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2011/12 ANNUAL REPORT CIVIL AVIATION AUTHORITY OF NEW ZEALAND

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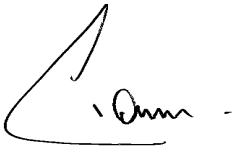
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This Annual Report has been prepared in accordance with:

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

I provide this Annual Report on the performance of the Civil Aviation Authority of New Zealand for the financial year 1 July 2011 to 30 June 2012.

A handwritten signature in black ink, appearing to read 'Nigel Gould', with a large, sweeping flourish on the left side.

NIGEL GOULD

Chairman of the Civil Aviation Authority of New Zealand

26 October 2012



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CHAIRMAN'S OVERVIEW

It is a pleasure to report that the Civil Aviation Authority has made significant progress in achieving a number of desired outcomes from the Statement of Intent. The Authority and management have focused on improving the Authority's capability and capacity in the performance of its regulatory and security service delivery roles.

The Civil Aviation Authority has a key role in providing assurance of safe air transport, which underpins growth in passenger and cargo volumes and enables access to international tourism and business markets worth almost \$12 billion¹ to the New Zealand economy. New Zealand administered airspace covers some 30 million square kilometres – or 5% of world airspace and domestically some 269,000 square kilometres.

Across New Zealand in 2011/12 9.9 million passengers travelled on main domestic routes, 4.8 million passengers travelled on international airlines, and \$5 billion of international airfreight (98,000 tonnes) was transported. The aviation industry internationally is expected to double in the next 20 years, which will have impacts on New Zealand that we must be well positioned to deal with.

To ensure the Authority is well placed to meet these challenges a number of recommendations from the Auditor-General's 2010 review to develop a more responsive, fit-for-purpose, risk focused regulator that provides better value for money and service to its stakeholders, have been implemented. Nine of the thirteen recommendations have been completed and the other four incorporated into our day to day operations.

The Auditor-General also highlighted the need for a different culture and leadership style. The One Organisation Change Programme reviewed and revised the structure, leadership and re-focused the Authority on its need to maintain the highest standards of regulatory oversight and security. I am pleased that the Authority was able to achieve its change programme within budget during 2011/12, with provision being made for residual costs in the 2012/15 period.

The Authority has shifted its focus to become a more risk based regulator under our new Regulatory Operating Model. The risk-based approach is evidenced in all aspects of regulatory work: in developing oversight mechanisms for the whole civil aviation system, setting strategies for the different aviation sectors and in monitoring the performance of individual participants.

The Authority has also recognised that a major factor in achieving the results required is a closer relationship with all stakeholders in the aviation sector.

To this end the Authority undertook extensive industry consultation to review its funding model during the year. Government



¹ \$11.76 billion, Oxford Economics: Economic Benefits from Air Transport in New Zealand, 2010.

has now approved a new funding framework to take effect from 1 November 2012. The revised fees and charges will be more appropriately apportioned across the industry and provide an appropriate level of funding for the Authority to perform its regulatory function.

The Authority has contributed to the Government's value-for-money expectations and provided both increased synergy and cost savings by introducing a shared service model between the Authority's regulatory functions and the Aviation Security Service.

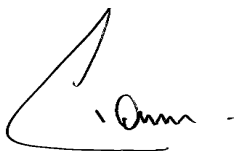
In 2011, the Authority resolved to reduce the level of funds in the aviation security services reserves balances. Cabinet approved the reduction in security charges to minimise the impost on the industry, recognising that it would be necessary to readjust the charges when the reserves were lowered sufficiently. The reserves have been reduced although this has occurred at a faster rate than initially planned due to passenger numbers being lower than forecast and some one-off costs associated with the implementation of the Authority's change programme. The Authority is now planning to review the aviation passenger security charges. This is being relied upon by the Authority to take effect in the 2012-13 financial year to maintain the financial viability of the Aviation Security Service.

In 2011 New Zealand hosted its biggest ever international event. During the Rugby World Cup the world's focus was on New Zealand and the Aviation Security Service played a significant role in supporting its success. A large short-term influx of passengers at our airports was managed seamlessly and professionally by the Service and demonstrated the value of the Authority working closely with other government departments. This helped to leave a positive and lasting impression of New Zealand with tens of thousands of international visitors.

Our work programme and outcomes achieved for the year are significant and would not have been possible without the close working relationship we have with the Minister of Transport and Ministry officials. We have achieved a great deal which is testimony to the dedication and professionalism of the management and staff within the Authority.

During the year we welcomed Graeme Harris to the dual roles of Director of Civil Aviation and Chief Executive Officer. Graeme's considerable aviation experience, equip him well to lead the Authority into the future.

Finally, my thanks also to the aviation community who have supported the changes we are making to build a more responsive and fit-for-purpose Authority that provides "safe flight for social connections and economic benefits" to New Zealand.



Nigel Gould

CHAIRMAN





DIRECTOR'S INTRODUCTION

I am pleased to report the Civil Aviation Authority has made significant progress this year.

A substantial work programme has been delivered while a new Regulatory Operating Model has been introduced through a substantial programme of change.

The Change Programme was introduced in response to recommendations from the Auditor-General which identified that the Authority needed to significantly improve its capability and performance to meet the demands of the aviation environment. The Authority's Surveillance System had not been significantly changed since it was implemented in the early 1990s, and the Auditor-General identified that the efficiency and effectiveness of the Authority's surveillance and certification processes needed to be more effective and more consistently applied. Strengthening and enhancing our leadership and culture was also identified as areas requiring emphasis.

