget deficit of \$4.5m, as the result of the economic downturn and reduction in domestic and international passenger numbers. Budget revenue is \$24.732m (2008/09: \$31.041m) reflecting the reduction in levy revenue, while budgeted expenditure has been reduced to \$29.231m (2008/09: \$31.396m) following a review of all expenditure lines.

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

The CAA's focus remains on improving safety and security outcomes and the importance of its core regulatory functions of entry certification and safety monitoring in achieving this result. Improved safety performance of the system will be achieved through the relationships the CAA develops with industry participants for the benefit of the public and users of the civil aviation system.



STEVE DOUGLAS

Director of Civil Aviation

2. Nature and Scope of Functions

2.1 WHO WE ARE

Statutory mandate

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

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

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

Role³

The CAA provides:

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

Certain international civil aviation obligations of the Crown are delegated to the Authority 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:

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

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

To achieve its statutory mandate, the CAA has four output classes:

CAA output classes	Funding sources for each output class	CAA outputs contribute to the achievement of its desired overall outcome:
1. Policy advice	Crown funding for policy advice; and Ministry of Transport contract for Rules Development.	<i>"Continued high public confidence in civil aviation."</i>
2. Safety and security assessment and certification	Aviation safety levies; fees and charges; and Crown funding for health and safety administration in the aviation sector.	
3. Safety and security investigation, analysis and education	Aviation safety levies.	
4. Enforcement	Aviation safety levies.	

2.2 RESOURCE BASE

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

The organisation is structured reflecting the makeup of the aviation industry with six General Managers and Chief Legal Counsel supporting the Director of Civil Aviation. The General Managers' responsibilities cover Airlines, General Aviation, Personnel Licensing and Aviation Services, Government Relations Planning and Strategy, Safety Information, and Business Support.

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

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

3. Operating Environment

3.1 MINISTERIAL LETTER OF EXPECTATION

The CAA recognises the Ministerial Enduring Letter of Expectation that requires Crown entities to be managed on a Value-for-Money basis. As such, CAA will deliver its statutory mandate in a cost effective manner. As a Crown entity, the CAA will continue to:

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

3.2 REGULATING THE NEW ZEALAND CIVIL AVIATION SYSTEM⁴

In 2008, more than 9 million passengers travelled on New Zealand domestic airline services and 4 million departed on international air carriers. The CAA serves the public interest in aviation safety and security; 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, and its aviation “clients” in the aviation system to achieve its safety and security objectives.

Aviation document holders in the New Zealand civil system

Aviation participants must be certificated to be an aviation document holder. Their entry, participation, and exit from the civil aviation system are overseen by the CAA.

Aviation document holders* in the New Zealand civil aviation system	Jun 2008	Jun 2009
Certified organisations**	634	710
Total active licensed pilots	9,791	10,052
Part 66 aircraft maintenance engineer	2,233	2,371
Air traffic service licence with class 3 medical	482	553
Aircraft in the New Zealand fleet	4,357	4,398
Notes: * As at June 2009, there are 47,827 active aviation document holders comprising organisations, individuals, and aircraft. ** The increase in certificated organisations is due to 54 certificated air cargo agents under Rule Part 109, Regulated Air Cargo Agents, which took effect in April 2009. Refer to www.caa.govt.nz for details.		

Performance of document holders

While in the system, document holders must continue to operate in compliance with civil aviation standards and conditions of their documents. Their adherence to civil aviation safety and security rules and standards are inspected and monitored (through routine audits, special purpose audits, and spot checks), and any corrective actions necessary to bring their performance to the required standards are identified.

Non-compliance

If the client’s performance falls below the required standards, the CAA seeks compliance in regaining the required level of performance. The CAA identifies areas of non-compliance through findings from audits (monitoring or surveillance) conducted. Since 2002 to mid-2008, overall non-compliance has declined.

⁴ Refer to www.caa.govt.nz on how the CAA regulates the New Zealand civil aviation system and safety data updates.

Corrective actions

A return to an acceptable level of performance is managed through corrective actions and follow-up. In 2007/08 and 2006/07, the rate of on-time implementation of corrective action was almost static at 57% (854 of 1,504 total) and 56% (808 of 1,442 total) respectively. However close to 100% of corrective actions are resolved within twelve months.

New Zealand's civil aviation safety and security system⁵

The safety performance of New Zealand civil aviation safety and security is measured by a suite of performance measures: social cost of accidents per unit of passenger exposure, rate of accidents per 100,000 flight hours, and number of civil aviation fatalities and injuries.

Social cost of aviation accidents per unit of passenger exposure

A social cost that is greater than its target is unacceptable and therefore aviation risk initiatives are necessary to bring an aviation target group within the acceptable 2010 target. Of particular concern is the safety performance of some parts of non-public air transport:

- other commercial operations, that are not classified as public air transport, using aeroplanes and helicopters;
- aeroplanes and helicopters used in agricultural operations; and
- private operations using sport aircraft.

Rate of aviation accidents per 100,000 flight hours

In 2008, the three groups with the highest *rate of accidents per 100,000 flight hours* were:

- helicopters used in private operations;
- aeroplanes used in agricultural operations; and
- aeroplanes used in private operations.

Number of civil aviation fatalities and injuries

There were ten fatal aircraft accidents in 2008 compared to four in 2007. The ten accidents in 2008 resulted in 14 fatalities, twelve serious, and 13 minor injuries. The four accidents in 2007 resulted in four fatalities, 14 serious and 16 minor injuries.

Fatal aircraft accidents	Jan-Mar		Apr-Jun		Jul-Sep		Oct-Dec		Year-end Total	
	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008
Accidents	1	5	0	2	0	0	3	3	4	10
Fatalities	1	7	0	4	0	0	3	3	4	14
Serious injuries	4	0	4	2	4	5	2	5	14	12
Minor injuries	5	2	4	2	1	4	6	5	16	13

3.3 INTERNATIONAL OBLIGATIONS

Global aviation changes are reflected in ICAO standards and recommended practices (SARPS), which support the promotion of uniformity in the regulation of international civil aviation. These SARPS are reflected in the New Zealand civil aviation rules and advisory circulars. The following is a list of ICAO's priorities in the medium to long term, to which the CAA is working to maintain its compliance to international civil aviation standards.

⁵ Refer to Section 10.2, Comparative trends of the CAA's intermediate outcome measures, social cost, rate of accidents, non-compliance finding values, and rate of on-time implementation of corrective actions; and www.caa.govt.nz for updates.

ICAO priorities ⁶	Description	Effects on the CAA work programmes
Safety	Transparency and sharing of information as fundamental to further improving safety. Promotion of regional safety oversight systems and assistance to States, safety information analysis and exchange, and partnership with Contracting States and other stakeholders for rectifying deficiencies identified through ICAO safety audits.	The CAA (as the delegated Authority of New Zealand in respect of ICAO) must maintain New Zealand's compliance to international civil aviation standards. Amendments to ICAO's SARPs must be reflected in the CAA's civil aviation rules for implementation in the New Zealand civil aviation system.
Security	Thorough review of the development process of security standards, and explore the possibility of holding special aviation security assemblies.	
Environmental protection	Market-based options to reduce emissions.	
Air navigation	Revised Global Air Navigation Plan to be continuously updated.	
Economic issues	Liberalization of air transport while assisting States in the provision of airport and air navigation services through sound policies.	

The CAA is working to introduce ICAO mandated Safety Management Systems (SMS) to the New Zealand civil aviation system. SMS requirements will be implemented first in operations using large aeroplanes used in public air transport and their supporting maintenance, air traffic organisations, and aerodromes.

The CAA is also working with aircraft operators and Airways Corporation on the implementation of Performance Based Navigations systems (PBN) and other similar efficiency initiatives. This work has the potential to reduce fuel use and the emission of greenhouse gases.

Both programmes will increase the efficiency of New Zealand civil aviation.

⁶ Refer to www.icao.org for details.

4. Managing the CAA's Risks

Set out below are major internal and external risks that the CAA expects in 2009/12:

4.1 MANAGING INTERNAL RISKS

Decreasing Civil Aviation (Safety) Levies revenues

The current global economic slowdown is adversely affecting international air passenger traffic. The volume of international traffic departing from New Zealand contracted by 2.82% for year-end May 2009 (4.432 million) from 4.561 million in 2008⁷. This will consequently reduce the CAA's revenue from Departing International Passenger Levy, which comprised 13.4% (\$3.944 million) of the CAA's total revenue in 2007/08 and 13.9% (\$3.891 million) in 2006/07.

The potential decline in domestic air travel is a bigger threat to the CAA in 2009/12. The Domestic Passenger Levy comprised 59.4% (\$17.434 million) of the CAA's total revenue in 2007/08 and 56.8% (\$15.808 million) in 2006/07. A reduction in domestic air passengers will effectively reduce the CAA's revenue generated from Domestic Passenger Levy.

Risk: Revenue from Civil Aviation (Safety) Levies may not be sufficient to finance the required CAA capability in the medium term.

Mitigation: The CAA is in the final stage of completing a Funding Review (in collaboration with the Ministry of Transport and the Treasury). The report is expected by the Minister of Transport in June 2009, as stated in the Minister's 2008/09 *Letter of Expectation to the Authority*. The CAA also implemented cost-cutting measures (e.g. travel, training, recruitment) to reduce deficits.

Relocation of the CAA

The CAA has committed to relocating to the Wellington CBD in 2010/2011 as part of an overall property strategy initiated in 2007. The CAA is currently located in two buildings in Petone; which are not suitable for CAA's long-term requirements. The relocation to Wellington will provide a professional location for staff that is accessible to the CAA's stakeholders, including transport sector agencies and aviation clients. This commitment to a new location was made prior to the current economic downturn that is adversely affecting the CAA's revenue streams. This downturn is likely to erode accumulated cash reserves that are being relied on to fund the one-off costs associated with the relocation. The lease commencement date is February 2011.

Risk: The CAA's revenue streams and cash reserves may be insufficient to meet the relocation costs and/or the ongoing rental costs of its new accommodation.

Mitigation: The costs estimated by the CAA for relocation have been rigorously reviewed; and will continue to be monitored within the budget set for the relocation. The funding of the ongoing accommodation costs will be considered as part of the analysis of future revenues and costs being undertaken as part of the Funding Review mentioned above (*in Safety Levy Revenue risk*).

Organisational resilience

The civil aviation community is subject to rapid changes in aviation technology, international regulatory frameworks, and operations structure. In this highly dynamic environment, the CAA has traditionally drawn on the experienced operations people from the aviation community to strengthen its capability. These factors put significant onus on the CAA to maintain a high level of organisational resilience.

Risk: The CAA may be constrained in its ability to implement internal change as quickly as needed in the increasingly dynamic aviation and regulatory environment.

Mitigation: The CAA will implement its human resources strategy to ensure it has the most appropriate and capable staff. The CAA's long-term plans must reflect changes in the aviation environment, and strategies to optimise its relationships with its stakeholders.

⁷ www.statistics.govt.nz.

4.2 MANAGING EXTERNAL RISKS

Rapid changes in aviation technology

It is expected that technological advances will continue despite the economic downturn. Advances in aviation technology are expected to increase pressure on infrastructure and the activities of regulators. As aircraft technology changes, flight operations, and traffic (passenger and air cargo) change, this requires greater attention by aerodrome and air traffic management (ATM) operators as well as the CAA.

Risk: The unpreparedness of regulators to ensure that staff skills keep pace with aviation technological changes would be detrimental to a safe and secure civil aviation environment.

Mitigation: The CAA continues its collaborative engagement with aviation participants, aircraft manufacturers and other external stakeholders to better address issues that arise from technological changes. The CAA trains its technical staff to update their knowledge on new aircraft and aerospace technology intended for the New Zealand civil aviation system; and regular interaction with overseas regulators and industry representatives.

Increasing demand to address environmental issues and emissions

The International Civil Aviation Organisation, the International Air Transport Association, aircraft manufacturers, airlines, and governments are working together to reduce fuel consumption, CO₂ and NO_x emissions. This is a response to public demand to combat climate change and greenhouse gas emissions.

Risk: The inability of the CAA to address environmental issues and emissions from the New Zealand aviation sector would reduce stakeholders' confidence in the CAA's ability to adequately oversee and regulate civil aviation environmental issues.

Mitigation: The CAA is working with aircraft operators and Airways Corporation on the implementation of Performance Based Navigations systems (PBN) and other similar efficiency initiatives. This work has the potential to reduce fuel use and emission of greenhouse gases. The CAA is establishing a new unit to address civil aviation efficiency and environmental issues.

Changes in aviation regulatory approach

The global regulation of civil aviation is dependent on the collaborative development of international standards and practices through ICAO. These standards and practices must be reflected in State legislation and civil aviation operating rules to ensure the safe and efficient global interaction of civil aviation.

Risk: If New Zealand does not meet the ICAO's international standards, the effective and efficient engagement of New Zealand with international civil aviation will be constrained; and regulatory costs could rise as New Zealand would not be able to rely on overseas regulatory systems.

Mitigation: The CAA works to ensure New Zealand meets its obligations to international civil aviation agreements, including the Chicago Convention. It has commenced implementation of Safety Management Systems approach to regulation, a State Safety Plan, and other corrective actions following ICAO's USOAP (safety) and USAP (security) audits of New Zealand.

Economic driver of safety risk

Over the years, it has been observed that some participants in the civil aviation system may cut corners and pay less attention to safety and security in managing their operations in times of economic difficulty.

Risk: The current global economic decline may diminish (or compromise) the safety and security efforts of both aviation participants and the regulator.

Mitigation: The CAA will continue with its stringent regulatory, monitoring, and development works and interventions, mindful of the safety and security risks due to economic difficulties. Where, and in cases of, non-compliance are observed or reported, the CAA will implement or require specific remedial action. The CAA will continue its work to ensure it has the capacity to fund and carry out its obligations to a high standard.

5. Strategic Directions and Operating Intentions

In planning for its strategic directions for 2009/12, the CAA considered the needs of its stakeholders, domestic and international operating environments, output performance, and desired outcomes for New Zealand civil aviation.

Aviation stakeholders require efficiency and effectiveness from the CAA:

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

5.1 STRATEGIC DIRECTIONS

The CAA's intention in the next three years is to implement its five strategic priorities. The first four strategic priorities reflect the CAA's regulatory obligations, while the fifth reflects the CAA's capability intentions:

- a) effective entry control and monitoring;
- b) effective analysis and intervention;
- c) international alignment and effective engagement;
- d) responsive to aviation sector changes; and
- e) capable and efficient business processes, information systems, and people.

These strategic priorities will influence (or contribute to) the delivery of the CAA's:

- outputs:
 - policy advice;
 - safety and security assessment and certification;
 - safety and security investigation, analysis and education; and
 - enforcement.
- intermediate outcomes:
 - reduced number and cost of civil aviation accidents and incidents;
 - reduced number of civil aviation fatalities and injuries; and
 - high level of compliance by civil aviation participants with civil aviation safety and security standards.
- desired overall outcome:
 - ***“continued high public confidence in civil aviation”***.

5.2 OPERATING INTENTIONS

The following tables provide information on how the CAA intends to deliver on its strategic regulatory priorities. The table reflects:

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

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

A: EFFECTIVE ENTRY CONTROL AND MONITORING.				
What the strategic regulatory priority means to the CAA:				
1. A surveillance (monitoring) methodology that produces clear safety benefits or outcomes.				
2. Robust CAA knowledge and intelligence of participant risks (assurance and wisdom).				
3. Active observation and engagement with aviation community in identifying non-compliance and risk.				
4. Interventions linked specifically with assessed risk (considered and targeted).				
5. Transparency and integrity (in applying surveillance methodology.)				
What the CAA intends to do to achieve the strategic regulatory priority:	2009/10	2010/11	2011/12	> 3 yrs
1. Improve surveillance system effectiveness.				
a. Fix surveillance system tools, method and business processes.	●	★		
b. Update surveillance policy and reinforce with staff.	★			
c. Improve targeting of surveillance.	●	★		
d. Improve competence in using the surveillance system	●	●	★	
2. Improve management and implementation of corrective actions.	●	★		
3. Strengthen entry controls.	●	★		
4. <i>Refine the risk profiling methodology.</i>	●	★		
5. <i>Refine data requirement for strategic analysis (of effective surveillance system).</i>	●	★		
6. <i>Scope and document parameters of regulatory tools available to the CAA.</i>	★			
<i>Note:</i> Those in italics are initiatives related to the implementation of Safety Management Systems (section 5.3).		<i>Legend:</i> ○ Work on hold pending sequencing or capacity. ● Work to commence or continue during the financial year. ★ Work to be completed during the financial year.		

B. EFFECTIVE ANALYSIS AND INTERVENTION				
What the strategic regulatory priority means to the CAA:				
1. Good understanding of intervention process drivers.				
2. Clear understanding of intended interventions.				
3. Aviation community behaves positively and measurably influenced.				
4. Calibrated use of regulatory tools in interventions.				
5. Use of demonstrably effective regulatory / intervention tools to effect behavioural change				
What the CAA intends to do to achieve the strategic regulatory priority:	2009/10	2010/11	2011/12	> 3 yrs
1. <i>Develop measures of the macro-level effectiveness of intervention tools.</i>				
a. <i>Define aviation community safety and security behaviours, interconnection, and cause and effect.</i>	○	●	★	
b. <i>Build methodology to assess intervention benefits and model.</i>	○	●	★	
c. <i>Evaluate various models for deploying regulatory interventions. (The objective is to ascertain the effectiveness of the current practice; and have a future practice that is reflective of the nature and changes in the civil aviation system.)</i>	○	●	★	
2. <i>Develop, publish, and implement policies on the management and use of safety and security information for internal and public purposes.</i>	○	●	★	
3. <i>Align and build capacity and capability to gather, analyse, interpret, and disseminate safety and security information in a timely manner to manage safety and security risks and interventions effectively,</i>	○	●	★	
4. <i>Review existing performance measures. (The objective is to provide better guidance for CAA management, and identify measures that are relevant to the flying public and other civil aviation stakeholders.)</i>	○	●	★	
5. <i>Develop better measures of safety and security performance, review safety targets, and redefine as necessary.</i>	○	●	★	
<i>Note:</i> Those in italics are initiatives related to the implementation of Safety Management Systems (section 5.3).		<i>Legend:</i> ○ Work on hold pending sequencing or capacity. ● Work to commence or continue during the financial year. ★ Work to be completed during the financial year.		