To meet these recommendations we have changed our structure to become a more appropriate, responsive regulator. Leadership and management training programmes have been developed and implemented to improve our capability. The newly formed Policy and System Interventions group has enhanced our safety analysis and risk profiling ability to enable more appropriate risk assessments and regulatory oversight. The Aviation Infrastructure and Personnel group functions now include the management of personnel licensing and medical certification, to achieve a more cohesive approach.

The majority of the Auditor-General's recommendations have now been signed off and we are confident our structure and increased capability will deliver the appropriate services to the sector.

Confidence in the safety and security of the civil aviation system underpins the substantial economic contribution of the aviation sector in New Zealand, and the Government has approved a new funding framework from 1 November 2012 that will more appropriately ensure users meet the true cost of the services they receive from the Authority.

We have also introduced a Shared Services model with Aviation Security Services which has provided a more appropriate fit-for-purpose organisation and supplied value-for-money savings in a fiscally constrained public sector.

We have engaged more closely with our stakeholders and will continue to do so as the sector moves to a Safety Management System. This is a proactive programme of risk and safety management that places a strong focus on operator responsibility with regulatory oversight from the Authority.

I am proud of the professionalism and engagement shown by all staff with their contributions to rebuild and refocus the organisation during a time of change. I also thank the Authority members and monitoring agencies for their contribution and ongoing support.

A handwritten signature in black ink, appearing to read 'Graeme Harris'. The signature is fluid and cursive, written on a white background.

Graeme Harris
Director of Civil Aviation

PART A:

THE CIVIL AVIATION AUTHORITY'S STRATEGIC CONTRIBUTION

NATURE AND SCOPE OF FUNCTIONS

PURPOSE

The objective of the Authority is to undertake its safety, security, and other functions in a way that contributes to the aim of achieving an integrated, safe, responsive, and sustainable transport system². The Authority delivers its services through two business groups/arms:

- Regulatory service delivery under the Director of Civil Aviation; and
- Aviation security service delivery regulated by the Authority under Civil Aviation Rule Part 140 (aviation security service organisation).

SCOPE OF WORK

The Authority regulates the civil aviation system through a set of Aviation Rules, and exercises its regulatory functions through:

- certification and licensing of aviation participants in the New Zealand civil aviation system;
- surveillance (routine audits, inspections, spot checks of aviation document holders) to monitor compliance with safety and security standards;
- investigation of accidents and incidents;
- enforcement by taking appropriate action where breaches of civil aviation legislation have been identified;
- safety promotion through information, advice and education;
- other activities, including:
 - development of civil aviation rules, aligned with international standards;
 - contribution to the civil aviation system (including airspace) policy development; and
 - oversight of administration of the Health and Safety in Employment Act 1992 and Hazardous Substances and New Organisms Act 1996 in the aviation sector.

The Authority provides aviation security services:

- for all international passengers and their hold and carry-on baggage, at seven security-designated airports;
- for domestic passengers on aircraft with 90-plus passenger seats, and their carry-on bags; and
- through perimeter patrols and screening airport workers at certain sites; and by issuing airport identity cards.

The Crown has delegated certain international civil aviation obligations to the Authority or the Director of Civil Aviation in respect of the International Civil Aviation Organization and the Convention on International Civil Aviation signed in Chicago on 7 December 1944.

GOVERNMENT'S TRANSPORT OUTCOME

The policy direction document for transport, *Connecting New Zealand*, expresses the Government's overall objective as "an effective, efficient, safe, secure, accessible and resilient transport system that supports the growth of our country's economy, in order to deliver greater prosperity, security and opportunities for all New Zealanders".

New Zealand has some of the safest skies in the world, but keeping the number of air accidents trending downwards is getting

² Civil Aviation Act 1990, s72AA

harder. The Authority has to manage the same broad scope of aviation activities as covered by regulators in much larger countries while keeping up with continuing growth in the numbers of participants and passengers, as well as advances in aviation technologies and international standards.

THE AUTHORITY'S STRATEGIC DIRECTION

The Authority developed its Strategic Direction document in 2011 in response to the need for a more vibrant, responsive organisation that appropriately reflects the needs of the aviation sector. This document outlines our key areas of focus and how we are developing into a more responsive, risk-based regulator. It also outlines how we will continue our focus on ensuring strong safety performance, and work with industry to maintain this. We have dedicated strategies to address identified safety issues where safety performance is not what we would expect it to be.

The Authority recognises that better outcomes can be achieved if we work with the aviation industry in introducing the necessary changes. We may have different roles, but we share a common objective with participants to improve safety in the aviation system.

We will also take a stronger role in the development of airspace policy and planning, and in streamlining the processes for developing and applying standards for safe and efficient use of New Zealand's airspace.

The Authority's Strategic Framework supports the Government's objective for the transport sector to maximise the economic and social benefits for New Zealand and to minimise harm.

AUTHORITY'S OUTCOME

The Authority's outcome describes the 'future state' upon which the Authority focuses and which is strongly aligned with the Government's objectives for the transport system:

Safe flight for social connections and economic benefits

Safe flight is being achieved through the contributions made by the Authority and a wide range of other stakeholders and aviation system users. The progress that the aviation system is making towards that outcome annually is measured by our performance measurement framework.

IMPACTS OF THE AUTHORITY'S WORK

The impacts describe how our work will affect the aviation system and the intended results.

We achieve our intended impacts principally through our own efforts; however other organisations may also undertake work that contributes to the impacts.