C. INTERNATIONAL ALIGNMENT AND EFFECTIVE ENGAGEMENT				
What the strategic regulatory priority means to the CAA:				
1. The government is confident in the CAA as delegated authority in respect of the ICAO, the Convention on International Civil Aviation, and other international civil aviation obligations assigned to it by the Crown. 2. New Zealand's civil aviation safety and security rules and standards are aligned with international standards and best practice.				
What the CAA intends to do to achieve the strategic regulatory priority:	2009/10	2010/11	2011/12	> 3 yrs
1. <i>Build capacity and capability to maintain appropriate alignment with ICAO Standards.</i>	○	○	☆	
2. Review and address backlog of differences to ICAO Standards (that are within the CAA's control.)	○	○	☆	
3. Establish, publish, and follow priority areas for the engagement with appropriate ICAO and related decision-making forums and study groups in the development of New Zealand standards and implementation of ICAO requirements.	○	○	○	☆
4. Development and implement multi-lateral technical or policy arrangements with other countries.	○	○	○	○
<i>Note:</i> Those in italics are initiatives related to the implementation of Safety Management Systems (section 5.3).	Legend: ○ Work on hold pending sequencing or capacity. ● Work to commence or continue during the financial year. ☆ Work to be completed during the financial year.			

D. RESPONSIVE TO AVIATION SECTOR CHANGES				
What the strategic regulatory priority means to the CAA:				
The CAA responds well to technical changes in aviation, through recognising, enabling, and authorising changes needed. In doing this, the CAA must ensure that: <ol style="list-style-type: none"> 1. technological risk is assessed and understood; 2. economic impact of CAA's change management is understood; 3. it is flexible and open in the application of technology within the industry; and 4. it is organisationally nimble, agile, and timely in approach. 				
What the CAA intends to do to achieve the strategic regulatory priority:	2009/10	2010/11	2011/12	> 3 yrs
1. Review alternative methods for the development and delivery of rules.	○	○	☆	
2. Establish the Airspace and Environmental Unit.	☆			
3. Support bio-fuel experimentation and other sustainability developments.	○	○	○	○
4. <i>Align and build skills, capacity, and capability reflecting the future civil aviation environment.</i>	○	○	○	☆
5. Develop and monitor stakeholder relationship initiatives that reflect the stakeholders' roles in civil aviation.	○	○	○	○
<i>Note:</i> Those in italics are initiatives related to the implementation of Safety Management Systems (section 5.3).	Legend: ○ Work on hold pending sequencing or capacity. ● Work to commence or continue during the financial year. ☆ Work to be completed during the financial year.			

The CAA's four strategic regulatory priorities are supported by its strategic priority E:

E. CAPABLE AND EFFICIENT BUSINESS PROCESSES, INFORMATION SYSTEMS, AND PEOPLE				
What the strategic regulatory priority means to the CAA:				
Business operations, training, and systems that build a results-oriented CAA.				
What the CAA intends to do to achieve the strategic regulatory priority:	2009/10	2010/11	2011/12	> 3 yrs
1. <i>Implement enhanced business reporting measures and frameworks.</i>	○	○	☆	
2. Implement, on a priority basis:				
a) human resources strategy,	○	○	○	☆
b) information technology strategy; and	○	○	○	☆
c) knowledge management strategy.	○	○	○	☆
3. <i>Implement the corporate risk management system.</i>	○	☆		
4. Implement the long-term financial model.	☆			
5. Develop increased flexibility and seek to increase funds for the rules programme.	○	☆		
6. Review the basis and objectives of levy, and fees and charges (part of Funding Review). Complete the report and recommendations focusing on value-for-money.	☆			
<i>Note:</i> Those in italics are initiatives related to the implementation of Safety Management Systems (section 5.3).	<i>Legend:</i> ○ Work on hold pending sequencing or capacity. ● Work to commence or continue during the financial year. ☆ Work to be completed during the financial year.			

5.3 IMPLEMENTATION OF SAFETY MANAGEMENT SYSTEMS (SMS)

One of the challenges for the CAA and the aviation sector over the next few years will be the introduction of the Safety Management Systems (SMS) approach to aviation safety oversight. SMS involve the introduction of a risk management approach drawing upon comprehensive safety data. This approach is being adopted globally by all aviation regulators and has been mandated through ICAO standards and recommended practices.

The SMS approach is the next generation of regulatory oversight systems. For New Zealand, it will build upon the Quality Management System approach that is reflected throughout the current aviation regulatory system.

In the short term, the adoption of SMS will require an investment on the part of both operators and aviation safety regulators. Based upon experience to date in other parts of the world, it is anticipated that the SMS approach will yield returns on this investment, in the form of efficiencies for aviation participants through safer operations at lower cost. It will also enable the CAA to better target its regulatory oversight and thus be more efficient, and reduce regulatory compliance costs for operators with sound SMS. The CAA will also be able to consider how it can conduct oversight differently in some sectors using the SMS approach to ensure value for money.

The CAA is systematically working through the issues associated with the introduction of the SMS approach to regulation. This broad initiative is reflected in virtually all elements of the strategic priorities (reflected in *italics* in section 5.2 and listed below). As noted in the preceding tables in section 5.2, the CAA anticipates that implementation of the SMS approach will take several years to complete. To reiterate, these initiatives are:

- *refine the risk profiling methodology (A.4);*
- *refine data requirement for strategic analysis (A.5);*
- *scope and document parameters of regulatory tools available to the CAA (A.6);*
- *all aspects of Effective Analysis and Intervention (B);*
- *build capacity and capability to maintain appropriate alignment with ICAO standards (C.1);*
- *align and build skills, capacity, and capability reflecting the future civil aviation environment (D.4);*

- *implement enhanced business reporting measure and frameworks (E.1); and*
- *implement the corporate risk management system (E.3).*

5.4 LINKAGES OF STRATEGIC PRIORITIES WITH OUTPUTS

The operating intentions, discussed in the preceding sections, to achieve the CAA's strategic priorities influence the efficient delivery of the CAA's outputs (detailed chart in section 5.7).

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

5.5 INTERMEDIATE OUTCOMES

The CAA's strategic priorities and outputs are contributing factors in the achievement of its intermediate outcomes. Over time, aviation safety and security trends must result in:

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

The CAA's intermediate outcomes are indicators to the achievement of the CAA's desired overall outcome: ***“continued high public confidence in civil aviation”***.

5.6 MEASURING THE CAA'S PERFORMANCE

Assumption

If intermediate outcomes and output targets (refer to section 8, Forecast Service Performance) are achieved, then, the CAA is meeting its desired overall outcome: ***“continued high public confidence in civil aviation”***.

Intermediate outcome measures and targets⁸

To ascertain whether the CAA is achieving its intermediate outcomes, the CAA must meet its performance target portfolio. The CAA will know if there is:

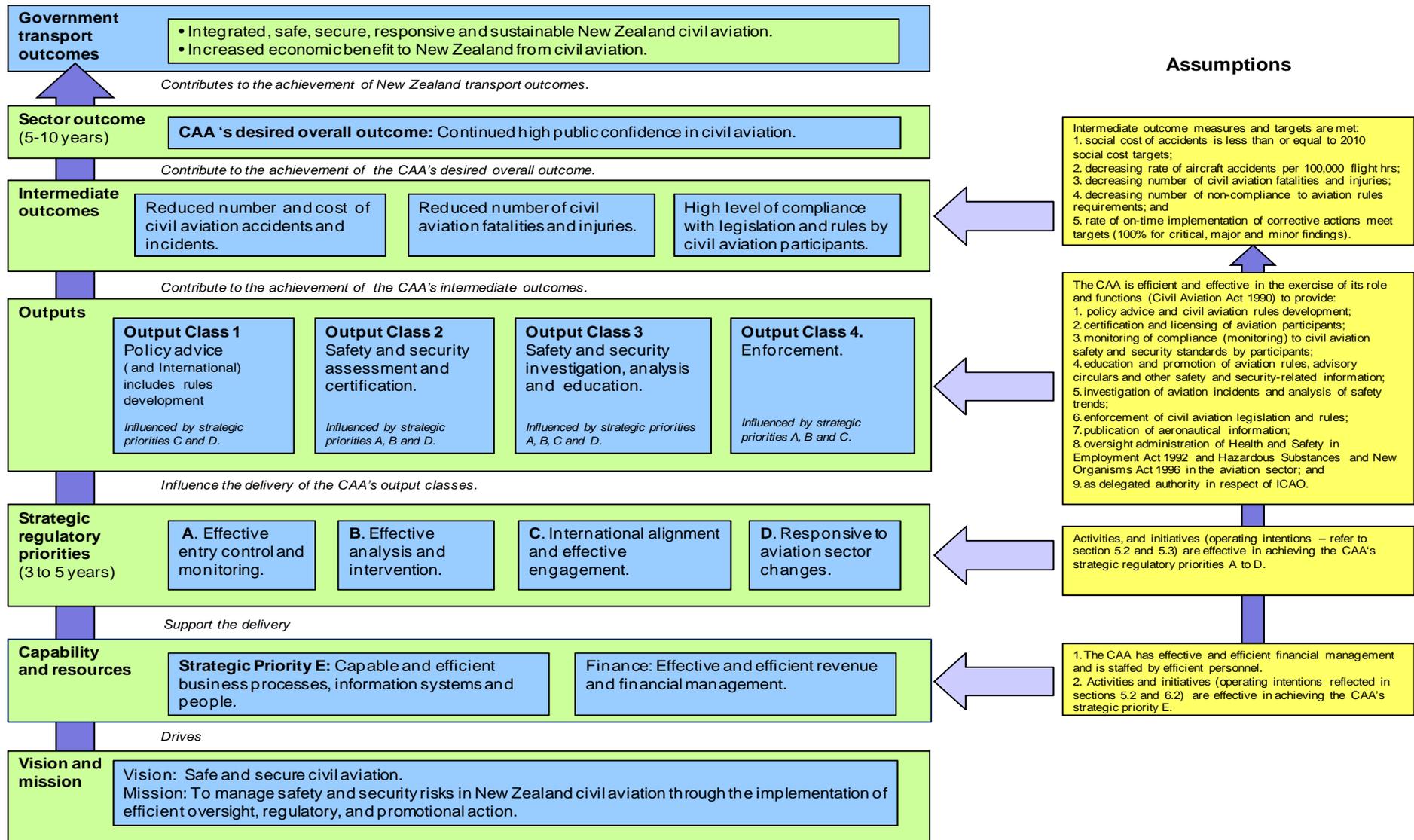
- a reduced number and cost of civil aviation accidents and incidents, **if**, over time,
 - the social cost of accidents per unit of passenger exposure is less than or equal to the 2010 safety targets, and
 - rate of aircraft accidents per 100,00 flight hours is decreasing;
- a reduced number of civil aviation fatalities and injuries, **if**, over time, the number of fatalities and injuries in civil aviation accidents is decreasing; and

⁸ Refer to Section 10.2, Comparative trends of impact measures: social cost, rate of accidents, non-compliance finding values, and rate of on-time implementation of corrective actions; section 3.1, and www.caa.govt.nz for updates.

- high level of compliance by civil aviation participants with civil aviation legislation and rules, **if**, over time,
 - non-compliance finding values is decreasing, and
 - corrective actions identified by the CAA during audit (surveillance or monitoring of aviation participants) are promptly implemented by due dates.

Intermediate outcomes	Measures	Targets
Reduced number and cost of civil aviation accidents and incidents.	• Social cost of accidents per unit of passenger exposure.	Less than or equal to 2010 safety targets (refer to section 10.2 for 2010 targets of the 13 aviation safety target groups).
	• Rate of aircraft accidents per 100,000 flying hours.	Decreasing rate over time (2009/10 must be less than 2008/09).
Reduced number of civil aviation fatalities and injuries.	• Number of fatalities and injuries.	Decreasing number over time (2009/10 must be less than 2008/09).
High level of compliance by civil aviation participants with civil aviation legislation and rules.	• Non-compliance finding values.	Decreasing value over time (2009/10 must be less than 2008/09).
	• Percent (%) of corrective actions implemented at due dates identified during an audit (audits and inspections; and spot checks).	100% of corrective actions are implemented by due dates regardless of findings (critical, major, or minor).

5.7 LINKING THE CAA'S STRATEGIC PRIORITIES, OUTPUTS AND OUTCOMES



6. Organisational Health and Capability

6.1 RESOURCE REQUIREMENTS

The CAA has an established staff level of 204 FTE and will retain this number in the medium term. Over the long term, the CAA will review its resource requirements to meet fully New Zealand's domestic and international civil aviation obligations.

6.2 STRENGTHENING THE CAA'S CAPABILITY

The CAA continues to undertake the following work programmes to address recommendations from Phase 1 of the Capability and Resources Review, support its 2009/12 strategic regulatory priorities, and in addition to its Strategic Priority E reflected in section 5.2:

1. build stronger leadership to achieve its outcomes and outputs, manage staff and resources effectively to drive continuous improvement;
2. ensure financial discipline and sound financial management practices are in place;
3. use and report value-for-money indicators and benchmarks;
4. make decisions based on reliable data to improve its overall performance;
5. maintain management system certification to ISO 9001: 2000 and its successors which assures that the highest possible standard is reached at all times by the CAA; and
6. maintain human resource policies embracing the government's:
 - a. Development Goals for the State Services (Employer of Choice, Networked State Services; Value-for-Money State Services, Coordinated State Agencies, Accessible State Services, and Trusted State Services);
 - b. Good Employer Programme;
 - c. Code of Conduct Policy;
 - d. Conflict of Interest Policy; and
 - e. Equal Employment Programme.

6.3 FUTURE OFFICE LOCATION

In providing CAA staff with a safe and productive work environment, the CAA completed its Workplace Strategy and identified the most suitable site in Wellington City for its future head office location. The CAA will transfer to No.1 Featherston Street in January or February 2011 from its current address at No.10 Hutt Road, Petone.

6.4 CAPABILITY MEASURE

Audit New Zealand's audit results (*scope: management control environment, financial information systems and controls, and service performance and associated systems and controls are graded as: very good, good, needs improvement or poor*) of the CAA for the year ended 30 June 2010 must not be lower than the audit results for the year ended 30 June 2009.

Part B:

**Statement of Forecast Service
Performance and Financial
Statements**

7. Statement of Responsibility

The following Statement of Forecast Service Performance and Forecast Financial Statements form part of the CAA's Statement of Intent for year ended 30 June 2010 and should be read in conjunction with Part A of this document.

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

The forecast service performance and financial statements to be achieved by the CAA for the year ending 30 June 2010, specified in this Statement of Intent, is agreed with the Members of the Authority and the Director of Civil Aviation.

The CAA certifies that the information contained in this Statement of Intent reflect the operations and financial position of the CAA.

Signed:



RICK BETTLE

Chairman

Date: 30 June 2009



ERROL MILLAR

Deputy Chairman

Date: 30 June 2009



STEVE DOUGLAS

Director of Civil Aviation

Date: 30 June 2009

8. Forecast Service Performance

8.1 OUTPUT CLASS 1: POLICY ADVICE

Description

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

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

Impacts (and consequences) the outputs will have on a safe and secure civil aviation⁹

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

The impacts to international obligations are to ensure that:

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

The impacts of rules development, provided on behalf of the Ministry of Transport, are alignment with international civil aviation standards and the achievement of the CAA's overall objectives as stipulated in the Civil Aviation Act 1990.

⁹ Section 72F, Civil Aviation Act 1990

Output Class 1 outputs

Output Class 1: Policy Advice Outputs	Performance Standards 2009/10		
	Quantity	Quality	Timeliness
1. Reports to Parliament and the Minister.	Measure: Number of reports provided. Target: Demand-driven number and provided as required 100% of the time.	Measure: Meets the Parliament, or Minister's, requirements, or expectations, of what the report should contain.	Measure: On-time submission of reports at due dates. Target: 100% (all) of responses, reports or briefings are responded to by the CAA within due dates as required. <i>(Example: All replies to Ministerial correspondence are forwarded to the Ministry of Transport within 10 working days of receipt by the CAA.)</i>
a) Responses to Ministerial correspondence (demand-driven)	Estimated range: 20-50 08/09f = 22 07/08 = 36 06/07 = 33 05/06 = 23	Target: 100% (all) of briefings responses, or reports, to Ministerial correspondence and Parliamentary Questions are acceptable to the Minister and advisers. Actual and forecast: 08/09f = Target met. 07/08 = Target met.	Actual and forecast: 08/09f = Target met. 07/08 = Target met.
b) Reports and briefings to the Minister (demand-driven)	Estimated range: 40-60 08/09f = 66 07/08 = 52 06/07 = 59 05/06 = 65		
c) Responses to Parliamentary Questions (demand-driven)	Estimated range: 15-50 08/09f = 26 07/08 = 2 06/07 = 16 05/06 = 7		
d) Reports and responses to Select Committees (demand-driven)	Estimated range: 4-8 08/09f = 0 07/08 = 2 06/07 = 3 05/06 = 7		
2. International relations and obligations. Description:	Measure: Number of reports and responses provided as required. Target: Demand-driven and provided as required 100% of the time. Actual and forecast: 08/09f = Target met. 07/08 = Target met. Reporting: End of financial year.	Measure: Meets ICAO, the government or CAA objectives and requirements. Target: 100% (or all) of advice and representation meet the priorities and goals of the government and CAA. (New standard in 08/09.) Actual and forecast: 08/09f = Target met. 07/08 = Target met. Reporting: End of financial year.	Measure: On-time completion of projects, responses, implementation of changes by due dates. Target: 100% (or all) are completed in the agreed or required period. Actual and forecast: 08/09f = Target met. 07/08 = Target met. Reporting: End of financial year.
a) respond to ICAO proposals for amendments to ICAO Annexes;	Measure: Number of representations or projects completed as required. Target: Demand-driven and provided as required 100% of the time. Actual and forecast: 08/09f = Target met. 07/08 = Target met. Reporting: End of financial year.	Measure: Meets PASO, the government or CAA objectives and requirements. Target: 100% (or all) of advice and representation meet the priorities and goals of the government and CAA. (New standard in 08/09.) Actual and forecast: 08/09f = Target met. 07/08 = Target met. Reporting: End of financial year.	Measure: On-time completion of projects at due dates. Target: 100% (or all) are completed at agreed or required period. Actual and forecast: 08/09f = Target met. 07/08 = Target met. Reporting: End of financial year.
b) file acceptances or differences as necessary with ICAO;			
c) implement decisions arising from review of CAA's ICAO obligations.			
d) complete review of compliance with ICAO SARPs and update differences;			
e) provide representation of New Zealand interests with ICAO;			
f) complete the implementation of the ICAO Corrective Action Plan.			
3. South Pacific obligations	Measure: Number of representations or projects completed as required. Target: Demand-driven and provided as required 100% of the time. Actual and forecast: 08/09f = Target met. 07/08 = Target met. Reporting: End of financial year.	Measure: Meets PASO, the government or CAA objectives and requirements. Target: 100% (or all) of advice and representation meet the priorities and goals of the government and CAA. (New standard in 08/09.) Actual and forecast: 08/09f = Target met. 07/08 = Target met. Reporting: End of financial year.	Measure: On-time completion of projects at due dates. Target: 100% (or all) are completed at agreed or required period. Actual and forecast: 08/09f = Target met. 07/08 = Target met. Reporting: End of financial year.
a) New Zealand representation on the council of the Pacific Aviation Safety Office (PASO); and			
b) oversight of safety and security support agreements with Pacific Island Countries.			