The Authority's areas of emphasis and specific 'outputs' (e.g. our work programmes) deliver our impacts.

AREAS OF EMPHASIS AND OUTPUTS

Outputs and projects comprising our areas of emphasis and impacts can all contribute to more than one item in the next step up in the framework. However, for simplicity, we have shown the main relationships in the following diagram.

THE GOVERNMENT'S OBJECTIVE FOR TRANSPORT

An effective, efficient, safe, secure, accessible, and resilient transport system that supports the growth of our economy, in order to deliver greater prosperity, security and opportunities for all New Zealanders

which contributes to

THE AUTHORITY'S OUTCOME FOR THE CIVIL AVIATION SYSTEM

Safe flight for social connections and economic benefits

that contribute to

THE IMPACTS OF THE AUTHORITY'S WORK
---- Being safe ---- ---- Feeling safe ----

Aviation participants act safely and actively manage risks	A safe airspace environment is sustained for all aviation activities	New Zealand has a positive international reputation for air safety and security	People have confidence in the safety and security of air transport
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leading to

THE AUTHORITY'S AREAS OF EMPHASIS

Increasing Overall System Effectiveness	Improving Sector Safety Performance	Becoming a More Responsive & Results Driven Organisation
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which are focussed on

THE AUTHORITY'S OUTPUTS

System Design & Evaluation	Outreach	Certification & Licensing	Surveillance & Investigation	Security Service Delivery
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are deployed to deliver

THE AUTHORITY'S RESOURCES

People	Systems	Information
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AVIATION DOCUMENT HOLDERS

There are 756 organisations, 43,189 individuals and 4,755 aircraft participating in the New Zealand aviation system³.

INTERNATIONAL AND DOMESTIC AIR PASSENGER MOVEMENTS

The aviation industry is highly dynamic. Air passenger traffic is very reflective of economic cycles, and geopolitical events (i.e. terrorism or internal political turmoil). Traffic growth is aligned to economic growth of countries, and growth in passenger numbers in New Zealand is predominantly driven by travellers from Asia.

GLOBAL REGULATORY CHANGE

Through global co-operation, regulators are able to share aviation safety information and cooperate in the certification of civil aircraft. This is achieved through membership of the International Civil Aviation Organization, and a series of bi-lateral aviation agreements between New Zealand and other countries. Risk-based regulation, based around the use of Safety Management Systems, is emerging as a global standard in the aviation industry. It is seen as the next step in the evolution of safety in aviation, and is increasingly being used in the management of other critical areas such as quality and aviation security. It integrates safety risk management as a fundamental business process.

The Authority has recently issued its Regulatory Operating Model incorporating contemporary approaches to risk based regulation and sector oversight.

TECHNOLOGY CHANGE

Advancement in aircraft technology is changing the priorities of aviation regulators. Rapid advances in aviation technologies have required the Authority to enhance the existing information base, and build relationships with participants in emerging technology. Regulatory services staff are trained, both in New Zealand and overseas, to maintain and enhance their skills to international levels.

AVIATION SECURITY

As the global marketplace continues to grow, millions of international travellers and tonnes of freight are exposed to various types of aviation-related services. The global civil aviation industry is capable of enormous change⁴ and volatility, and the Authority must keep track of these changes to ensure that New Zealand's civil aviation system meets international expectations. The Authority is regarded as a world-class provider of aviation security services.

SUSTAINABLE GROWTH IN AVIATION

Aviation continued to deliver continuous improvements in fuel efficiency through the application of advances in technology, operations and infrastructure; and is committed to meeting environmental performance targets. The International Civil Aviation Organization continued to be the forum in setting international aviation goals, working on market based measures and promoting sustainable biofuels in aviation. The Authority actively participates in these forums and developments.

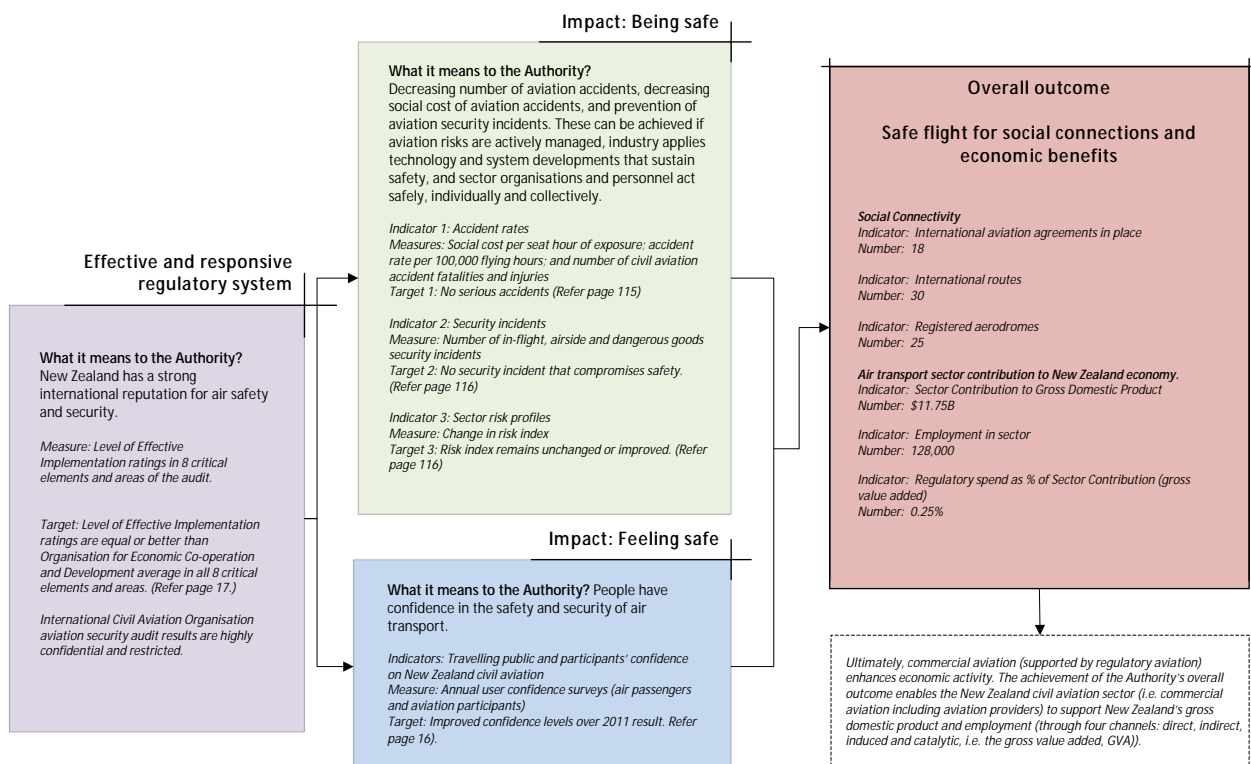
³ A detailed breakdown of these participants is shown in Appendix 3 at page 109.