Output Class 1: Policy Advice Outputs	Performance Standards 2009/10		
	Quantity	Quality	Timeliness
		financial year.	
4. International safety and security agreements with other countries Projects: a) USA: Bilateral Aviation Safety Agreement (BASA) Maintenance Implementation Procedures (MIP); b) Europe: Develop further opportunities for expansion of the Mutual Recognition Agreement/ Technical Arrangement (Design and Production approvals); and c) Multilateral Technical Arrangement on Aircraft Maintenance with Canada, Singapore, Australia, and Hong Kong.	Measure: Number of agreements completed and provided as required. Target: Demand-driven and provided as required 100% of the time. Actual and forecast: 08/09f = Target met. 07/08 = Target met. Reporting: End of financial year.	Measure: Meets the government's and/or CAA objectives and requirements. Target: 100% (or all) of advice and representation meet the priorities and goals of the government and CAA. (New standard in 08/09.) Actual and forecast: 08/09f = Target met. 07/08 = Target met. Reporting: End of financial year.	Measure: On-time completion of projects at due dates. Target: Completed in a timely fashion or within an agreed or required timeframe. Actual and forecast: 08/09f: Target met. 07/08: a) Negotiations were completed on MIP with the FAA under the US BASA. b) Ongoing discussions on the EU-NZ BASA. Reporting: End of financial year.
5. Policy development activities and programme for 2009/10:	Measure: Number of projects completed as required. Reporting: End of financial year. Target number:	Measure: Meets the requirements and objectives of the project being undertaken. Target: 100% (or all) of the advice provided meets the following policy-making requirements: 1. comprehensive analysis of information from the sources; 2. relevant priorities and goals of the government and CAA; and 3. clear, accurate, and well-presented consultation with interested parties. Actual and forecast: 08/09f = Target met. 07/08 = Target met. Reporting: End of financial year.	Measure: On-time completion of projects at due dates. Reporting: End of financial year. Target dates of completion:
a) Development of policy on designation of Airspace.	1		June 2010
b) Review of CAA's responsibilities and arrangements covering the Auckland Oceanic Flight Information Region.	1		June 2010
c) Provide advice to the Ministry of Transport on requirements for operator's Security Management Systems.	1		June 2010
d) Provide a document summarising New Zealand's State Safety Programme.	1		June 2010
e) Provide advice to the Ministry of Transport on amendments to the Civil Aviation Act 1990.	1		June 2010
f) Review of key safety policy documents.	1		June 2011
g) Implement increase in annual AIS levy.	1		June 2011
h) Implement decisions from Review of levy, and fees and charges.	1		June 2010
i) Provide input to the Ministry of Transport's Substance Impairment Group.	1		June 2011
j) Implement changes resulting from the Review of Regulatory Tools.	1		June 2010

Output Class 1: Policy Advice Outputs	Performance Standards 2009/10		
	Quantity	Quality	Timeliness
<p>6. Rules development</p> <p>The Authority undertakes Rules Development services under contract to the Ministry of Transport.</p> <p>The contract covers:</p> <p>a) drafting and publishing of rules and rule amendments required by the Minister;</p> <p>b) researching and developing appropriate safety and security standards;</p> <p>c) publishing notices of intention to make or amend ordinary rules; and</p> <p>d) consulting on the proposed rules or amendments with such persons as in, each case is considered appropriate.</p>	<p>Measure: Rules development agreed between the CAA and the Ministry of Transport.</p> <p>Target: Provided as agreed in the 2009/10 Agreement for Rules Development Services.</p> <p>Actual and forecast: 08/09f = Target met. 07/08 = Target met.</p>	<p>Measure: Quality requirements of the rules contract between the CAA and the Ministry of Transport.</p> <p>Target: Rule documentation meets the quality requirements in the 2009/10 Agreement for Rules Development Services with the Ministry of Transport.</p> <p>Actual and forecast: 08/09f = Target met. 07/08 = Target met.</p> <p>Reporting: End of financial year.</p>	<p>Measure: Timeliness requirements of the rules contract between the CAA and the Ministry of Transport.</p> <p>Target: Contracted deliverable documents meet the timeliness requirements in the 2009/10 Agreement for Rules Development Services with the Ministry of Transport.</p> <p>Actual and forecast: 08/09f = Target met. 07/08 = Target met.</p> <p>Reporting: End of financial year.</p>
<p>Note: Refer to the Ministry of Transport for details of the Rules contract.</p>			

Cost to deliver Output Class 1

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

PROJECTED OUTPUT CLASS 1 STATEMENT		2008/09		2009/10	2010/11	2011/12
For the year ending 30 June 2010		Budget \$000	Forecast \$000	Budget \$000	Budget \$000	Budget \$000
Outputs	Funding source / Expenditure					
1.1 Policy Advice	Crown Funding (Vote Transport)	1,821	1,821	1,821	1,821	1,821
	Revenue Policy Advice	1,821	1,821	1,821	1,821	1,821
1.2 Rules Development	Fees and Charges (contract Ministry of Transport)	1,418	1,418	1,418	1,418	1,418
	Revenue Rules Development	1,418	1,418	1,418	1,418	1,418
TOTAL OUTPUT REVENUE		3,239	3,239	3,239	3,239	3,239
1.1 Advice to Government (Policy Advice)	Total Operating Costs	(2,359)	(2,228)	(1,893)	(2,054)	(2,101)
1.2 Legislation and Standards Development (Rules Development)	Total Operating Costs	(1,820)	(1,719)	(1,758)	(1,889)	(1,928)
TOTAL OUTPUT EXPENSES		(4,179)	(3,947)	(3,651)	(3,943)	(4,029)
OUTPUT DEFICIT		(940)	(708)	(412)	(704)	(790)

Note: Airspace Policy, for which CAA has received \$500k funding in 2008/09, is a component of Policy Advice (Output 1.1).

8.2 OUTPUT CLASS 2: SAFETY AND SECURITY ASSESSMENT AND CERTIFICATION

Description

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

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

Impacts (and consequences) the outputs will have on a safe and secure civil aviation¹⁰

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

Output Class 2 outputs

Output Class 2 Safety and security assessment and certification Outputs	Performance Standards 2009/10		
	Quantity	Quality	Timeliness
AIRLINE SECTOR			
7. Airline sector monitoring and surveillance a) Audits and inspections	<p>Measure: Number of audits and inspection hours.</p> <p>Target: 4,000-5,000 hours estimated range.</p> <p>Actual and forecast: 08/09f = 4,562 07/08 = 4,348 06/07 = 5,139 05/06 = 5,054</p> <p><i>Note: FY 05/06 (6,577 hrs) and 06/07 (7,511 hrs) data were previously erroneously reported due to an incorrect</i></p>	<p>Measure: Number of critical and major findings raised by internal audit.</p> <p>Target: Nil (zero) critical or major findings.</p> <p>Actual and forecast: 08/09f = 2 07/08 = of the 9 total issues raised, 3 were critical and 2 were major (all were addressed by year-end).</p>	<p>Measure: To be developed within the framework of the new Surveillance System.</p>

¹⁰ Section 72F, Civil Aviation Act 1990

Output Class 2 Safety and security assessment and certification Outputs	Performance Standards 2009/10		
	Quantity	Quality	Timeliness
	<i>programming link.</i>	Reporting: End of financial year.	
b) Spot checks	Measure: Number of spot check hours. Target: 150-200 hours estimated range Actual and forecast: 08/09f = 220 07/08 = 208 06/07 = 155 05/06 = 35		
8. Airworthiness directives (issue-driven)	Measure: Number of airworthiness directives developed and published. Target: 150-250 estimated range. Actual and forecast: 08/09f = 252 07/08 = 239 06/07 = 323 05/06 = 327		Measure: Number of delays recorded in the release and publishing of airworthiness directives. Target: No delays recorded. Actual and forecast: 08/09f = Target met. 07/08 = Target met.
9. Airline certification (demand-driven)	Measure: Number of airline certifications completed Target: 200-500 estimated range. Actual and forecast: 08/09f = 800 07/08 = 743 06/07 = 904 05/06 = 663		Measure: Number of delays (that are within the control of the CAA) recorded in the issue of airline certificates. Target: No delays recorded. Actual and forecast: 08/09f = Target met. 07/08 = Target met.
10. Aircraft certification (demand-driven)	Measure: Number of aircraft certifications completed. Target: 800-1,000 estimated range. Actual and forecast: 08/09f = 1,096 07/08 = 820 06/07 = 1,053 05/06 = 925		Measure: Number of delays (within the control of the CAA) recorded in the issue of aircraft certificates. Target: No delays recorded. Actual and forecast: 08/09f = Target met. 07/08 = Target met.
11. Aircraft registration (demand-driven)	Measure: Number of aircraft registration changes completed. Target: 1,000-2,000 estimated range Actual and forecast: 08/09f = 2,274 07/08 = 1,721 06/07 = 1,740 05/06 = 1,782		Measure: Number of delays (within the control of the CAA) recorded in the issue of aircraft registration changes. Target: No delays recorded. Actual and forecast: 08/09f = Target met. 07/08 = Target met.
GENERAL AVIATION SECTOR			
12. General aviation monitoring and surveillance a) Audits and inspections	Measure: Number of audits and inspection hours. Target: 3,500-4,500 hours estimated range. Actual and forecast: 08/09f = 3,250 07/08 = 3,138 06/07 = 2,821	Measure: Number of critical and major findings raised by internal audit. Target: Nil (zero) critical or major findings. Actual and forecast: 08/09f = 2 07/08 = of the 7 total	Measure: To be developed within the framework of the new Surveillance System.

Output Class 2 Safety and security assessment and certification Outputs	Performance Standards 2009/10		
	Quantity	Quality	Timeliness
	05/06 = 3,291	issues raised, 2 were critical and 2 were major	
b) Spot checks	Measure: Number of spot check hours. Target: 500-1,000 hours estimated range Actual and forecast: 08/09f = 540 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>	Reporting: End of financial year.	
13. General aviation operator certification (demand-driven)	Measure: Number of operator certification changes completed. Target: 1,000-1,400 estimated range Actual and forecast: 08/09f = 1,314 07/08 = 1,285 06/07 = 1,518 05/06 = 1,141		Measure: Number of delays (within the control of the CAA) recorded in the issue of operator certificates. Target: No delays recorded. Actual and forecast: 08/09f = Target met. 07/08 = Target met.
PERSONNEL LICENSING AND AVIATION SERVICES			
14. Personnel licensing and aviation services monitoring and surveillance	Measure: Number of audit and inspection hours. Target: 1,050 -1,350 hours estimated range Actual and forecast: 08/09f = 1,440 07/08 = 1,373 06/07 = 1,123 05/06 = 1,367	Measure: Number of critical and major findings raised by internal audit. Target: Nil (zero) critical or major findings. Actual and forecast: 08/09f = 0 07/08 = of 4 issues raised, none was critical nor major	Measure: To be developed within the framework of the new Surveillance System.
a) Audits and inspections			
b) Spot checks	Measure: Number of spot check hours. Target: 50 -200 hours estimated range. Actual and forecast: 08/09f = 54 07/08 = 205 06/07 = 160 05/06 = 128	Reporting: End of financial year.	
15. Personnel licensing (demand-driven)	Measure: Number of personnel licenses changes completed. Target: 5000-7000 estimated range Actual and forecast: 08/09f = 7,056 07/08 = 6,859 06/07 = 5,733 05/06 = 4,822		Measure: Number of delays (within the control of the CAA) recorded in the issue of personnel licenses. Target: No delays recorded. Actual and forecast: 08/09f = Target met. 07/08 = Target met.
16. General Medical Directions for consultation (demand-driven)	Measure: Number of general directions released for consultation Target: 2 Actual and forecast: 08/09f = 0 07/08 = 0 (less FTE) 06/07 = 2		Measure: Number of delays (within the control of the CAA) recorded in the release of general medical directions. Target: No delays recorded. Actual and forecast: 08/09f = Target met. 07/08 = Target met.

Output Class 2 Safety and security assessment and certification Outputs	Performance Standards 2009/10		
	Quantity	Quality	Timeliness
	05/06 = 4		
17. Petitions for rule exemptions (demand-driven number)	<p>Measure: Number of petitions for rule exemptions processed.</p> <p>Target: 100-200 estimated range</p> <p>Actual and forecast: 08/09f = 96 07/08 = 72 06/07 = 124 05/06 = 104</p>		<p>Measure: Number of delays (within the control of the CAA) recorded in the release of petitions for rule exemptions.</p> <p>Target: No delays recorded.</p> <p>Actual and forecast: 08/09f = Target met. 07/08 = Target met.</p>
AVIATION COMMUNITY HEALTH AND SAFETY IN EMPLOYMENT			
18. HSE investigations (demand-driven) *new output in 07/08	<p>Measure: Number of HSE investigations carried-out.</p> <p>Target: 55-75 estimated range</p> <p>Actual and forecast: 08/09f = 52 07/08 = 56</p>	<p>Measure: Number of critical and major findings raised by internal audit.</p> <p>Target: Nil (zero) critical or major findings</p> <p>Actual and forecast: 08/09f = 0 07/08 = no critical or major finding of 1 issue raised</p> <p>Reporting: End of financial year.</p>	<p>Measure: Percentage completion of HSE occurrence investigations from period of registration.</p> <p>Target: a) 70% of all investigations of occurrences completed within 6 months of registration; b) 90% completed within 12 months of registration; and c) 100% completed within 2 years of registration.</p> <p>Actual and forecast: 08/09f a) 86% b) 100% c) 100% 07/08 a) 86% b) 100% c) 100%</p>
19. HSE audits and inspection	<p>Measure: Number of HSE audits and inspections carried-out.</p> <p>Target: 20 estimated number</p> <p>Actual and forecast: 08/09f = 12 07/08 = 21 06/07 = 3 05/06 = 11</p>		<p>Measure: Percentage of HSE audits and inspections completed by due date.</p> <p>Target: 100% of audits completed by due date</p> <p>Actual and forecast: 08/09f = 75% 07/08 = Target met.</p>
20. HSE education to clients and stakeholders (demand-driven)	<p>Measure: Number of HSE education workshops conducted.</p> <p>Target: 10 estimated number</p> <p>Actual and forecast: 08/09f = 6 07/08 = 13 06/07 = 10 05/06 = 9</p>		<p>Measure: Percentage of HSE stakeholders' education completed by due date.</p> <p>Target: 100% HSE stakeholders' education completed by due date.</p> <p>Actual and forecast: 08/09f = Target met. 07/08 = Target met.</p>

Cost to deliver Output Class 2

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

PROJECTED OUTPUT CLASS 2 STATEMENT		2008/09	2009/10	2010/11	2011/12
For the year ending 30 June 2010					
Outputs	Funding source / Expenditure	Budget \$000	Forecast \$000	Budget \$000	Budget \$000
2.1 Airlines	Fees and Charges	2,220	1,997	2,091	2,388
	Levies	6,996	6,812	3,290	3,323
	Revenue Airlines	9,216	8,809	5,381	5,711
2.2 General Aviation	Fees and Charges	1,145	1,029	938	938
	Levies	3,890	3,906	4,270	4,312
	Revenue General Aviation	5,035	4,935	5,208	5,250
2.3 Personnel Licensing and Aviation Services (PLAS)	Fees and Charges	676	677	744	744
	Levies	5,585	5,459	4,808	4,838
	Revenue PLAS	6,261	6,136	5,552	5,601
2.4 Health and Safety in Aviation (HSE)	Crown Funding (Vote Transport)	440	440	440	440
	Revenue HSE	440	440	440	440
TOTAL OUTPUT REVENUE		20,952	20,320	16,581	17,002
2.1 Airlines	Total Operating Costs	(9,212)	(9,043)	(6,156)	(6,616)
2.2 General Aviation	Total Operating Costs	(4,969)	(4,255)	(5,790)	(6,242)
2.3 Personnel Licensing and Aviation Services	Total Operating Costs	(6,872)	(5,884)	(7,331)	(7,794)
2.4 Health and Safety in Aviation (HSE)	Total Operating Costs	0	0	(436)	(466)
TOTAL OUTPUT EXPENSES		(21,053)	(19,182)	(19,713)	(21,118)
OUTPUT SURPLUS / (DEFICIT)		(101)	1,138	(3,132)	(4,456)

8.3 OUTPUT CLASS 3: SAFETY AND SECURITY INVESTIGATION, ANALYSIS AND EDUCATION

Description

Output Class 3 covers the following outputs and activities:

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

- promotion of safety and security by providing education information and advice, and fostering safety and security programmes, including public awareness on transport of dangerous goods by air; and
- provision of information for the New Zealand Aeronautical Information Service.

Impacts (and consequences) the outputs will have on a safe and secure civil aviation¹¹

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

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

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

Output Class 3 outputs

Output Class 3: Safety and security investigation, analysis and education Outputs	Performance Standards 2009/10		
	Quantity	Quality	Timeliness
SAFETY AND SECURITY INVESTIGATION			
21. Safety and security investigations	Measure: Number of safety and security investigations completed. Target: 1,700-2,200 estimated range Actual and forecast: 08/09f = 2,016 07/08 = 2,655 06/07 = 2,582 05/06 = 2,296	Measure: Number of critical and major findings raised by internal audit. Target: Nil (zero) critical or major findings. Actual and forecast: 08/09f = nil 07/08 = nil Reporting: End of financial year.	Measure: Percent completion of safety and security investigations from period of registration. Target: a) 70% completed within 6 months of registration b) 90% completed within 12 months of registration; and c) 100% completed within 2 years of registration. Actual and forecast: 08/09f: a) 79% b) 95% c) 99% 07/08: a) 87% b) 96% c) 99% Reporting: End of financial year
SAFETY AND SECURITY ANALYSIS			
22. Aviation safety summary reports	Measure: Number of aviation safety summary reports released. Target: 4 per year - 1 per quarter Actual and forecast: 08/09f = 4 07/08 = 4 06/07 = 4 05/06 = 4	Measure: Accuracy of data provided in the report. Target: 100% accurate. Actual and forecast: 08/09f = Target met. 07/08 = Target met. Reporting: End of financial year	Measure: On-time publication of report. Target: Published within 40 working days at the end of the quarter Actual and forecast: 08/09f = Target met. 07/08 = Target met Reporting: End of financial year

¹¹ Section 72F, Civil Aviation Act 1990

Output Class 3: Safety and security investigation, analysis and education Outputs	Performance Standards 2009/10		
	Quantity	Quality	Timeliness
SAFETY AND SECURITY EDUCATION AND INFORMATION			
23. Vector periodicals	Measure: Number of Vector periodicals published. Target: 6 per year Actual and forecast: 08/09f = 6 07/08 = 6 06/07 = 6 05/06 = 6	Measure: Accuracy of information provided in Vector. Target: 100% accuracy of information provided in Vector. Actual and forecast: 08/09f = Target met. 07/08 = Target met.	Measure: On-time publication of Vector. Target: Vector is published by due date – 6x a year during the last week of odd months. Actual and forecast: 08/09f = Target met. 07/08 = Target met.
24. Safety seminars	Measure: Number of safety seminars conducted. Target: Minimum of 10 seminars Actual and forecast: 08/09f = 29 07/08 = 26 06/07 = 28 05/06 = 25	Measure: Participants' feedback. Target: 80% of participants rated the seminar as "very good". Actual and forecast: (new measure in 2009/10)	Measure: On-time provision of seminars. Target: 100% of seminars conducted on-schedule. Actual and forecast: (new measure in 2009/10)
25. Aviation security risk context statement	Measure: Number of aviation security risk context statement released. Target: Minimum of 1 Actual and forecast: 08/09f = 0 07/08 = 0 <i>(Not achieved in 07/08, and unlikely in 2008/09, due CAA investigation and government directive to review domestic security.)</i>	Measure: Information provided is current and accurate. Target: 100% of information provided in the statement is current and accurate. Actual and forecast: 08/09f = Not applicable. 07/08 = Not applicable.	Measure: On-time provision of the statement. Target: 100% of statements are provided within established due dates Actual and forecast: 08/09f = Not applicable. 07/08 = Not applicable.

Cost to deliver Output Class 3

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

PROJECTED OUTPUT CLASS 3 STATEMENT For the year ending 30 June 2010		2008/09	2009/10	2010/11	2011/12
Outputs	Funding source / Expenditure	Budget \$000	Forecast \$000	Budget \$000	Budget \$000
3.1 Safety and Security Investigation	Levies	2,543	2,218	2,023	2,042
3.2 Safety and Security Analysis	Levies	650	625	684	691
3.3 Safety and Security Education	Levies/Fees and Charges	1,872	1,563	1,077	1,088
TOTAL OUTPUT REVENUE		5,065	4,406	3,784	3,821
3.1 Safety and Security Investigation	Total Operating Costs	(2,466)	(2,378)	(2,288)	(2,462)
3.2 Safety and Security Analysis	Total Operating Costs	(650)	(627)	(815)	(905)
3.3 Safety and Security Education	Total Operating Costs	(1,872)	(1,806)	(1,729)	(1,849)
TOTAL OUTPUT EXPENSES		(4,988)	(4,811)	(4,832)	(5,216)
OUTPUT SURPLUS / (DEFICIT)		77	(405)	(1,048)	(1,471)

8.4 OUTPUT CLASS 4: ENFORCEMENT

Description

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

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

Impacts (and consequences) the outputs will have on a safe and secure civil aviation¹²

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 intended effects of the Authority's enforcement activities are to:

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

Output Class 4 outputs

Output Class 4 Enforcement Outputs	Performance Standards 2009/10		
	Quantity	Quality	Timeliness
26. Detailed enforcement investigations (demand-driven)	Measure: Number of detailed enforcement investigations undertaken. Target: 70-90 estimated range Actual and forecast: 08/09f = 86 07/08 = 102 06/07 = 75 05/06 = 81	Measure: Number of critical and major findings raised by internal audit. Target: Nil (zero) critical or major findings. Actual and forecast: 08/09f = 0 07/08 = no issue was raised Reporting: End of financial year.	Measure: Percentage of detailed investigations completed from commencement date. Target: a) 100% of detailed investigations completed within 12 months of commencement b) 90% within 6 months of commencement Actual and forecast: 08/09f: a) 100% b) 96% 07/08: a) 100% b) 98% Reporting: End of financial year.

Cost to deliver Output Class 4

PROJECTED OUTPUT CLASS 4 STATEMENT		2008/09		2009/10	2010/11	2011/12
For the year ending 30 June 2010		Budget \$000	Forecast \$000	Budget \$000	Budget \$000	Budget \$000
Outputs	Funding source / Expenditure					
4.1 Enforcement	Levies	1,403	1,138	739	746	754
4.1 Enforcement	Total Operating Costs	(1,177)	(1,352)	(1,035)	(1,114)	(1,133)
OUTPUT SURPLUS / (DEFICIT)		226	(214)	(296)	(368)	(379)

¹² Section 72F, Civil Aviation Act 1990

9. Forecast Financial Statements

9.1 FINANCIAL NOTES

9.1.1 Critical Accounting Estimates and Assumptions

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

Levy Revenue

Revenue arising from domestic and international passenger safety levies has been estimated on the basis that there will be a decline in domestic passenger numbers of 10% and a decline in international passenger numbers of 12%, against 2007/08 actual passenger numbers due to economic factors. It is not expected that any new large airlines will enter or exit the New Zealand market after 01 July 2010.

The 2009/10 budget and out-year budgets have been set using the current regulated international and domestic passenger safety levy charges (\$0.89 and \$1.77 respectively, GST exclusive). The passenger safety levy is currently undergoing a review. However, for the purpose of this Statement of Intent the current regulated passenger safety levies have been used for budgeting purposes.

Fees and Charges Revenue

The revenue for fees and charges reflects current industry size and personnel capacity.

Personnel Costs

Allowance has been made in the projected financial statements in the expectation that there will be no increase in the establishment number of staff, that approximately 10 full-time equivalent positions, that are currently vacant, will not be filled in 2009/10, and that remuneration increases will be minimal. An estimated vacancy rate of 5% for remaining full-time equivalent positions has been applied.

Operating Surpluses/Deficits

It is intended that the projected deficit for 2009/10 will be funded from the expected 2008/09 surplus, and accumulated reserves.

Opening Taxpayers' Equity

Estimated Opening Taxpayers' Equity assumes a 2008/09 year surplus of \$0.194 million. This impacts on the estimated amounts of capital charge expense, cash on hand and net assets.

9.1.2 Statement of Accounting Policies

Reporting Entity

The Civil Aviation Authority ("CAA") is the provider and regulator of aviation safety services within the Civil Aviation Authority of New Zealand (the "Authority").

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

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

This Statement of Intent 2009/12 is prepared for CAA's operational and regulatory services alone. The Statement of Intent 2009/12 for the aviation security services provided by Avsec is presented separately.

Although CAA will be preparing financial reporting statements for its operational and regulatory activities, they will be reported within the Annual Report prepared by the Authority.

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

Statement of Compliance

These prospective financial statements comprise prospective information and have been prepared in accordance with New Zealand Financial Reporting Standard No 42: *Prospective Financial Statements* (FRS-42).

The Authority has not presented Grouped Prospective Financial Statements due to the differing operational activities of CAA and Avsec. By presenting the Prospective Financial Statements at an individual entity level the information provided is more useful to the end user. The 2009/10 Annual Report will present Grouped Financial Statements with additional individual entity information to enable comparisons between the Annual Report and the Statement of Intent.

Basis of Preparation

These prospective financial statements have been prepared in accordance with the relevant legislation for inclusion in CAA's Statement of Intent 2009/12 to the Minister of Transport. They are not prepared for any other purpose and should not be relied upon for any other purpose.

The preparation of prospective financial statements in conformity with FRS-42 requires management to make judgements, estimates, and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual financial results achieved for the period in question are likely to vary from the information presented and the variations may be material.

These prospective financial statements have been reviewed at a high level by the Authority's auditors, Audit New Zealand, but have not been the subject of either an audit engagement or a formal audit review engagement.

Measurement Base

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

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.

9.1.3 Significant Accounting Policies

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

Budget Figures

The prospective figures contained in this Statement of Intent 2009/12 are those approved by the Authority on 09 June 2009.

The prospective financial statements in this Statement of Intent have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP).

CAA adopted NZ IFRS in its historical financial reporting for the year ended 30 June 2008.

These prospective financial statements have been prepared to be consistent with NZ IFRS and other applicable Financial Reporting Standards as appropriate for public benefit entities.

Projected Figures

These prospective financial statements were authorised for issue by the Authority on 09 June 2009. The projected figures are prepared in accordance with NZ GAAP and are consistent with the accounting policies adopted by CAA for the preparation of its NZ IFRS financial statements.

The Authority is responsible for the prospective financial statements, including the appropriateness of the assumptions underlying the prospective financial statements and all other required disclosures.

Some projected amounts are based on actual financial results for the nine months to 31 March 2009. Significant assumptions based on these prior period actual results are disclosed in the assumptions to these prospective financial statements.

CAA does not intend to update the prospective financial statements subsequent to publication of these statements.

Revenue

CAA earns revenue from regulated charges on airlines based on outgoing international passenger numbers and domestic sectors travelled by passengers, regulated charges on domestic aerodromes, fees, charges for aviation regulatory and safety services, interest income and Crown funding. Revenue is measured at the fair value of the consideration received or receivable.

Interest

Interest income is recognised using the effective interest method.

Crown Funding and Ministry Contracts

Revenue provided by the Crown and revenue earned under a Ministry contract is recognised in the Statement of Projected Financial Performance in the period the services are expected to be rendered.

Provision of Services

Revenue derived from CAA's provision of regulatory and safety services is recognised in the Statement of Projected Financial Performance in the period that the services are expected to be 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.

Capital Charge

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

Goods and Services Tax

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

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

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

Income Tax

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

Payment of any Surplus to the Crown

The Authority is specifically excluded from returning surpluses to the Crown under *section 165 of the Crown Entities Act 2004*. Operating surpluses retained by the Authority (including those relating to Avsec) are utilised within each entity for ongoing services and projects.

Financial Instruments

CAA'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 CAA becomes a party to the contractual provisions of the instrument. Financial instruments are initially recognised at fair value and classified into one of the following categories:

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

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

The finance charge is expensed to the Statement of Projected Financial Performance over the lease term 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 CAA 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

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

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term 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.

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 Projected Financial Performance.

Property, Plant and Equipment

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

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 CAA and the cost of the item can be measured reliably. The minimum cost value for a purchase to be classified as a property, plant, and equipment asset is \$2,000.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset and are included in the Statement of Projected Financial Performance.

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 CAA and the cost of the item can be measured reliably. The costs of day-to-day servicing of property, plant, and equipment are recognised in the Statement of Projected Financial Performance as they are incurred.

Depreciation

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

Leasehold improvements	10 to 12 years	10%-8%
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%

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 are capitalised on the basis of costs incurred to acquire and bring these to use.

Costs incurred by CAA 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 CAA's 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 Projected Financial Performance.

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

Acquired computer software	3 to 5 years	33%-20%
Developed computer software	3 to 5 years	33%-20%
AIS Database	Indefinite life	Nil

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

Impairment of Non-Financial Assets

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

Indefinite life intangible assets are tested for impairment annually.

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

If an asset is impaired, its carrying amount is written down to the recoverable amount. The total impairment loss and any reversals of impairment are recognised in the Statement of Projected Financial Performance.

Employee Entitlements

Short-Term Employee Entitlements

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

CAA recognises a liability and an expense for bonuses where it is contractually obliged to pay them, or where there is 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 CAA contributions to KiwiSaver and the Government Superannuation Fund are accounted for as contributions to defined contribution superannuation scheme and are recognised as an expense in the Statement of Projected Financial Performance.

Provisions

CAA recognises a provision for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that

expenditures will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures 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.

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 full-time equivalent staff members attributable to an output. Depreciation and capital charges are charged based on asset utilisation.

9.2 STATEMENT OF PROJECTED OUTPUT COSTS AND REVENUE

PROJECTED OUTPUT CLASS STATEMENT For the year ending 30 June 2010		2008/09	2009/10	
Outputs	Funding source / Expenditure	Budget \$000	Forecast \$000	Budget \$000
Output Class 1: Policy advice				
1.1 Policy Advice	Crown Funding (Vote Transport)	1,821	1,821	1,821
	Revenue Policy Advice	1,821	1,821	1,821
1.2 Rules Development	Fees and Charges (contract MoT)	1,418	1,418	1,418
	Revenue Rules Development	1,418	1,418	1,418
TOTAL OUTPUT REVENUE		3,239	3,239	3,239
1.1 Advice to Government (Policy Advice)	Total Operating Costs	(2,359)	(2,228)	(1,893)
1.2 Legislation and Standards Development (Rules Development)	Total Operating Costs	(1,820)	(1,719)	(1,758)
TOTAL OUTPUT EXPENSES		(4,179)	(3,947)	(3,651)
OUTPUT DEFICIT		(940)	(708)	(412)
Output Class 2: Safety and security assessment and certification				
2.1 Airlines	Fees and Charges	2,232	1,997	2,091
	Levies	6,984	6,812	3,290
	Revenue Airlines	9,216	8,809	5,381
2.2 General Aviation	Fees and Charges	1,145	1,029	938
	Levies	3,890	3,906	4,270
	Revenue General Aviation	5,035	4,935	5,208
2.3 Personnel Licensing and Aviation Services (PLAS)	Fees and Charges	676	677	744
	Levies	5,585	5,459	4,808
	Revenue PLAS	6,261	6,136	5,552
2.4 Health and Safety in Aviation (HSE)	Crown Funding (Vote Transport)	440	440	440
	Revenue HSE	440	440	440
TOTAL OUTPUT REVENUE		20,952	20,320	16,581
2.1 Airlines	Total Operating Costs	(9,212)	(9,043)	(6,156)
2.2 General Aviation	Total Operating Costs	(4,969)	(4,255)	(5,790)
2.3 PLAS	Total Operating Costs	(6,872)	(5,884)	(7,331)
2.4 Health and Safety in Aviation (HSE)	Total Operating Costs	0	0	(436)
TOTAL OUTPUT EXPENSES		(21,053)	(19,182)	(19,713)
OUTPUT SURPLUS / (DEFICIT)		(101)	1,138	(3,132)
Output Class 3: Safety and security investigation, analysis, and education				
3.1 Safety and Security Investigation	Levies	2,543	2,218	2,023
3.2 Safety and Security Analysis	Levies	650	625	684
3.3 Safety and Security Education	Levies/Fees and Charges	1,872	1,563	1,077
TOTAL OUTPUT REVENUE		5,065	4,406	3,784
3.1 Safety and Security Investigation	Total Operating Costs	(2,466)	(2,378)	(2,288)
3.2 Safety and Security Analysis	Total Operating Costs	(650)	(627)	(815)
3.3 Safety and Security Education	Total Operating Costs	(1,872)	(1,806)	(1,729)
TOTAL OUTPUT EXPENSES		(4,988)	(4,811)	(4,832)
OUTPUT SURPLUS / (DEFICIT)		77	(405)	(1,048)
Output Class 4: Enforcement				
4.1 Enforcement	Levies	1,403	1,138	739
4.1 Enforcement	Total Operating Costs	(1,177)	(1,352)	(1,035)
OUTPUT SURPLUS / (DEFICIT)		226	(214)	(296)
TOTAL OUTPUT CLASSES				
	Crown Funding (Vote Transport)	3,679	3,679	3,679
	Fees and Charges	4,053	3,703	4,072
	Levies	22,926	21,721	16,891
	Interest	383	383	90
TOTAL REVENUE		31,042	29,486	24,732
TOTAL EXPENDITURE		(31,397)	(29,292)	(29,231)
SURPLUS/(DEFICIT)		(355)	194	(4,499)

The accompanying notes form part of these prospective financial statements.

9.3 STATEMENT OF PROJECTED FINANCIAL PERFORMANCE

STATEMENT OF PROJECTED FINANCIAL PERFORMANCE For the year ending 30 June 2010	2008/09		2009/10
	Budget \$000	Forecast \$000	Budget \$000
Income			
Levies revenue	22,926	21,721	16,891
Fees and charges revenue	4,053	3,703	3,774
Crown funding revenue	2,261	2,261	2,261
Ministry contract revenue	1,418	1,418	1,418
Interest and other income	383	383	388
TOTAL INCOME	31,041	29,486	24,732
Expense			
Personnel costs	21,456	19,647	19,494
Other cost of services	7,318	6,905	7,048
Audit fees for financial statements audit	40	40	40
Finance costs	11	11	-
Depreciation and amortisation expense	742	765	721
Capital charge	570	735	565
Building operating expenses	1,155	1,085	1,259
Authority member costs	104	104	104
TOTAL EXPENSES	31,396	29,292	29,231
NET SURPLUS / (DEFICIT)	(355)	194	(4,499)
Net surplus / deficit attributable to:			
TAXPAYERS' EQUITY	(355)	194	(4,499)

The accompanying notes form part of these prospective financial statements.

9.4 STATEMENT OF PROJECTED COMPREHENSIVE INCOME

STATEMENT OF PROJECTED COMPREHENSIVE INCOME For the year ending 30 June 2010	2008/09		2009/10
	Budget \$000	Forecast \$000	Budget \$000
Net surplus/deficit for the year	(355)	194	(4,499)
Other comprehensive income:			
Revaluation of land and buildings	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	(355)	194	(4,499)
Total comprehensive income attributable to:			
TAXPAYERS' EQUITY	(355)	194	(4,499)

The accompanying notes form part of these prospective financial statements.