⁴ Air passenger and cargo traffic are highly sensitive to natural disasters, economy, politics, levies imposed on emissions trading schemes, and fuel price fluctuations. The aim of regulators and providers is to minimise aviation accident, minimise cost and optimise revenues using technology in the air and on the ground.

Achieving our outcomes will result in improvement in aviation safety and security trends, and will have the following impacts:

- **being safe** - aviation participants act safely and actively manage risks; that a safe airspace environment is sustained for all aviation activities; and aviation security measures are effective; and
- **feeling safe** - people having confidence in the safety and security of air transport and, having a positive international reputation for air safety and security.

This is achieved by New Zealand having an **effective and responsive civil aviation regulatory system**.



OUTCOME

The overall outcome for the Authority is **safe flight for social connections and economic benefits**.

MEASURE: SOCIAL CONNECTIONS

Social connection benefits depend upon New Zealand carriers' ability to fly in and out of other countries. Aviation broadens people's leisure and cultural experiences through a wide choice and affordable access to destinations across the globe, often serving as the only means of transportation to remote areas, thereby promoting social inclusion. Aviation contributes to sustainable development by facilitating trade and tourism, generating economic growth, creating jobs and increasing tax revenues. In addition aviation supports the delivery of emergency assistance, and swift delivery of medical supplies, and organs for transplantation.

New Zealand's aviation related agreements with other State Authorities are based on confidence in the New Zealand aviation regulatory system. Without these agreements, increased costs for New Zealand commercial aviation would occur. New Zealand has 18 international aviation agreements⁵ in place. New agreements were signed in 2012 with Japan and China.

While economic recovery in the West continued to slow during the 2011/12 financial year, many East Asian economies registered Gross Domestic Product growth and related increased air passenger numbers of more than 20% – Asian arrivals in New Zealand grew by 9.1%.

In 2011 there were 40 (2010: 31) routes connecting New Zealand to urban agglomerations⁶ around the world. 14 (2010:8) of these routes connected New Zealand to cities of more than 10 million inhabitants. Flight frequency to the most economically important destinations (for example, Los Angeles, Sydney) provides high speed access for business and leisure activities⁷.

There has been a decrease in the number of flights to, and through, North America, with an increase in flights to, and through, Asia. Auckland is New Zealand's busiest airport and the gateway to other domestic aerodromes. Traffic through Auckland has been stimulated by Gulf and Asian airlines.

Internally, New Zealand has an extensive network of air transport operations, ferrying passengers and freight between 26 aerodromes around the country. In 2011, there were 252,658 total flights in New Zealand; of these 192,248 were domestic flights (or 1,716 one way flights per week); and 60,410 were international flights (or 539 one way flights per week). Approximately 9.95 million passengers were carried on internal flights within New Zealand in the 2011/12 year, with 5.64 million being security screened by aviation security services. As can be seen in the table below, passenger numbers continue to grow:

In 2011 there were 40 routes connecting New Zealand to urban agglomerations around the world; 14 of these were to cities of more than 10 million inhabitants.

Number of air passengers	For the years ended 30 June						% change 2011-2012
	2007	2008	2009	2010	2011	2012	
Total international passenger departures	4,359,298	4,436,717	4,312,686	4,452,310	4,582,295	4,775,762	+4.22%
Total domestic passengers recorded by:							
All domestic operators	8,894,997	9,777,968	9,507,548	9,243,532	9,823,072	9,954,695	+1.34%
On aircraft with seating capacity of 90 seats or more and subject to security screening (included in above)	5,024,706	5,654,619	5,620,650	5,703,733	5,497,128	5,640,916	+2.62%

Source: Authority: (Numbers may differ from Statistics New Zealand, because the Authority bases these numbers on the aviation safety and security levies.)

New Zealand has, and depends upon, a high degree of social connectedness with the rest of the world, which supports the economic benefits achieved from aviation.