9.5 STATEMENT OF PROJECTED CHANGES IN TAXPAYERS EQUITY

STATEMENT OF PROJECTED CHANGES IN TAXPAYERS EQUITY For the year ending 30 June 2010	2008/09		2009/10
	Budget \$000	Forecast \$000	Budget \$000
Taxpayers' equity			
Opening balance of taxpayers' equity at 1 July			
General funds	8,046	9,090	9,284
Property, plant and equipment revaluation reserve	-	-	-
Total opening balance of taxpayers' equity at 1 July	8,046	9,090	9,284
Total comprehensive income for the year	(355)	194	(4,499)
Capital contributions	-	-	-
Repayment of capital	-	-	-
Total changes in equity during the year	(355)	194	(4,499)
Closing balance of taxpayers' equity at 30 June			
General funds	7,691	9,284	4,785
Property, plant and equipment revaluation reserve	-	-	-
Total closing balance of taxpayers' equity at 30 June	7,691	9,284	4,785
Represented by:			
General funds			
Opening balance at 1 July	8,046	9,090	9,284
Transfer from statement of comprehensive income	(355)	194	(4,499)
Transfer from property, plant and equipment revaluation reserve on disposal	-	-	-
Capital contributions	-	-	-
Repayment of capital	-	-	-
Closing balance at 30 June	7,691	9,284	4,785
Reserves			
Property, plant and equipment revaluation reserve			
Opening balance at 1 July	-	-	-
Transfer from statement of comprehensive income	-	-	-
Transfer to general funds on disposal	-	-	-
Closing balance at 30 June	-	-	-

The accompanying notes form part of these prospective financial statements.

9.6 STATEMENT OF PROJECTED FINANCIAL POSITION

STATEMENT OF PROJECTED FINANCIAL POSITION As at 30 June 2010	2008/09		2009/10
	Budget \$000	Forecast \$000	Budget \$000
ASSETS			
Current assets			
Cash and cash equivalents	6,180	6,382	326
Debtors and other receivables	3,219	3,296	3,500
Inventories including services Work in Progress	480	300	300
Derivative financial instruments	-	-	-
Total current assets	9,879	9,978	4,126
Non-current assets			
Property, plant and equipment	1,004	2,083	2,646
Intangible assets	1,190	1,172	1,447
Total non-current assets	2,194	3,255	4,093
TOTAL ASSETS	12,073	13,233	8,219
LIABILITIES			
Current liabilities			
Creditors and other payables	2,378	2,120	1,635
Employee entitlements	1,504	1,329	1,350
Provisions	-	-	-
Borrowings	-	-	-
Derivative financial instruments	-	-	-
Total current liabilities	3,882	3,449	2,985
Non-current liabilities			
Employee entitlements	500	500	450
Provisions	-	-	-
Borrowings	-	-	-
Total non-current liabilities	500	500	450
TOTAL LIABILITIES	4,382	3,949	3,435
NET ASSETS	7,691	9,284	4,785
TAXPAYERS' EQUITY			
General funds	7,691	9,284	4,785
Property, plant and equipment revaluation reserve	-	-	-
TOTAL TAXPAYERS' EQUITY	7,691	9,284	4,785

The accompanying notes form part of these prospective financial statements.

9.7 STATEMENT OF PROJECTED NET CASH FLOWS

STATEMENT OF PROJECTED NET CASH FLOWS For the year ending 30 June 2010	2008/09		2009/10
	Budget \$000	Forecast \$000	Budget \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Receipts from levies	22,926	21,721	16,891
Receipts from fees and charges	4,054	3,008	3,867
Receipts from Crown funding and Ministry contract	3,678	3,679	3,679
Interest received	383	383	90
Total	31,041	28,791	24,527
Cash was applied to:			
Payments to employees	(19,048)	(18,536)	(18,926)
Payments to suppliers	(11,036)	(8,678)	(9,553)
Interest paid	-	-	-
Payments of capital charge to the Crown	(570)	(736)	(565)
Goods and Services Tax (net)	-	(138)	(140)
Total	(30,654)	(28,088)	(29,184)
Net Cash Flows from Operating Activities	387	703	(4,657)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Sale of property, plant and equipment	-	-	-
Cash was applied to:			
Purchase of property, plant and equipment	(742)	(1,129)	(1,124)
Purchase of intangible assets	(8)	26	(275)
Net Cash Flows from Investing Activities	(750)	(1,103)	(1,399)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of external borrowings	(10)	-	-
Net Cash Flows from Financing Activities	(10)	-	-
Net increase/(decrease) in cash and cash equivalents	(373)	(400)	(6,056)
Opening cash and cash equivalents at 1 July	6,553	6,782	6,382
CLOSING CASH AND CASH EQUIVALENTS AT 30 JUNE	6,180	6,382	326

The accompanying notes form part of these prospective financial statements.

9.8 PROJECTED FINANCIAL PERFORMANCE INDICATORS

PROJECTED FINANCIAL PERFORMANCE INDICATORS For the year ending 30 June 2010	UNIT	2008/09		2009/10
		Budget \$000	Forecast \$000	Budget \$000
Working capital				
Net working capital	\$000	5,642	6,723	(3,358)
Current ratio	Ratio: 1	2.54	2.89	1.38
Average age of debtors	Days	38	42	54
Average age of creditors	Days	63	65	90
Resource utilisation				
Physical assets at year-end	\$000	2,194	3,255	4,093
Capital expenditure	\$000	750	372	1,567
Capital expenditure as % of NBV	%	34%	11%	38%
Physical assets as % of total assets	%	18%	25%	50%
Taxpayers' equity				
Taxpayers' equity at year-end	\$000	7,691	9,284	4,785
Taxpayers' equity as % of total assets	%	64%	70%	58%

The accompanying notes form part of these prospective financial statements.

10. Appendices

10.1 REPORTING OBLIGATIONS

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

Output agreements

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

Quarterly reports

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

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

Annual report

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

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

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

10.2 INTERMEDIATE OUTCOME MEASURES, COMPARATIVE TRENDS

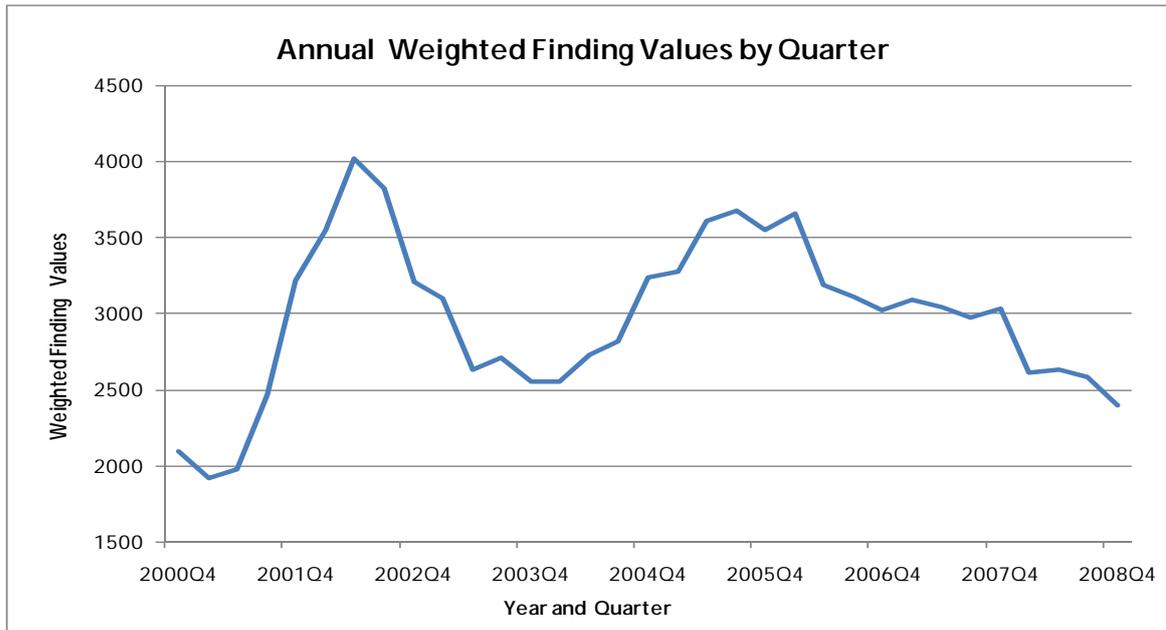
Social cost of accidents per unit of passenger exposure

Aviation safety target groups (Source: Safety Analysis Unit, CAA)	Social cost per unit of passenger exposure (\$)					
	Year-end June			Year-end March		2010 Targets
	2006	2007	2008	2008	2009	
PUBLIC AIR TRANSPORT						
1. Airline operations – large aeroplanes	0.02	0.02	0.03	0.03	0.00	0.10
2. Airline operations – medium aeroplanes	1.24	1.12	1.27	1.28	0.25	0.10
3. Airline operations – small aeroplanes	-	-	0.11	0.08	0.35	6.50
4. Airline operations - helicopters	-	-	-	-	4.26	6.50
5. Sport aviation transport operations	34.23	22.49	0.10	5.15	62.74	13.00
OTHER COMMERCIAL OPERATIONS						
6. Other commercial operations – aeroplane	40.24	0.09	57.44	70.79	25.59	6.50
7. Other commercial operations – helicopter	0.43	37.15	79.98	94.4	47.74	6.50
8. Agricultural operations – aeroplane	214.93	-	88.28	68.5	67.79	14.00
9. Agricultural operations – helicopter	-	32.63	-	-	20.52	14.00
10. Agricultural operations – sport aircraft	Data not available					28.0
NON-COMMERCIAL OPERATIONS						
11. Private operations – aeroplane	99.32	91.03	0.21	19.7	41.62	10.00
12. Private operations – helicopter	407.61	1.61	10.04	11.13	31.41	10.00
13. Private operations – sport aircraft	54.85	82.72	111.44	50.71	92.32	20.00
<i>Notes:</i>						
1. Social cost per unit of passenger exposure is defined as an economic measure of the cost of accidents to the nation. It assigns a value of statistical life (VOSL) to any deaths, rehabilitation costs from injuries, cost of property damaged or lost in the accident, and other specific external costs. The gross social cost calculated from accidents is pro-rated over the volume of aviation activity in any specified sector of the aviation community. The volume of aviation activity, the unit of passenger exposure, is per seat flying hour. For target groups that are predominantly passenger carrying, a surrogate of 500 kg of aircraft weight is assessed as being the equivalent of an occupied seat.						
2. Estimates for large and medium aeroplane calculations use 10 years average, and one year is used for the rest of the target groups.						
3. For sport groups, calculation of target social cost is based on CAA estimates.						
4. 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.						

Rate of accidents per 100,000 flight hours

Aviation safety target groups (ASTG) (Source: Safety Analysis Unit, CAA)	Rate of accident per 100,000 flight hours					
	Year-end June			Year-end March		
	2006	2007	2008	2008	2009	% change from 2008
PUBLIC AIR TRANSPORT						
1. Airline operations – large aeroplanes	0.22	0.18	0.2	0.18	0.11	-38.9%
2. Airline operations – medium aeroplanes	1.86	1.26	1.3	1.29	1.00	-22.5%
3. Airline operations – small aeroplanes	4.40	1.09	6.6	8.29	2.68	-67.7%
4. Airline operations - helicopters	2.95	-	-	-	2.46	-
5. Sport aviation transport operations*	Data not available*					
OTHER COMMERCIAL OPERATIONS						
6. Other commercial operations – aeroplane	4.27	8.89	5.8	5.43	5.48	0.09%
7. Other commercial operations – helicopter	11.72	17.12	7.5	7.40	12.16	64.3%
8. Agricultural operations – aeroplane	12.05	7.60	24.1	19.37	14.13	-27.0%
9. Agricultural operations – helicopter	10.50	6.16	7.1	13.24	11.21	-15.3%
10. Agricultural operations – sport aircraft*	Data not available*					
NON-COMMERCIAL OPERATIONS						
11. Private operations – aeroplane	19.14	22.55	12.9	7.07	19.75	179.3%
12. Private operations – helicopter	54.14	35.06	32.9	30.78	24.78	-19.5%
13. Private operations – sport aircraft*	Data not available*					
<i>*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.</i>						

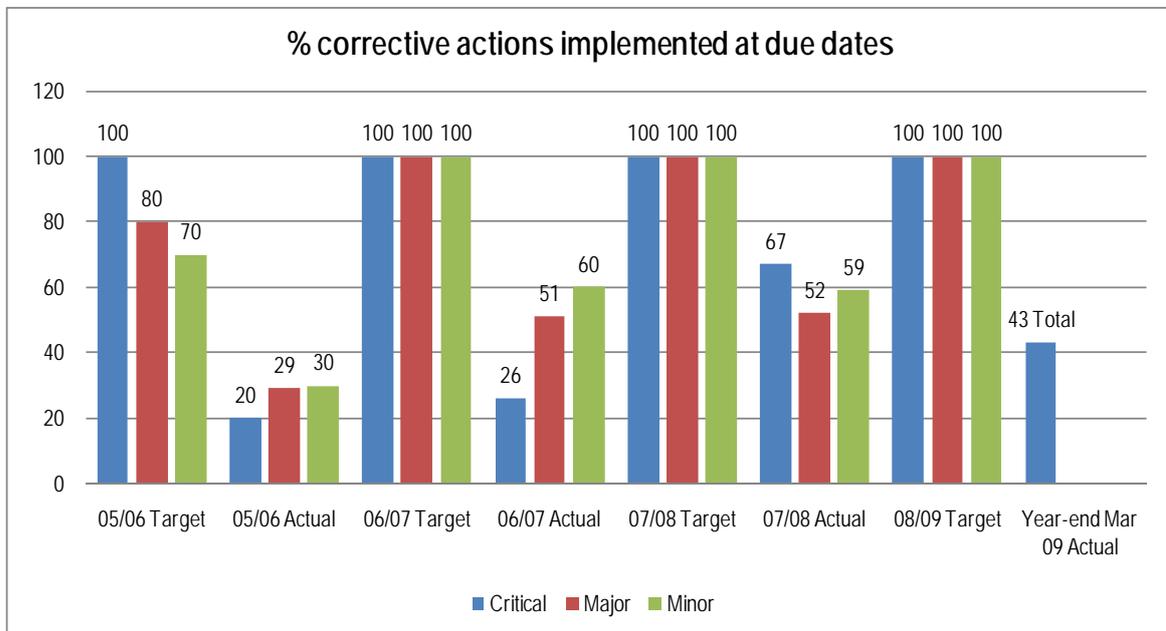
Non-compliance finding values



Source: Safety Analysis Unit, CAA

Note: With the introduction of the revised Surveillance Process, 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. The same weighting 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.

Rate of on-time implementation of corrective actions



Note: For year-end Mar 2009, reflected as total only regardless of severity of corrective actions.



Aviation Security Service

(Avsec)

Financial Year 2009/12

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Part A:
Statement of Intent 2009/12

1. Introduction from the General Manager, Aviation Security Service

INTRODUCTION

This document sets out Avsec's strategic direction to 30 June 2012, outlines the challenges and risks facing the aviation security industry and details the resources and work initiatives we will implement to tackle these.

We are now operating in an unpredictable economic environment from that of twelve months ago, triggered by the 2008 global downturn in international financial markets that is impacting on all industry sectors. Globally, airlines are anticipating a significant downturn in air travel during 2009/10.

During 2008, Avsec and its three Unions successfully negotiated a three year Collective Agreement which impacted on 85% of our workforce. The bargaining was undertaken in a professional spirit of goodwill and I am pleased the outcome provides staff with certainty in remuneration levels during unpredictable and volatile economic times.

Over the next three years Avsec will continue to strengthen its workplace capability to ensure the services it provides can be maintained and enhanced, while ensuring that all staff are provided with a safe work environment, and where learning and development opportunities are provided to enhance retention of our key resource - our people.

My comments below are a summary of the key areas of focus and attention for 2009/12 and they are explained in greater detail within this Statement of Intent.

WORKPLACE CAPABILITY ENHANCEMENT

Specific areas of focus will include:

- continuation of the new Avsec leadership development programmes for senior operational staff;
- enhancement to Avsec's statistics reporting and gathering systems which support our operational function;
- research and awareness of emerging capital assets and technologies that will enhance aviation security and provide greater efficiencies;
- ongoing programmed replacement of security equipment to ensure Avsec is meeting global best practice;
- ongoing review and development of Pacific assistance programmes to ensure NZ's Pacific neighbours can meet a rapidly changing aviation security environment;
- further development of an intelligence-gathering and dissemination unit to provide an ongoing filter of information which will provide quality information to key business units; and
- enhancement of business systems with a focus on improved resourcing in the Information Technology function; progressing an electronic rostering solution and implementation of an information management system that will meet the requirements of the Public Records Act.

FINANCIAL

The budgeted annual operating surplus (deficit) positions for Avsec for each of the financial periods and the equity and net working capital positions at each year-end are:

FINANCIAL PERIOD	Annual operating surplus (deficit)	Year end position	
		Equity	Net working capital
	\$000	\$000	\$000
2008/09 (Forecast Out-turn)	16,224	53,502	46,358
2009/10	1,414	61,971	54,202
2010/11	(1,511)	60,741	51,146
2011/12	(7,146)	53,900	46,210
Total	\$8,981		

AVIATION SECURITY WORK PROGRAMMES

In Section 5.2 Avsec has identified key work programme initiatives, commencing 2009/10, that are focused principally on enhancing the organisation's current capabilities and meeting the demands of airlines and airports as they progress the implementation of their immediate and longer term development programmes. They also include the upgrading of existing x-ray baggage inspection and the provision of an enhanced intelligence gathering unit.

These work initiatives are provided for in the 2009/12 financial budgets. In addition, in Section 5.3 Avsec has identified specific aviation security activity that is potentially on the horizon but, due to uncertainties and timing, cannot currently be fully quantified.

Avsec continues to work closely with the government to ensure that the government's aviation security objectives are met. Avsec is to implement decisions on domestic aviation security relating to the establishment of security committees and of a Border Sector Governance Group.

RISK

The identification and management of risk forms an essential part of Avsec's day to day activities and is a key component of the organisation's strategic and business planning processes.

In Section 6.2 Avsec has summarised its high level risk exposure and the specific work initiatives that will be developed during the next three years to mitigate risks. Apart from the ongoing global security risk to aviation, the current overriding risk relates to the deteriorating economic environment and its impact on the aviation industry.

In New Zealand international flights are being withdrawn from some regional airports at very short notice, due primarily to poor load factors and the over-supply of trans-Tasman capacity. The additional new low cost carrier and wide-body aircraft capacity has also created a highly competitive market.