⁵ Agreements are with the International Civil Aviation Organization, the United States of America, Australia, Canada, the European Union, Tonga, the Cook Islands, Niue, Samoa, Mongolia, and with the Pacific Aviation Safety Office, and provide variously for: Bilateral Aviation Safety Agreements; Exchange of Aeronautical Information; Technical Arrangement on Aircraft Maintenance; the manufacture of specific aircraft; Technical Cooperation; mutual recognition of Air Operator Certificates; working arrangements/ understanding/ cooperation between agencies; and the provision of advice and technical assistance.

⁶ Urban agglomerations are defined as contiguous built-up areas of at least 1 million population.

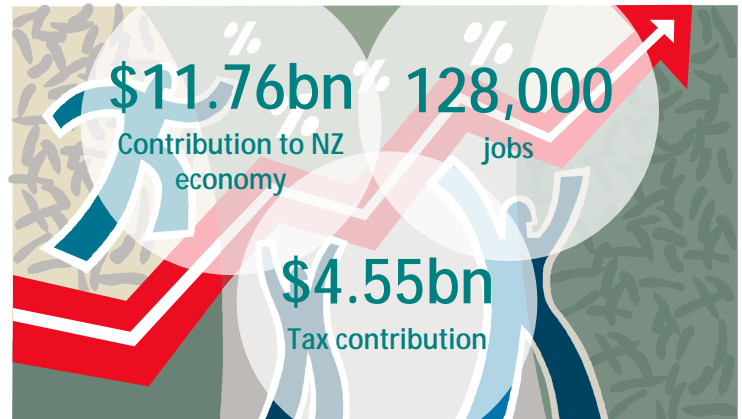
⁷ Oxford Economics; Economic Benefits of Air Transport in New Zealand, 2011; and New Zealand Ministry of Transport 2012.

MEASURE: ECONOMIC BENEFITS

Contribution to New Zealand's Economy

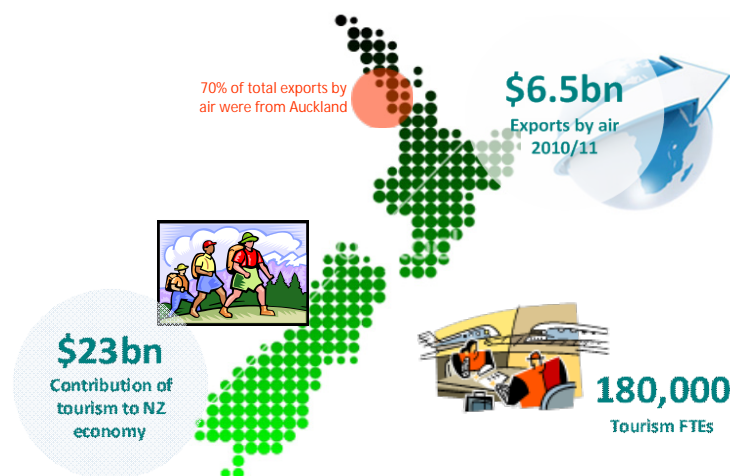
As an island nation, aviation is a major facilitator of New Zealand's economic activity. Safer and more secure aviation brings confidence in the transport of global and domestic trade and tourism that stimulates the New Zealand economy. The aviation sector supports New Zealand's Gross Domestic Product and employment through benefits arising in four distinct channels:

- **direct** – the output and employment of the firms in the aviation sector;
- **indirect** – the output and employment supported through the aviation sector's New Zealand based supply chain;
- **induced** – employment and output supported by the spending of those directly or indirectly employed in the aviation sector; and
- **catalytic** – spillover benefits associated with the aviation sector, including activity supported by the spending of foreign visitors travelling to New Zealand via air, and the level of trade directly enabled by the transportation of merchandise.



New Zealand has a good international safety record and is considered a low risk nation in terms of security. Through this positive standing New Zealand is able to leverage many economic opportunities internationally. On the other hand, failure to comply with international civil aviation standards will limit the international activities of New Zealand's aviation sector and consequently be detrimental to New Zealand's economic growth.

Assurance of safe and secure air transport underpins growth in passenger and cargo revenues and enables access to valuable international tourism and business markets. For example, tourism depends on a reliable aviation system, and contributed over \$23 billion to New Zealand's economy for the year ended March 2011 (\$21.989 billion in 2009, \$22.481 billion in 2010) and employed 180,000 full-time equivalents (182,000 full-time equivalents in 2009, 179,000 full-time equivalents in 2010)⁸.



⁸ Tourism Satellite Account 2010 Report, Ministry of Economic Development.

In addition, having an air freight regime that meets the expectations of the wider international community is critical to the export viability of many high-value and time-sensitive goods. In the financial year 2010/11, total exports transported by air were valued at \$6.5 billion (\$5.724 billion in 2010, \$5.851 billion in 2009) of which 70% were exported from Auckland International Airport⁹.

Aviation makes a sizeable contribution to New Zealand's economy in three distinct types of activity:

- airlines transport people and freight (e.g. Air New Zealand, Air Nelson, Eagle Air);
- aviation supports agricultural and forestry industries and adventure tourism: ground-based infrastructure (airport facilities, the on-site services provided for passengers at airports; e.g. baggage handling, ticketing, retail, catering services, taxis, etc.) together with essential services provided off-site, such as air navigation and regulation (e.g. the Airways Corporation); and
- aerospace manufacturing builds and maintains aircraft systems, airframes and engines (e.g. Safe Air, Air New Zealand, Pacific Aerospace Ltd).

It is in New Zealand's economic interests to have an efficient and effective aviation regulator to ensure safe and secure aviation in New Zealand's airspace.

Reduction in social cost of aviation

The Authority works to reduce the number of accidents and incidents in the aviation sector, and to reduce the severity of the consequences of those events. This has the effect of reducing the cost to individuals, and to the economy, of accidents causing injury or death, or damage to aircraft and infrastructure.

This is the social cost of aviation accidents and includes the value of loss of life and life quality through injury, value of time lost, loss of output, medical and rehabilitation costs (mostly through the Accident Compensation Corporation), legal and investigation costs, and property damage.

Reductions in accident rates and their severity, with the consequential reduction in numbers of deaths and in the numbers and severity of injuries arising from aviation accidents, is showing an overall decline in social cost to the New Zealand economy.

⁹ www.statistics.govt.nz

ACHIEVING THE OUTCOME

The Authority contributes to achieving its outcome through two key channels:

IMPACT: BEING SAFE

The Authority's impact "*being safe*" means that air passengers arrive at their destinations safely and securely. This is achieved through the Authority's activities that ensure that:

- aviation participants act safely and actively manage risks;
- that a safe airspace environment is sustained for all aviation activities; and
- aviation security measures are effective.

While a 'zero' aviation accident or incident rate is not realistic, as regulator we seek to minimise the occurrence and consequences of aviation accidents or incidents. There are external factors beyond our control that rest on the aviation document holder (for example, a decision to fly during poor weather conditions, or non-compliance with the organisation's flight operations manual).

The "being safe" impact has a performance target portfolio which determines whether the impact has been achieved or not, and includes the following measures and corresponding targets¹⁰:

New Zealand has a good international safety record and is considered a low risk nation in terms of security.

OUTCOME: BEING SAFE, PORTFOLIO OF MEASURES AND TARGETS		
Measures	2011/12 Targets	Impacts
ACCIDENT RATES	NO SERIOUS ACCIDENTS	If targets are achieved, air travel in New Zealand is safer and more secure enabling the public to have continued confidence in the civil aviation system. (Internally, the Authority identifies areas of safety concern, and subsequently prioritises its focus to provide a safer and more secure air travel to the public. The activities the Authority carries out to influence aviation safety and security are set out in Part B of this report)
Number of aviation fatalities and injuries	Equal to or less than the 2010/11 aviation fatalities and injuries	
Rate of aircraft accidents per 100,000 flying hours	Equal to or less than the 2010/11 aircraft accident rates per 100,000 flying hours	
Social cost of aviation accidents per unit of passenger exposure	Equal to or less than the 2010/11 social cost targets	
SECTOR RISK PROFILE		
Change in index of risk	Risk levels remained steady or improved	
SECURITY INCIDENTS	NO SECURITY INCIDENT THAT COMPROMISES SAFETY	
Number of aviation security incidents that compromised aviation security	No in-flight security incidents No airside security incidents No airside incidents involving dangerous goods	

NUMBER OF CIVIL AVIATION ACCIDENT FATALITIES AND SERIOUS INJURIES

Reduction in the number of fatalities and serious injuries enhances New Zealand's reputation for a safe aviation environment and reduces the cost to society (which increases the economic benefit of the aviation sector).

¹⁰ For each of these indicators, tables of supporting data are provided in Appendix 5 at page 114

From 2009 to 2011, New Zealand accident¹¹ rates per million flight departures were higher than global and Oceania rates; but New Zealand had zero fatalities in all three years. In 2011, New Zealand's aviation accident rate dropped from 18 in 2010 to 4.5 in 2011 and was lower than Oceania's average. However, in 2012, there were eleven deaths, arising from an adventure aviation accident (the Carterton balloon accident).

Our regulatory and educational activities seek to reduce the numbers of accidents and incidents in order to prevent fatalities and injuries. A reduction in the number of accidents, and in the number of fatalities and injuries, reduces the social cost to the economy as a whole.

MEASURE: RATE OF AIRCRAFT ACCIDENTS PER 100,000 FLYING HOURS

Examination of the rate of aircraft accidents gives a slightly different picture than the social cost analysis. Fewer or similar numbers of accidents in sectors with increasing numbers of flying hours demonstrates a reducing incidence of accidents, and may signal that operators are managing risk better.

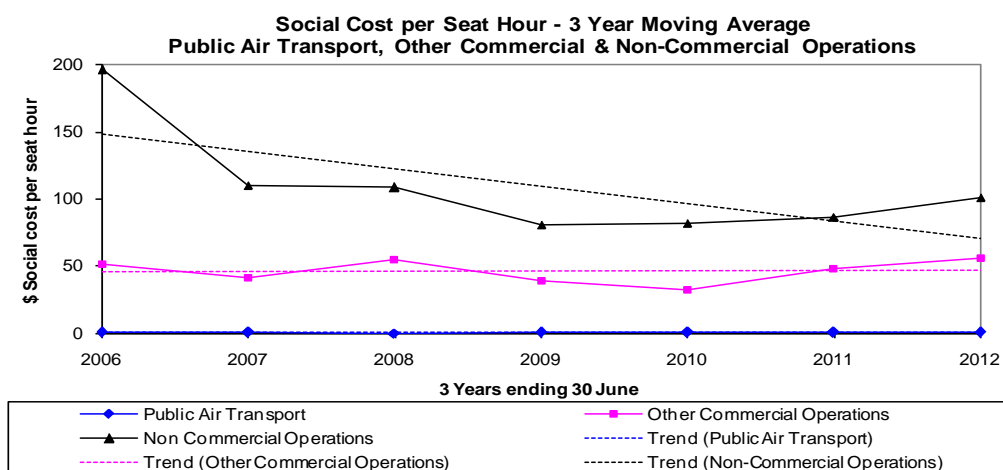
Safety and sector performance is improving.