Avsec must continue to respond to the changes that are occurring in the industry and this will necessitate reviews of staffing levels, particularly at regional airports which are experiencing curtailed activity. This requires balancing against the possibility that flights may also recommence at short notice or other airlines may step in to fill the gap. Thus Avsec also needs to have the capability to recommence its security services at very short notice.

CONCLUSION

Avsec is committed to being responsive to the changing economic environment and requirements of our key stakeholders, especially airlines and airports who are challenged by the declining economic conditions.

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



MARK EVERITT

General Manager of Aviation Security Service

2. Nature and Scope of our Functions

2.1 WHO WE ARE

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

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

2.2 RESOURCE BASE

Avsec has an established staff component of 761 full time equivalents (FTEs).

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

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

2.3 AVIATION SECURITY MANDATE

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

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

Avsec is responsible for pre-board screening at eight security designated airports¹. 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.

- **Screening checked baggage**

Utilising sophisticated explosive detection system equipment, Avsec screens all hold baggage being carried on departing international flights for threat items.

- **Airport access controls**

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

- **Non passenger screening**

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

¹ 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 air passengers.

o **Managing the Airport Identity Card system**

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

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

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

2.4 ENABLING LEGISLATION

Avsec’s enabling legislation is the Civil Aviation Act 1990 and the Aviation Crimes Act 1972.

2.5 FUNDING (OPERATIONAL AND CAPITAL)

Avsec’s principal source of operational revenue is from regulated passenger security charges levied on airlines for departing international and domestic passengers. The current passenger security charges² were set under regulation in December 2007.

The financial income projections contained in this SOI are calculated on the following numbers of screened passengers:

Financial year	International passengers	Domestic passengers	Total passengers
2008/09 (Forecast Out-turn)	4,181,666	5,539,053	9,720,719
2009/10	3,926,152	5,114,569	9,040,721
2010/11	3,965,413	5,165,744	9,131,157
2011/12	4,005,067	5,217,372	9,222,439
Total	16,078,298	21,036,738	37,115,036

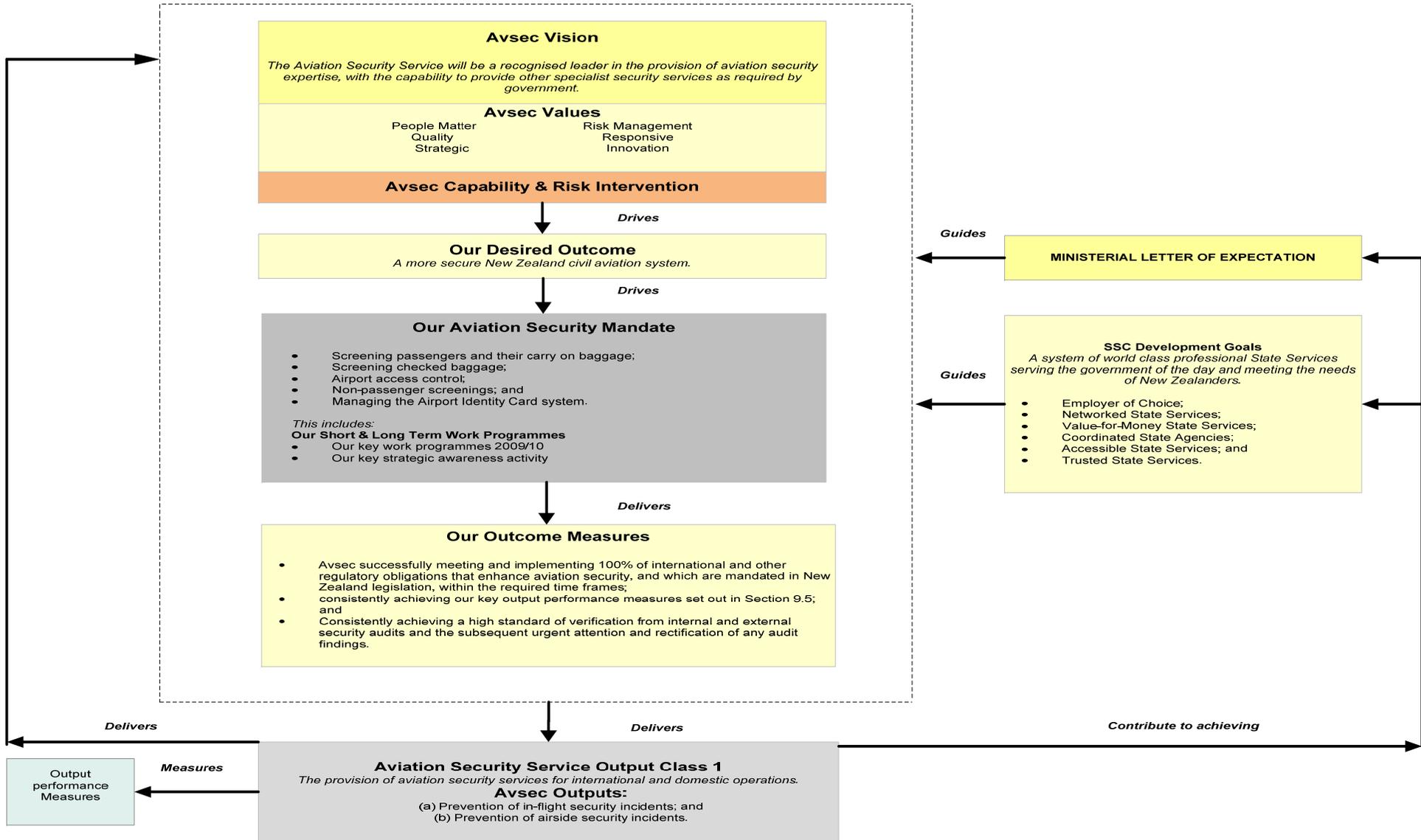
Avsec’s source of operational funding by output class:

Output class	Outputs	Source of funding
Aviation Security Services	Prevention of in-flight security incidents (including dangerous goods screening); and Prevention of airside security incidents.	Regulated aviation passenger security charges on airlines based on passenger numbers; and charges for additional aviation security activities that are outside the core function.
Maritime Security Services	Maritime security.	Crown appropriation – Vote Transport (Non-departmental Output Class “Maritime Security”).

Avsec’s capital for replacement equipment is funded through depreciation charges. New equipment is funded by way of application for funds through the government capital bid process or by approved finance lease arrangements.

² \$15 per international passenger and \$4.66 per domestic passenger on aircraft of 90 seats or more.

2.6 Avsec's Planning Framework



3. Operating Environment

3.1 INTERNATIONAL FRAMEWORK

Compliance with international standards

As a member State of the International Civil Aviation Organisation (ICAO), New Zealand is obliged to comply with its security standards.

Consistency with international best practice

Avsec endeavours to benchmark its security performance against other international aviation security providers. In 2011, ICAO is expected to undertake round two of the USAP audit of New Zealand's aviation security regime. The Government will manage this audit and will be responsive to its recommendations for improvements.

3.2 MINISTERIAL LETTER OF EXPECTATION

The Minister of Transport's 2009/10 Letter of Expectation emphasises the requirement that government agencies must have an increased focus on value for money.

All Avsec expenditure and staffing levels are determined through a focused business planning process involving key managers. Managers are also held responsible for individual cost centre budgets with appropriate control processes. All significant expenditure is subject to approved business cases prior to commitment. Significant capital expenditure is subject to the government capital-bid process.

Efficiency reviews will continue to be conducted on a regular basis to maximise the efficient utilisation of resources.

Avsec will engage fully with the Ministry of Transport in reviewing the aviation security charges to determine if these charges need to be amended.

3.3 STATUTORY ENVIRONMENT

Under the Crown Entities Act 2004, the Civil Aviation Authority (Authority) is designated a Crown Entity and is required to give effect to government policy when directed by the responsible Minister. The functions and duties of Avsec are set out in Section 80 of the Civil Aviation Act 1990 (CA Act 1990). In addition the Maritime Security Act 2004 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, Aviation Crimes Act 1972, Crimes Act 1961 and the Bill of Rights Act 1990.

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

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

3.4 AVIATION SECURITY OPERATING ENVIRONMENT

Significant changes are occurring in the global aviation industry, driven principally by the global downturn in international financial markets that is impacting on all industry sectors.

At the World Air Transport Forum in Paris in October 2008 it was noted that the air transport industry was anticipating profits of \$5.2 billion for 2008. The International Air Transport Association is now forecasting a significant decline in air travel and losses which may exceed \$5.2 billion in the coming year.

An additional factor that is affecting the aviation industry is the volatility in global oil prices.

Within New Zealand the global economic deterioration is impacting on Avsec operations. International airline flights are currently being cut from some regional airports, at very short notice, due to poor load factors and over-supply of trans-Tasman capacity in particular. The additional low cost carrier capacity and new wide-body capacity has also created a very competitive market.

Avsec must respond to the changes that are occurring in the industry and this will necessitate a review of staffing levels, particularly at regional airports which are experiencing curtailed activity. This requires a balancing act as flights may recommence, or other airlines may well step in to fill the gap, and Avsec needs to have the capability to recommence its security service at very short notice.

Avsec continues to work constructively with changes that are occurring at airports, especially with their infrastructural investments for the future. Early engagement with airport companies ensures that Avsec facilities and requirements can be factored into airport plans to gain optimal efficiencies.

3.5 PACIFIC ACTIVITY

Managing New Zealand's aviation security risks also involves providing assistance to the South Pacific through additional funding from the Ministry of Foreign Affairs and Trade (MFAT) 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 consist of quality systems development, training, equipment provision and maintenance, and assistance with planning and strategy.

3.6 MARITIME SECURITY

The Maritime Security Act (MSA 2004) resulted in the Minister of Transport designating Avsec as one of three Maritime Security Organisations (MSOs)³, along with NZ Customs and Ministry of Agriculture and Forestry (MAF). MSOs would only be deployed in a high threat situation. Day-to-day security is conducted by the ports and ships.

3.7 RESPONDING TO ISSUES IN THE AVIATION ENVIRONMENT

In our strategic and business planning for the next three years Avsec will continue to address ongoing changes in the aviation environment. In particular Avsec's strategic area of focus will be:

- ongoing research and development into new and emerging technologies;
- undertaking regular efficiency reviews to ensure Avsec is operating in an efficient, productive and cost effective manner – particularly given the global economic recession and the pressure this has created;

³ Avsec has a standby and readiness role in case of a high threat situation in the maritime arena, particularly the Port of Auckland where staffs are well-trained to respond where cruise-ships, or their passengers, might be affected. Avsec's current role in maritime security is not significant on a day to day basis and accordingly has not been given prominence in this SOL.

- planning for the phased and appropriate replacement of earlier generation security equipment with new generation equipment;
- planning for and implementation of any aviation security initiatives required by future legislation, international requirements and airlines;
- planning for future aviation security requirements at airports (both existing and new locations) to ensure Avsec's function is factored into airport development activity;
- continual adaptation of our organisation and enhancement of our capability to meet future requirements;
- deployment of interventions around key issues and risk; and
- ensuring our systems, practices and processes are at or exceed international best practice.

4. Strategic Direction

4.1 VISION

“To be a recognised leader in the provision of aviation security expertise, with the capability to provide other specialist security services as required by government”

4.2 MISSION

“To improve the safety of aviation by the application of specific security measures”

4.3 DESIRED OUTCOME

Avsec’s desired outcome is, *“A more secure New Zealand civil aviation system”*.

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

4.4 OUTCOME MEASURES

Over the period of this SOI Avsec’s performance against its outcome will be assessed through:

- Avsec successfully meeting and implementing 100% of international and other regulatory obligations that enhance aviation security, and which are mandated in New Zealand legislation, within the required time frames;
- consistently achieving our key output performance measures set out in Section 9.5; and
- consistently achieving a high standard of verification from internal and external security audits and the subsequent urgent attention and rectification of any audit findings.

4.5 HIGH-LEVEL SECURITY IMPACTS AND MEASURES

Avsec focuses on three high-level aviation security impacts:

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

High level security impacts		
Security impact	Target	Impact measure
No in-flight security incidents	To achieve a nil rate of in-flight security incidents involving offences against the Aviation Crimes Act 1972 for aircraft which have been screened by Avsec.	Number of in-flight security incidents.
No airside security incidents	To achieve a nil rate of airside incidents involving offences against the Aviation Crimes Act 1972 at security designated aerodromes where Avsec operates.	Number of airside security incidents.
No dangerous goods introduced into aircraft	To achieve a nil rate of incidents involving the introduction of dangerous goods into aircraft that have been screened by Avsec.	Number of dangerous goods introduced into aircraft.

5. Operating Intentions

5.1 REVIEW

Avsec's strategic planning identified specific short and longer-term initiatives and project activity will be programmed into our business and project planning cycles. The catalyst for these initiatives arises principally from:

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

In many instances future activity is specific and certain and is incorporated in the organisation's key work programmes and financial budgets for 2009/10 (refer section 5.2 below). The costs of these initiatives will be recovered by Avsec in the normal course of business through the aviation passenger security charges process.

In other instances the future activity may arise, but due to uncertainties, timing and the economic climate, cannot be clearly quantified or substantiated, nor has it been incorporated in the current aviation passenger security charges review process (refer section 5.3 below).

Avsec adopts a proactive and strategic monitoring brief for this activity with scenario and contingency plans developed as required

5.2 KEY WORK INITIATIVES FOR 2009/10

The following is a summary of the proposed significant work initiatives that have been identified, commencing in the 2009/10 financial year. Some of this activity will rollover into subsequent financial years and is in addition to the ongoing "business as usual" activity that Avsec embraces in the normal course of business.

Key work initiatives for 2009/10

- Phased rollout and deployment of new generation cabin x-ray baggage inspection system to replace Avsec's existing equipment;
- Development of a new operations and administration base at Auckland Airport due to out-growing of existing facilities;
- Planning for the fit-out of the new leased premises that have been secured for the Avsec National Office;
- Ongoing review of Avsec's additional screening point measures, embracing a review of methods, efficiencies and productivity in operational staffing and the development of an electronic rostering solution;
- Continuing the new Avsec leadership development programmes to ensure Avsec staff are trained and competent to deliver the business to a consistently high standard;
- Providing an intelligence gathering unit to provide an ongoing filter of information that provides quality security information to key business units;
- Implementing a review of the Avsec uniform for front line staff following a survey undertaken in 2008;
- Implementing an organisation-wide information management system that constitutes good business practice and meets the requirements of the Public Records Act.
- Contributing to South Pacific project activity that contributes to New Zealand's aviation security objectives and assists Pacific aviation security development.

5.3 KEY STRATEGIC AWARENESS ACTIVITIES

Due to the significant impact that any potential aviation security event would have on the organisation, Avsec will monitor and update contingency plans for the implementation of each activity listed in the table below. Where the catalyst for an activity eventuates and where the implementation of that activity requires special funding or a further review of the passenger security charges we will engage with the Ministry of Transport and the Minister on the appropriate approach to implementing and funding the activity.

Activity – impact – Avsec preparedness	Catalyst for activity
<p>Procurement of new and emerging aviation security technology and equipment:</p> <p>Significant international research and development is taking place into new aviation security technology and equipment. In particular there is significant research underway overseas into technology that detects liquid explosives that would enable the liquids, aerosols and gels restrictions to be removed.</p> <p>Avsec continually monitors emerging technology to ensure that its aviation security equipment is at the leading edge in proficiency, efficiency and cost-effectiveness. Avsec provides for the cyclical replacement of equipment in the normal course of business but not for the substantive replacement of equipment and technology that may result from emerging research and development.</p> <p>Impact: Substantial capital costs would require Crown funding.</p> <p>Avsec preparedness: Avsec has a dedicated development and research function that is committed to planning and research into emerging technologies, including testing, trial and evaluation.</p>	<p>Ongoing strategic research and planning which will identify Avsec's future equipment requirements.</p> <p>ICAO mandate; Avsec role per primary legislation.</p>
<p>Regional airport developments:</p> <p>Regional airport developments e.g. new airports for which Avsec would be expected to provide a security function; a requirement for Avsec to provide 24/7 presence at all existing or potential airports which it services.</p> <p>Impact: Increase in staffing, rostering and heightened level of security which may also extend to ports, other transport areas or airport locations.</p> <p>Avsec preparedness: Monitoring brief. Early involvement in the event planning.</p>	<p>Notification from airport company, regulator or airline.</p>
<p>Domestic aviation security:</p> <p>Avsec currently screens passengers on domestic flights on aircraft that have more than 90 seats. The government has recently decided to not extend this level of screening. Nevertheless additional screening may be required in future and it may require Avsec to undertake aviation security services at a greater number of airport locations.</p> <p>Any reduced threshold would also have a significant impact on other locations at which Avsec currently operates.</p> <p>Impact: Significant increase in staffing and capital equipment. Capital expenditure may require initial funding. Greater impact if the current screening threshold is further reduced.</p> <p>Avsec preparedness: Monitoring brief and further development of scenario plans for this contingency.</p>	<p>Decision of Cabinet following any review of domestic aviation security.</p> <p>Increased threat within New Zealand or overseas; Government or regulator via legislation or rules.</p>

5.4 QUALITY MANAGEMENT PHILOSOPHY

Quality management is a significant driver of Avsec's business. It is a culture that is embedded in the way we conduct our business, our approach to aviation security, staff training and our operational policies and procedures.

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 location from which Avsec operates is subject to two internal quality audits per annum and each national management function is subject to an annual internal audit. These audits are also supplemented by ongoing audits undertaken by Regional Quality Officers at each airport location. External audits of airport locations and key aviation security processes are also undertaken on a recurrent basis by the CAA.

Avsec is also subject to an annual surveillance audit against the International Standards Organisation (ISO) specifications and regularly participates in teams undertaking ICAO Universal Audits of other countries' aviation security regimes. In addition, Avsec continues to provide assistance in the development of quality systems and training in the South Pacific to ensure these countries can enhance their quality management and audit capability.

In 2011, ICAO is expected to undertake round two of the USAP audit of New Zealand's aviation security regime. The Government will manage this audit and will be responsive to its recommendations for improvement.

6. Managing our Risks

6.1 RISK MANAGEMENT

Identifying and managing risk forms an essential part of Avsec's day-to-day activities and a key component of the organisation's strategic and business planning processes.

Avsec's risk management system covers not only activities carried out as part of our business, but also takes into consideration changes in the external business environment that may impact on Avsec.