Air transport operations are showing a higher than desired rate of accidents. The fact that these sectors are meeting social cost targets indicates the accidents in these sectors are minor and non-injurious. Commercial and private helicopters and adventure aviation are experiencing a higher rate of accidents than targeted. Refer to Appendix 5 for detailed tables.

The Authority is uncompromising in its focus on the safety goal for air transport to maintain and enhance strong performance in this public transport sector. Our surveillance and certification activities seek to maintain and improve the safety record of sub-sectors that are not performing well in safety terms.

MEASURE: SOCIAL COST OF AVIATION PER UNIT OF PASSENGER EXPOSURE

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



In the chart above the increases in the social costs for Other Commercial Operations reflect the deaths arising from accidents at Fox Glacier and more recently at Carterton.

¹¹ Accident means an occurrence that is associated with the operation of an aircraft and takes place between the time any person boards the aircraft with the intention of flight and such time as all such persons have disembarked and the engine or any propellers or rotors come to rest, being an occurrence in which – (a) a person is fatally or seriously injured, (b) the aircraft sustains damage or structural failure, or (c) the aircraft is missing or is completely inaccessible. (Sources: Civil Aviation Act 1990; International Civil Aviation Organization definition of an aviation accident)

While airline operators continue to achieve or better the targeted levels of social cost, other sectors are exceeding the targets by a considerable margin. Potentially the most serious of these is the adventure aviation transport operators. Adventure aviation (formerly sport aircraft – transport operators) is now the most ‘costly’ aviation sector – the social cost per seat exceeds that of private operators where a high risk is generally accepted. As well as the social cost, there is a reputational cost due to the high profile of a adventure tourism with which a adventure aviation is associated.

Commercial (non-air transport) helicopter and aircraft operators are also well above target, as are helicopters on agricultural activity. Agricultural aeroplane operators have achieved a moderate reduction in social cost, due to decreased accident rates and the absence of recent fatalities in this sector during a period of generally declining activity. The non-commercial operation of aeroplanes, helicopters and sport aircraft continue to exceed target levels of social cost. Refer to Appendix 5 for detailed tables.

We focus on aviation sub-sectors with a higher degree of safety failure such as adventure aviation operators.

MEASURE: DISTRIBUTION OF RISK PROFILES FOR AVIATION DOCUMENT HOLDERS

This measure reveals whether participants are more actively managing risk in their operations and indicates directly whether the Authority’s interventions are having a positive effect on the risk management behaviours of participants.

The risk profiles for all but two activity types show a downward trend with the average for all assessed participants falling into the Low Risk (0 – 16) category by 2012. Only one activity is not in the Low Risk category (Part 172 Air Traffic Service Organisation); having increased since the 2010/11 year.

What matters most is not so much the actual value but the trend in the Risk Profile Index over time. Fluctuation in the actual index may occur for many reasons (for example, a change in senior personnel, change in business structure or ownership, etc.) It is gratifying that, apart from two areas, the trend is downwards. Risk assessments are, for the most part, applied only to holders of “organisational type” documents. Operators in sectors with unsatisfactory Social Cost outcomes are not subject to risk assessment because the activities in these sectors are carried out by individual document holders. Refer to Appendix 5 for detailed tables.

The risk profile indices for all but two aviation activity types show a downward trend

Our surveillance activities, certification and education activities are intended to see a reduction in risk profiles in all sectors over time. In addition we encourage active management of risk by participants.

MEASURE: RATE OF SECURITY INCIDENTS

This measure reveals whether aviation security systems deter, prevent and/or detect attempted breaches of aviation security. There were no security incidents in 2012 that compromised aviation security, while there were three incidents in 2011. Refer to Appendix 5 for detailed tables.

We will maintain our strong security performance to reduce the potential for breaches of aviation security.

IMPACT: FEELING SAFE

The benefits for the country from a safe and secure civil aviation system will be fully realised only if there is a corresponding perception by users that flying is safe. There is a growing understanding of stakeholder confidence in the civil aviation system. A comprehensive programme is underway to survey public and participant perceptions of the safety and security of the civil aviation system. Baseline data obtained for the 2011/12 year will be used to establish an on-going measure of user confidence. The survey was repeated in mid-2012, and the survey results show some improvement since 2011. The results are generally positive for both regulatory and aviation security service delivery.

Around six in ten stakeholders believe aviation security in New Zealand is effective, about seven in ten stakeholders think aviation security services are delivered at least 'quite well' and the same proportion have confidence in the management of aviation security service delivery to provide effective safety and security measures for the aviation industry in New Zealand. Almost 7 in 10 stakeholders think regulatory service delivery oversees the implementation and adherence to safety and security regulations in the industry at least 'quite well'. All of these results are similar to 2011.

However, around 6 in 10 stakeholders are either 'very' or 'quite' satisfied with the safety and security performance of the New Zealand civil aviation system, and just 9% indicate they are 'quite dissatisfied'. Stakeholders' confidence in the management of the Authority to provide effective safety and security measures for the aviation industry in New Zealand has increased since last year, with 64% of stakeholders having confidence in the Authority, compared with 48% in 2011. Stakeholders' views on certain areas of regulatory and aviation security service delivery performance remain mixed (both positive and negative sentiment is evident), for example only half of stakeholders feel the Authority is responsive in applying regulations. Equal proportions of stakeholders feel the Authority does or doesn't respond to queries in a timely manner.