6.2 HIGH SEVERITY RISK EXPOSURE AND RISK MITIGATION

Avsec's risk mitigation strategy is evidenced in the key awareness activity, the key work initiatives for 2009/10 and the key performance indicators and target measures outlined in this SOI.

High level internal and external risk areas to which Avsec is exposed, with specific mitigation initiatives that are in place, include:

No.	High level risk exposure	Specific mitigation initiatives
1.	Decline in passenger numbers (reflected in diminishing revenue) caused by global recession, natural disaster, pandemic, changes in preferred passenger destination or disinclination to travel due to terrorist activity or environmental policies.	Reserve funds policy; scenario and business continuity and contingency planning; secured short-term funding for capital equipment (capital bid process).
2.	Short-notice advice from airlines of flight withdrawals, starts/restarts from a regional airport impacts on Avsec's continuing airport and staffing presence at that location.	Short-term deployment of operational staff to other airport locations pending greater certainty about airline flight resumptions.
3.	Ongoing international terrorist threat against the aviation industry and other modes of transportation.	Planning for the implementation of new and enhanced security measures (including, enhancing the ID card system, formalisation of air cargo security and a higher level of domestic aviation security screening); leadership capability development; enhanced 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.
4.	Non-airside security incident or damage to airport infrastructure, at an overseas or local airport, could impact on airport operations and cause disruption to air travel.	Airport company awareness; scenario planning; intelligence gathering.
5.	Instability and under-resourcing in the South Pacific increases the aviation security risk in the South Pacific.	Multiple South Pacific project activities that will contribute to New Zealand's aviation security and assist aviation security development in these countries. The support is principally in the form of capability development, training equipment and strategic advice to the South Pacific.
6.	Legislative changes, major redevelopments at airports and new international aviation security requirements significantly increase the role and security activities to be undertaken by Avsec.	Strategic awareness planning and scenario planning during lead-up process; capability development, especially involving capital equipment, staff recruitment, training and development of appropriate policies and procedures; strategic risk identification through enhancement of Avsec's formal risk management plan (modelled on Risk Management Standard AS/NZS 4360:2004).

No.	High level risk exposure	Specific mitigation initiatives
7.	Loss of key staff and staff retention issues.	Capability development, in particular implementation of the leadership development program; ongoing review of employee recognition and rewards; remuneration benchmarking; Collective bargaining negotiations with Combined Unions; enhanced communication strategies.
8.	Failure of contingency or business continuity plans.	Continual review and update of the plans as part of Avsec's quality management philosophy, which also involves extensive internal audit regimes.
9.	Reputational risk as a result of screening failure leading to a security incident.	Recurrent testing standards set at a high level; initial and ongoing training; internal quality systems place an emphasis on compliance and continual improvement; use of modern technology; competency checks of officers at regular intervals.
10.	Financial and operational impact of Avsec's annual leave entitlements and its effect on the organisation's annual leave liability.	Review of Avsec's roster system including consideration of an electronic solution and implementation of solutions arising from efficiency reviews; engagement with Unions at working parties on impact of the leave build-ups.
11.	Impact on Avsec's capability to respond to an incident if called on to assist in an incident involving maritime security.	Contingency plans in place to mobilise exiting resources; standby equipment available; ongoing scenario planning takes place with other agencies.

7. Organisational Health and Capability

7.1 CAPABILITY PROFILE

Avsec is an established and mature aviation security organisation with well-developed capabilities including:

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

7.2 CAPABILITY DEVELOPMENT FOR IMMEDIATE FUTURE

Avsec's proposed capability development and enhancements embrace the State Services Commission's Development Goals for the State Services. In particular Avsec strategies are focused on attracting, retaining and fostering high achievers; developing a strong knowledge culture and using technology to improve outcomes.

In our day-to-day business activity a significant focus will continue to be placed on our Good Employer Programmes, Conflict of Interest Policy, Code of Conduct and Equal Employment Programme.

Our people, systems and processes

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

Key initiatives	Focus
Learning and development strategies*.	Ongoing review of the organisation's training needs and programmes to ensure training is meeting the needs of our people and is in line with our key business objectives. A particular focus will be the continuity of the new Avsec leadership development programmes to senior operational staff.
Statistical information.	Enhancement to Avsec's existing statistical gathering and facilitating prompter reporting response and monitoring on security incidents at airport locations.
Intelligence-gathering and dissemination.	Further development of an intelligence-gathering and dissemination unit to provide an ongoing filter of quality intelligence information to key business units.
Review policies and procedures.	Review and update of policies and procedures to enhance the organisation's quality management philosophy.
Enhance business systems.	Information technology enhancement to ensure the organisation continues to utilise information technology efficiently and to its fullest capability. Recruitment of specialised Information Technology staff identified in a recent review of the IT division.

Key initiatives	Focus
	Updating the financial accounting system and implementing the new accounting standards. Implementing an information management system that will meet the requirements of the Public Records Act. Developing an efficient electronic rostering system that will facilitate the staff roster process
Planning new office location.	Planning for the transfer of Avsec's national office to premises at No 1 Featherston Street Wellington. The new accommodation is expected to meet Avsec requirements for at least fifteen years.

Capital assets

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

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

Avsec's proposed capital expenditure budget for the financial period 2009/10 is \$11.845 million (2010/11 is \$6.897 million and 2011/12 is \$4.367 million). Proposed capital expenditure for 2009/10 comprises:

Proposed capital expenditure 2009/10	(\$ million)
Refurbishment of Hold Baggage Screening (HBS) equipment (finance leased)	6.000
Fit out of new Auckland operational base.	2.017
Cargo screening equipment (finance leased)	0.976
Ongoing replacement of equipment and operational vehicles	2.852
Total	\$11.845

Approval is held from the Minister of Finance to enter into finance leases for the purchase of specialised screening equipment for which the aggregate is not to exceed \$30 million by 2010 (of which 6.976 million is included in the above table).

7.3 CAPABILITY MEASURES

Avsec has developed an extensive framework to measure its capability. The framework is under constant review and considers:

- qualitative and quantitative analysis of the size and distribution (function and gender) of our staff resources;
- trends in our ability to attract, develop, and retain suitably qualified staff;
- staff participation and feedback in the review of the organisation's training needs to ensure training is meeting the needs of our people and is in line with our key business objectives;
- regular management review of staff performance against defined performance goals;
- feedback from passenger surveys, key stakeholders, other international aviation security organisations, audit reviews of our quality systems, procedures and policies; and external financial audits;
- performance and efficiency reviews organised by Avsec on relevant parts of the business; and
- benchmarking operational activity and performance against other organisations to assess our performance.

Part B:
**Statement of Forecast Service
Performance and Financial
Statements**

8. Statement of Responsibility

The following Statement of Forecast Service Performance and Forecast Financial Statements form part of Avsec's Statement of Intent for 2009/12 and should be read in conjunction with Part A of this document.

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

The forecast service performance and financial statements to be achieved by Avsec for the year ending 30 June 2010, specified in this Statement of Intent, is agreed with the Members of the Authority and the General Manager Aviation Security Service.

We certify that the information contained in this Statement of Intent reflect the operations and financial position of Aviation Security Service.

Signed:



RICK BETTLE

Chairman

Date: 30 June 2009



DARRYLL PARK

Deputy Chairman, Aviation Security Service

Date: 30 June 2009



MARK EVERITT

General Manager, Aviation Security Service

Date: 30 June 2009

9. Forecast Service Performance

9.1 OUTPUT CLASSES

Avsec has two output classes:

- Output Class 1: Aviation Security Services
The provision of aviation security services for international and domestic operations.
- Output Class 2: Maritime Security Services
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 passengers⁴.

9.2 OUTPUT CLASS BUDGETS 2009/12

Avsec's two Output Classes will be delivered within budget for the 2009/12 financial years (\$000 GST exclusive):

Financial years	Projected Output class 1: Aviation security services (\$000) (GST exclusive)			Projected Output class 2: Maritime security services (\$000) (GST exclusive)		
	Revenue	Costs	Surplus/ (Deficit)	Revenue	Costs	Surplus/ (Deficit)
2009/10	79,442	78,028	1,414	145	145	-
2010/11	80,008	81,519	(1,511)	145	145	-
2011/12	80,810	87,956	(7,146)	145	145	-

Note: Profit on sale of assets and interest income is netted off against expenditure for output class budgets

9.3 OUTPUTS

Avsec has three outputs:

- Output Class 1: Aviation Security Services:
 - Output (a): Prevention of in-flight security incidents (including dangerous goods screening); and
 - Output (b): Prevention of airside security incidents.
- Output Class 2: Maritime Security Services:
 - Output (c): Maritime security.

9.4 OUTPUT BUDGETS

Avsec's three outputs will be delivered within the following budgets for the 2009/10 financial year (\$000 GST exclusive):

⁴ Avsec has a standby and readiness role in case of a high threat situation in the maritime arena, particularly the Port of Auckland where staffs are well-trained to respond where cruise-ships, or their passengers, might be affected. Avsec's current role in maritime security is not significant on a day to day basis and accordingly has not been given prominence in this SOL.

Budget 2009/10 \$000 (GST exclusive)	Output (a): Prevention of in-flight security incidents	Output (b)*: Prevention of airside security incidents	Output (c): Maritime security	Total
Output Revenue				
Contracted services	764	3,017	-	3,781
Passenger security charges	73,510	-	-	73,510
Crown funding	-	-	145	145
Other income**	1,638	514	-	2,152
Total output revenue	75,912	3,531	145	79,588
Total output expenses	60,505	17,524	145	78,174
Net Surplus/(Deficit)	15,407	(13,993)	-	1,414

* Output (b) expenses are recouped from international and domestic passenger security revenue in Output (a).

**Other income comprises interest received, FX gains and profit on asset disposals.

9.5 OUTPUT PERFORMANCE MEASURES

Performance measures and targets selected for each output for the 2009/10 financial year are:

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

Performance measure 2009/10		Actual 2007/08	Target measure 2009/10
General performance measures			
These performance measures reflect Avsec's capability to process a significant number of passengers ⁵ and their baggage, detect prohibited items and ensure Avsec is not responsible for delays to aircraft departures.			
1.	Percentage of international hold baggage screened.	100%	100%
2.	Number of flight delays attributable to screening activities (due to an Avsec system failure).	Nil	Nil
3.	Number of flight delays attributable to aircraft search activities.	Nil	Nil
Waiting time performance measures			
These performance measures are a test of Avsec's capability and efficiency in processing passengers at international and domestic screening points within prescribed international standards.			
4.	Average passenger wait times at international departure screening points (benchmark tested six-monthly ⁶ at Auckland & Christchurch international airports; also note that airport infrastructure can have a direct impact on wait times).	90 seconds Auckland; 118 seconds Christchurch.	No more than three minutes.
5.	Average passenger wait times at domestic departure screening points (benchmark tested six-monthly at Auckland & Christchurch international airports; also note that airport infrastructure can have a direct impact on wait times). International bench-marking against CATSA will also be undertaken where comparable data is available.	106 seconds Auckland; 97 seconds Christchurch.	No more than three minutes

⁵ Refer paragraph 2.5 for forecast numbers of screened international and domestic passengers.

⁶ Benchmark testing is undertaken at the two largest international airports, twice per year, as they provide a fair representation and measure that can be applied to other airports where Avsec undertakes passenger screening.

Performance measure 2009/10		Actual 2007/08	Target measure 2009/10
Screening performance measures			
These performance measures reflect the very high standard of proficiency that is expected of all Aviation Security Officers in screening activities and detecting prohibited items.			
6.	Percentage of all Aviation Security Officers involved in the screening function covertly tested within a 150 working day cycle against key aviation security functions (includes searching, wandling, and x-ray proficiency).	100%	100%
7.	Number of verified unauthorised or prohibited items discovered post screening points (due to an Avsec system failure).	Measure not applicable 2007/08.	Nil
8.	Number of verified unauthorised dangerous goods discovered post screening points (due to an Avsec system failure).	Measure not applicable 2007/08.	Nil
Complaints and audit performance measures			
These performance measures reflect the very high standard of proficiency that is expected of all Aviation Security Officers in screening activities and detecting prohibited items.			
9.	Number of complaints against Aviation Security Officers involved in the screening function (includes 'free riders') ⁷ .	One complaint per 518,861 passengers screened.	No more than one formal complaint per 250,000 passengers.
10.	Number of airline complaints against Aviation Security Officers pertaining to aircraft search.	Measure not applicable 2007/08.	No more than five airline complaints per annum.
11.	Number of corrective action requests issued pertaining to the aircraft search function issued by external auditors during any programmed audit.	Nil	Nil
12.	Number of corrective action requests issued pertaining to screening functions issued by external auditors during any programmed audit.	2	Nil
13.	Percentage of any audit findings cleared within the specified timeframes.	Measure not applicable 2007/08.	100%

9.5.2 Output (b): Prevention of airside security incidents

Performance measure 2009/10		Actual 2007/08	Target measure 2009/10
Access control management and response to security related emergencies			
These performance measures are a reflection of Avsec's management of access control at a security designated airport and its ability to respond with urgency to a security related emergency.			
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 five minutes of being requested.	100%	100%
Management of Airport Identity Card (AIC) process			
These performance measures reflect Avsec's capability to manage the AIC System in accordance with the standards and requirements set out in Civil Aviation Rules ⁸ .			

⁷ "Free Riders" refers to those screened domestic passengers for which no charge is recovered from airlines. The situation arises due to infrastructural configurations at certain airports.

⁸ The issuance of AICs is a security measure to ensure non-passengers are confirmed as having a legitimate purpose in being in security enhanced areas. In addition to the administrative role required for the issuance of the AICs it is a mandated role of Avsec to screen airport workers with access to and within enhanced security areas.

Performance measure 2009/10		Actual 2007/08	Target measure 2009/10
3.	Forecast number of Airport Identity Cards issued: Permanent: Temporary:	7,924 61,136	7,500 (+/- 5%) 60,000 (+/- 5%)
4.	Percentage compliance ⁹ by Airport Identity Cardholders per Civil Aviation Rule 19.357.	98.50%	100%

9.5.3 Output (c): Maritime security

Performance measure 2009/10		Actual 2007/08	Target measure 2009/10
1.	Percentage of Avsec responses within four hours to any request from the Minister of Transport or the Director of Maritime New Zealand to a high level threat situation at the Port of Auckland affecting cruise ships or their passengers. ¹⁰	No high level threat situation occurred.	100%

⁹ Applies only to those cards checked by Avsec. Civil Aviation Rule 19.357 sets out the requirements for the issuance of Airport Identity Cards, areas of security designated airports that they must be worn and the vetting processes that are provided for. Compliance testing is both targeted and random and is reported on a monthly basis.

¹⁰ Avsec is not actively involved in day-to-day maritime security. Avsec acts in a standby role only and has resources available that can be deployed as and when required to respond to a high level threat situation at the Port of Auckland affecting cruise ships or their passengers.

10. Forecast Financial Statements

10.1 FINANCIAL NOTES

10.1.1 Critical Accounting Estimates and Assumptions

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

Passenger Security Charges

Estimating domestic and international passenger volumes subject to the charges is inherently difficult under the current economic environment. Domestic passenger volumes are assumed to decline 7.65% over the prior year to 5.115 million, International passenger volumes are assumed to decline 6.12% over the prior year to 3.926 million.

The current passenger security charges were set at \$15.00 (GST inclusive) for international passengers and \$4.66 (GST inclusive) per sector travelled for domestic passengers, as from 15 December 2007. No review of these passenger security charges has been incorporated in the financial projections contained in this SOI.

Contracted Services Revenue

The increase in revenue for the 2009/10 forecast accounts reflects an increase in the hourly rates and an increase in the contracted services provided to airlines and third parties.

Personnel Costs

An allowance has been made in 2009/10 personnel costs for the expected increases in staff numbers and expected remuneration increases (resulting substantially from collective contract negotiations undertaken in 2008).

Employer KiwiSaver contributions have been incorporated at 2% from 1 July 2009.

Operating Surpluses / Deficits

The 2009/10 and out-year forecast statements have been set using the current regulated international and domestic passenger security charges (\$15.00 and \$4.66 respectively, GST inclusive). Operating surpluses are reflected in the International, Domestic and Other Contracted Services Statement of Prospective Memorandum Accounts, and will be taken into account when setting future passenger security charges and recovery rates.

10.1.2 Statement of Accounting Policies

Reporting Entity

The Aviation Security Service (Avsec) is the provider of aviation security services within the Civil Aviation Authority of New Zealand (the Authority).

The Authority was established under the Civil Aviation Act 1990 as a Crown Entity on 10 August 1992.

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

This Statement of Intent 2009/12 is prepared for Avsec's operational services only. The Statement of Intent 2009/12 for the aviation safety and regulatory services provided by CAA is presented separately.

Although Avsec will be preparing separate financial reporting statements for its operational activities, they will be reported on within the Annual Report prepared by the Authority.

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

Statement of Compliance

The prospective financial statements comprise prospective information and have been prepared in accordance with New Zealand Financial Reporting Standard No 42: *Prospective Financial Statements* (FRS-42).

Basis of Preparation

These prospective financial statements have been prepared in accordance with legislation for inclusion in Avsec's Statement of Intent 2009/12 to the Minister of Transport. They are not prepared for any other purpose and should not be relied upon for any other purpose.

The preparation of Prospective Financial Statements in conformity with FRS-42 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual financial results achieved for the period in question are likely to vary from the information presented, and the variations may be material.

These Prospective Financial Statements have been reviewed at a high level by the Authority's auditors, Audit New Zealand, but have not been the subject of either an audit engagement or a formal audit review engagement.

Measurement Base

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

With the exception of cash flow information, which is 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 of Avsec is New Zealand dollars. All values are rounded to the nearest thousand dollars (\$'000).

10.1.3 Significant Accounting Policies

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

Budget Figures

The prospective figures contained in this Statement of Intent 2009/12 are those approved by the Authority on 9 June 2009.

The Prospective Financial Statements in this Statement of Intent have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP).

Avsec adopted NZ IFRS in its historical financial reporting for the year ending 30 June 2009. These Prospective Financial Statements have been prepared to be consistent with NZ IFRS and other applicable Financial Reporting Standards as appropriate for public benefit entities.

Forecast Figures

These Prospective Financial Statements were authorised for issue by the Authority on 9 June 2009. The prospective figures are prepared in accordance with NZ GAAP and are consistent with the accounting policies adopted by Avsec for the preparation of its NZ IFRS financial statements.

The Authority is responsible for the Prospective Financial Statements, including the appropriateness of the assumptions underlying the Prospective Financial Statements and all other required disclosures.

Some forecast amounts are based on actual financial results for the six months to 31 December 2009. Significant assumptions based on these prior period actual results are disclosed in the critical accounting estimates and assumptions to these prospective financial statements.

Avsec does not intend to update the Forecast Financial Statements subsequent to publication of these statements.

Revenue

Avsec earns revenue from regulated charges on airlines based on outgoing international passenger numbers and domestic sectors travelled by passengers on aircraft of over 90 seats, charges for additional aviation security activities that are outside its core function, interest income and Crown funding. Revenue is measured at the fair value of the consideration received or receivable.

Interest

Interest income is recognised using the effective interest method.

Crown Funding and Ministry Contracts

Revenue provided by the Crown and revenue earned under a Ministry contract is recognised in the Statement of Prospective Financial Performance in the period the services have been rendered.

Provision of Other Services

Revenue derived from Avsec's provision of security services is recognised in the Statement of Prospective Financial Performance in the period that the services have been rendered.

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 Prospective 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 Prospective Cash Flows.

Income Tax

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

Payment of Any Surplus to the Crown

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

Financial Instruments

Avsec 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 Prospective 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 Prospective 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.

- *Available-for-sale financial assets – comprising cash*

After initial recognition, cash continues to be carried at its nominal fair value.

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

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

At the commencement of the lease term, Avsec recognises finance leases as assets and liabilities in the Statement of Prospective 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 Prospective 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 Avsec 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

Avsec leases office premises and office equipment. As substantially all the risks and rewards incidental to ownership of these asset are retained by the lessor, these leases are classified as operating leases. Operating lease payments are recognised in the Statement of Prospective 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 held for use in the provision of services

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

Inventories write-downs

Any write-down from cost to net realisable value is recognised in the Statement of Prospective 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 Prospective 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 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

Avsec 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 Prospective Financial Performance. Any subsequent increase in the revaluation that offsets a previous decrease in value is recognised in the Statement of Prospective 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 Avsec 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 Prospective Financial Performance. When re-valued or 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 Avsec 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 Prospective 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:

Asset class	Estimated life	Depreciation rate
Buildings (including components)	10 to 14 years	10% - 7%
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 screening 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 are capitalised on the basis of the costs incurred to acquire and bring these to use.

Costs incurred by Avsec 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.

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 Prospective Financial Performance.

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

Acquired computer software	3 – 5 years	33% - 20%
Developed computer software	3 years	33%

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.

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 Prospective Financial Performance.

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

Avsec recognises a liability and an expense for bonuses (at risk remuneration components) 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 Avsec contributions to KiwiSaver, Government Superannuation Fund and Mutual Provident Fund are accounted for as contributions to defined contribution superannuation schemes and are recognised as an expense in the Statement of Prospective Financial Performance.

Retiring Leave

Obligations for retiring leave entitlements are accounted for as a defined benefit scheme and are calculated on an actuarial basis by Melville Jessup Weaver, Consulting Actuaries 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.

Provisions

Avsec 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 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.

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 personnel, property, occupancy and certain other indirect costs are charged on the basis of budgeted staff hours attributable to an output. Depreciation and capital charges are charged on the basis of asset utilisation.

10.2 PROJECTED OUTPUT COSTS AND REVENUE

10.2.1 Projected Output Class 1: Aviation Security Services

PROJECTED OUTPUT CLASS 1 STATEMENT (GST exclusive) For the year ending 30 June 2010	2008/09		2009/10
	Budget \$000	Forecast \$000	Budget \$000
Revenue			
Contracted services	2,944	2,808	3,780
Passenger security charges	86,488	78,675	73,510
Other income	2,233	2,518	2,152
TOTAL OUTPUT REVENUE	91,665	84,001	79,442
TOTAL OUTPUT EXPENSES	80,288	67,785	78,028
OUTPUT SURPLUS	11,377	16,216	1,414

10.2.2 Projected Output Class 2: Maritime Security Services

PROJECTED OUTPUT CLASS 2 STATEMENT (GST exclusive) For the year ending 30 June 2010	2008/09		2009/10
	Budget \$000	Forecast \$000	Budget \$000
Revenue			
Crown funding	145	132	145
TOTAL OUTPUT REVENUE	145	132	145
TOTAL OUTPUT EXPENSES	145	124	145
OUTPUT SURPLUS	-	8	-

The accompanying notes form part of these prospective financial statements.

10.3 STATEMENT OF PROJECTED FINANCIAL PERFORMANCE

STATEMENT OF PROJECTED FINANCIAL PERFORMANCE (GST exclusive) For the year ending 30 June 2010	2008/09		2009/10
	Budget \$000	Forecast \$000	Budget \$000
Income			
Passenger security charges	86,488	78,675	73,510
Contracted services	2,944	2,808	3,780
Crown funding	145	132	145
Interest and other income	2,233	2,518	2,153
TOTAL INCOME	91,810	84,133	79,588
Expenditure			
Personnel costs	61,740	52,290	58,550
Other costs of services	7,740	6,950	9,349
Audit fees for financials statements audit	50	55	52
Finance costs	248	248	113
Depreciation	6,456	5,480	6,762
Capital charge	2,262	1,372	1,546
Building operating expenses	1,879	1,459	1,750
Authority Members' costs	58	55	52
TOTAL EXPENSES	80,433	67,909	78,174
NET SURPLUS	11,377	16,224	1,414

Net surplus attributable to:

TAXPAYERS' EQUITY	11,377	16,224	1,414
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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.

The forecast outturn for 2008/09 is a surplus of \$16.224 million. The surplus recognises that because the passenger security charge, set in December 2007, is set on the basis of a three year charge there will be an over recovery in the first eighteen months and an under recovery in the second eighteen month period. In addition the result recognises the deferment of recruitment of some operational staff and rephrasing of other significant operational expenditure.

The accompanying notes form part of these prospective financial statements.

10.4 STATEMENT OF PROJECTED COMPREHENSIVE INCOME

STATEMENT OF PROJECTED COMPREHENSIVE INCOME (GST exclusive) For the year ending 30 June 2010	2008/09		2009/10
	Budget \$000	Forecast \$000	Budget \$000
Net surplus for the year	11,377	16,224	1,414
Other comprehensive income:			
Revaluation of land and buildings	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	11,377	16,224	1,414

Total comprehensive income attributable to:

TAXPAYERS' EQUITY	11,377	16,224	1,414
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The accompanying notes form part of these prospective financial statements.

10.5 STATEMENT OF PROJECTED CHANGES IN TAXPAYERS' EQUITY

STATEMENT OF PROJECTED CHANGES IN TAXPAYERS' EQUITY (GST exclusive) For the year ending 30 June 2010	2008/09		2009/10
	Budget \$000	Forecast \$000	Budget \$000
Opening balance of taxpayers' equity at 1 July			
General funds	16,573	16,144	21,558
Property, plant and equipment revaluation reserve	624	640	640
Passenger security charges reserves	12,965	15,158	31,304
Total opening balance of taxpayers' equity at 1 July	30,162	31,942	53,502
Total comprehensive income for the year	11,377	16,224	1,414
Capital contributions	7,348	6,722	7,055
Repayment of capital	(1,386)	(1,386)	-
Total changes in equity during the year	17,339	21,560	8,469

The accompanying notes form part of these prospective financial statements.

10.5 STATEMENT OF PROJECTED CHANGES IN TAXPAYERS' EQUITY (CONTINUED)

STATEMENT OF PROJECTED CHANGES IN TAXPAYERS' EQUITY (GST exclusive) For the year ending 30 June 2010	2008/09		2009/10
	Budget \$000	Forecast \$000	Budget \$000
Closing balance of taxpayers' equity at 30 June			
General funds	23,133	21,558	28,464
Property, plant and equipment revaluation reserve	624	640	640
Passenger security charges reserves	23,744	31,304	32,867
Total closing balance of taxpayers' equity at 30 June	47,501	53,502	61,971
General funds			
Opening balance 1 July	16,573	16,144	21,558
Transfer from statement of comprehensive income	11,377	16,224	1,414
Transfer to passenger security charges reserves	(10,779)	(16,146)	(1,563)
Capital contributions	7,348	6,722	7,055
Repayment of capital	(1,386)	(1,386)	-
Closing balance at 30 June	23,133	21,558	28,464
Reserves			
Property, Plant and equipment revaluation reserve			
Opening balance 1 July	624	640	640
Closing balance at 30 June	624	640	640
Passenger security charges reserves			
Opening balance 1 July	12,965	15,158	31,304
<i>Transfer from general funds to:</i>			
Passenger security charges reserve	7,465	13,170	-
Passenger security contingency reserve – Domestic	1,489	1,303	1,570
Passenger security contingency reserve – International	1,825	1,673	1,228
<i>Transfer to general funds from:</i>			
Passenger security charges reserve	-	-	(1,235)
Closing balance at 30 June	23,744	31,304	32,867

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.

The accompanying notes form part of these prospective financial statements.

10.6 STATEMENT OF PROJECTED FINANCIAL POSITION

STATEMENT OF PROJECTED FINANCIAL POSITION (GST exclusive) As at 30 June 2010	2008/09		2009/10
	Budget \$000	Forecast \$000	Budget \$000
ASSETS			
Current assets			
Cash and cash equivalents	38,945	49,223	56,442
Debtors and other receivables	9,118	7,946	7,967
Inventories	40	36	44
Total current assets	48,103	57,205	64,453
Non-current assets			
Property, plant and equipment	11,398	10,198	15,366
Intangible assets	3,067	701	615
Total non-current assets	14,465	10,899	15,981
TOTAL ASSETS	62,568	68,104	80,434
LIABILITIES			
Current liabilities			
Creditors and other payables	4,985	3,563	2,270
Employee entitlements	5,917	5,867	6,303
Borrowings	1,417	1,417	1,678
Total current liabilities	12,319	10,847	10,251
Non-current liabilities			
Employee entitlements	2,748	3,465	3,960
Provisions	-	290	-
Borrowings	-	-	4,252
Total non-current liabilities	2,748	3,755	8,212
TOTAL LIABILITIES	15,067	14,602	18,463
NET ASSETS	47,501	53,502	61,971
TAXPAYERS' EQUITY			
General funds	21,349	21,558	28,464
Property, plant and equipment revaluation reserve	624	640	640
Passenger security charges reserves	25,528	31,304	32,867
TOTAL TAXPAYERS' EQUITY	47,501	53,502	61,971

The accompanying notes form part of these prospective financial statements.

10.7 STATEMENT OF PROJECTED NET CASH FLOWS

STATEMENT OF PROJECTED NET CASH FLOWS (GST exclusive) For the year ending 30 June 2010	2008/09		2009/10
	Budget \$000	Forecast \$000	Budget \$000
Cash flow from operating activities			
Cash was provided from:			
Passenger security charges and other services	88,863	81,265	76,831
Crown funding and Ministry contracts	545	460	602
Interest received	2,105	2,414	1,992
Total	91,513	84,139	79,425
Cash was applied to:			
Payment to employees	57,631	49,035	54,257
Payment to suppliers	12,779	10,639	16,041
Interest paid	248	248	113
Payment of capital charge to Crown	2,262	1,372	1,546
Net goods and services tax (net)	49	15	192
Total	72,969	61,309	72,149
Net cash flow from operating activities	18,544	22,830	7,276
Cash flow from investing activities			
Cash was provided from:			
Sale of property, plant and equipment	55	132	220
Cash was applied to:			
Purchase of property, plant and equipment	9,840	4,891	11,845
Net cash flow from investing activities	(9,785)	(4,759)	(11,625)
Cash flow from financing activities			
Cash was provided from:			
Capital contribution from the Crown	7,348	6,772	7,055
Proceeds from external borrowings	-	-	6,916
Total	7,348	6,722	13,971
Cash was applied to:			
Repayment of capital to the Crown	1,386	1,386	-
Repayment of external borrowings	2,823	2,823	2,403
Total	4,209	4,209	2,403
Net cash flow from financing activities	3,139	2,513	11,568
Net Increase in cash and cash equivalents	11,898	20,584	7,219
Opening cash and cash equivalents at 1 July	27,047	28,639	49,223
CLOSING CASH AND CASH EQUIVALENTS AT 30 JUNE	38,945	49,223	56,442

The accompanying notes form part of these prospective financial statements.

10.8 RECONCILIATION OF SURPLUS IN THE STATEMENT OF PROJECTED FINANCIAL PERFORMANCE TO THE PROSPECTIVE NET CASH FLOW FROM OPERATING ACTIVITIES

RECONCILIATION OF SURPLUS IN THE STATEMENT OF PROJECTED FINANCIAL PERFORMANCE TO THE PROSPECTIVE NET CASH FLOWS FROM OPERATING ACTIVITIES (GST exclusive) For the year ending 30 June 2010	2008/09		2009/10
	Budget \$000	Forecast \$000	Budget \$000
Surplus from Operating Statement	11,377	16,224	1,414
Add / (Deduct) non-cash items:			
Depreciation	6,456	5,480	6,762
Gain in disposal of assets	(55)	(132)	(220)
Movements in Working Capital:			
Increase in prepayments		(6)	(100)
Increase in work in progress		(9)	(8)
Increase in debtors and receivables	(321)	174	(24)
(Increase) / Decrease in creditors and payables	29	216	(1,501)
Decrease in employee entitlements	1,058	883	953
Total Movements in working capital	7,167	6,606	5,862
Net Cash Flow from Operating Activities	18,544	22,830	7,276

The accompanying notes form part of these prospective financial statements.

10.9 PROJECTED FINANCIAL PERFORMANCE INDICATORS

PROJECTED FINANCIAL PERFORMANCE INDICATORS (GST exclusive) For the year ending 30 June 2010	UNIT	2008/09		2009/10
		Budget \$000	Forecast \$000	Budget \$000
Working capital				
Net working capital	\$000	35,785	46,358	54,202
Current ratio	Ratio: 1	0.74	5.27	6.29
Average age of debtors	Days	31	32	30
Average age of creditors	Days	41	43	40
Resource utilisation				
Physical assets at year-end	\$000	14,465	10,899	15,981
Capital expenditure	\$000	9,840	4,891	11,845
Capital expenditure as % of NBV	%	21%	45%	74%
Physical assets as % of total assets	%	23%	16%	20%
Taxpayers' equity				
Taxpayers' equity at year-end	\$000	47,501	53,502	61,971
Taxpayers' equity as % of total assets	%	76%	79%	77%

10.10 PROJECTED STATEMENTS OF MEMORANDUM ACCOUNTS

10.10.1 International passenger security charge

MEMORANDUM ACCOUNT (GST exclusive) International Passenger Security Charge For the year ending 30 June 2010	2008/09		2009/10
	Budget \$000	Forecast \$000	Budget \$000
Revenue	60,798	55,764	52,336
Expenditure	55,033	43,279	48,660
Surplus	5,765	12,485	3,676
Opening balance at 1 July	9,632	11,924	24,409
CLOSING BALANCE AT 30 JUNE	15,397	24,409	28,085

The International passenger security charge Memorandum Account balance at 30 June 2010 includes a contingency reserve of \$4.245 million as agreed with the industry (and acknowledged by Government) in the setting of the passenger security charge in 2007.

The accompanying notes form part of these prospective financial statements.

10.10.2 Domestic passenger security charge

MEMORANDUM ACCOUNT (GST exclusive) Domestic Passenger Security Charge For the year ending 30 June 2010	2008/09		2009/10
	Budget \$000	Forecast \$000	Budget \$000
Revenue	25,690	22,912	21,174
Expenditure	20,676	19,251	23,287
Surplus/(Deficit)	5,014	3,661	(2,113)
Opening balance at 1 July	3,333	3,234	6,895
CLOSING BALANCE AT 30 JUNE	8,347	6,895	4,782

The Domestic passenger security charge Memorandum Account balance at 30 June 2010 includes a contingency reserve of \$3.000 million as agreed with the industry (and acknowledged by Government) in the setting of the passenger security charge in 2007.

10.10.3 Other fees and charges

MEMORANDUM ACCOUNT (GST exclusive) Other Fees and Charges For the year ending 30 June 2010	2008/09		2009/10
	Budget \$000	Forecast \$000	Budget \$000
Revenue	2,944	2,938	3,925
Expenditure	2,346	2,860	4,074
Surplus/(Deficit)	598	78	(149)
Opening balance at 1 July	(871)	(1,300)	(1,222)
CLOSING BALANCE AT 30 JUNE	(273)	(1,222)	(1,371)

10.10.4 Total memorandum of accounts

TOTAL MEMORANDUM ACCOUNTS (GST exclusive) For the year ending 30 June 2010	2008/09		2009/10
	Budget \$000	Forecast \$000	Budget \$000
Revenue	89,432	81,614	77,435
Expenditure	78,055	65,390	76,021
Surplus	11,377	16,224	1,414
Opening balance at 1 July	12,094	13,858	30,082
CLOSING BALANCE AT 30 JUNE	23,471	30,082	31,496

The accompanying notes form part of these prospective financial statements.

11. Appendices

11.1 REPORTING OBLIGATIONS

Output agreements

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

Quarterly reports

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

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

Annual report

The obligation to prepare, present, and publish an annual report is set out in *section 150 of the Crown Entities Act 2004*. It states that a Crown entity must, at the end of each financial year, prepare a report on the affairs of the Crown entity; and provide the report to its responsible Minister no later than 15 working days after receiving the audit report provided under *section 156*. The responsible Minister for the Crown entity must present the entity's annual report to the House of Representatives within 5 working days after receiving the annual report or, if Parliament is not in session, as soon as possible after the commencement of the next session of Parliament.

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

11.2 AVSEC GLOSSARY

Act	Civil Aviation Act 1990
AICs	Airport Identity Cards
Authority	Five Member Board of the Civil Aviation Authority (the Crown Entity)
Avsec	Aviation Security Service
BARNZ	Board of Airline Representatives in New Zealand (Inc)
CAA	Civil Aviation Authority of New Zealand (the organisation)
CATSA	Canadian Air Transport Security Authority
Director	Director of Civil Aviation Authority of New Zealand
ETD	Explosive Trace Detection
FTEs	Full Time Equivalent
HBS	Hold Baggage Screening
ICAO	International Civil Aviation Organization
LAGs	Liquids, Aerosols & Gels
MoT	Ministry of Transport
Minister	Minister of Transport
SSDG	State Sector Development Goals
SOI	Statement of Intent