Overall, stakeholders' confidence in the Authority has increased to 64% from 48% since last year

Ratings of the Authority's regulatory activities have improved since last year in a number of areas. Stakeholders are more confident in the management of the Authority to provide effective safety and security measures for the aviation industry in New Zealand. Stakeholders are more likely to think the Authority will confront difficult issues effectively and reach a resolution, and manage change when introducing new civil aviation rules 'extremely' or 'very' well compared with last year.

Other improvements relating to the Authority overall includes more stakeholders feeling that internal training and staff development and working with the aviation industry are being managed 'extremely' or 'very' well. Areas for improvement include the Authority confronting difficult issues effectively and reaching a conclusion, and transparency in decision making. Six in ten stakeholders think the regulator manages these things 'not that' or 'not at all' well.

We are working to improve stakeholder relationships in order to increase our influence on participants and enhance the use of non-regulatory tools and interventions. We also seek to understand better the perceptions of the users of aviation services in order to increase user confidence in aviation safety and security in New Zealand

AN EFFECTIVE AND RESPONSIVE REGULATORY SYSTEM

THE LEVEL OF EFFECTIVE IMPLEMENTATION

The Level of Effective Implementation of the critical elements related to safety oversight systems is instrumental to the achievement of positive and industry-wide safety outcomes. These outcomes are aided by proper adherence to safety-relevant International Civil Aviation Organization Standards and Recommended Practices, as well as associated procedures and guidance materials. As at 30 June 2012, 179 (94%) of the 191 International Civil Aviation Organization Contracting States have been audited under the Universal Safety Oversight Audit Programme Comprehensive Safety Audit.

	LEG	ORG	PEL	OPS	AIR	AIG	ANS	AGA
New Zealand	8.38	8.89	10.00	9.88	8.80	9.02	6.91	7.68
OECD Average	8.20	8.17	7.87	8.94	8.46	8.97	7.61	7.50
Global Average	6.07	6.95	6.18	7.09	6.54	7.12	5.15	5.30
Measurement Areas: LEG - Primary aviation legislation and civil aviation regulations; ORG - Civil aviation organization; PEL - Personnel licensing and training, OPS - Aircraft operations, AIR - Airworthiness of aircraft, AIG - Air navigation services, ANS - Aerodromes, AGA - Aircraft accident and incident investigation; (Source: International Civil Aviation Organisation: ISTARs/Lists/LEI, 18Oct12)								

New Zealand's average Level of Effective Implementation on the eight critical elements is 8.63 out of 10, better than the Organisation for Economic Co-operation and Development average of 8.18, and on par with Organisation for Economic Co-operation and Development countries like Australia and Czech Republic; and lower than other countries like South Korea, France, Canada, Ireland, USA, Japan, Switzerland, Poland, Spain and Iceland.

New Zealand does not fully comply because it has registered a number of areas where compliance with the International Civil Aviation Organization Standards and Recommended Practices are not in New Zealand's interest, or where it would unduly restrict New Zealand aviation regulation, or is inconsistent with New Zealand's legislative framework.

The Audit Programme¹² result enables New Zealand to retain Category 1 status based on the United States Federal Aviation Administration's International Aviation Safety Assessment Programme. This means that the Authority substantially complies with International Civil Aviation Organization standards. As a Category 1 State authority, New Zealand air carriers can expand services in the United States within the limits of the air services agreement.

It is in New Zealand's economic interests to maintain a high degree of compliance with International Civil Aviation Organization standards and maintain its Category 1 aviation safety oversight capability status. Being downgraded from Category 1 to Category 2¹³ by the Federal Aviation Administration carries detrimental economic consequences to New Zealand's aviation sector, air freight and tourism industries. For instance, a certificated New Zealand air operator with scheduled services in the United States would not be permitted to expand services in US territory regardless of whether it operates a United States State of Design aircraft, if we were downgraded to a Category 2.

In some countries a Category 2 rating of the State authority limits the economic growth of the country and has the potential to place a commercial aviation provider into liquidation. New services would only be permitted if operated using an aircraft wet-leased (aircraft and flight crew) from a duly authorised and properly supervised United States carrier or a foreign carrier from a Category 1 country that is authorised to serve the United States using its own aircraft.

We maintain careful oversight of the Level of Effective Implementation to ensure a high degree of compliance with the International Civil Aviation Organization Standards and Recommended Practices except where compliance is not in New Zealand's interest, or where it would unduly restrict New Zealand aviation regulation, or is inconsistent with New Zealand's legislative framework

RISK-BASED REGULATOR

In addition to ensuring a high and appropriate level of compliance with International Civil Aviation Organization Standards and Recommended Practices, the Authority is moving to become a more risk-based regulator.

We are working with the Ministry of Transport to develop a proposal to change elements of civil aviation rules focused on quality assurance and safety management to include systems to actively identify and manage risk as a means of gaining improvements in the safety performance of the Civil Aviation System.

It is in New Zealand's economic interests to comply with International Civil Aviation Organization standards and maintain its Category 1 aviation safety oversight capability status

¹² The last International Civil Aviation Organization Universal Safety Oversight Audit Programme audit results for New Zealand are based on a 6-year audit cycle that was completed in March 2012. In 2011, International Civil Aviation Organization began its transition with the Universal Safety Oversight Audit Programme to a Continuous Monitoring Approach which will be implemented in phases from 2013. (In July 2011, the United States Federal Aviation Administration presented its International Aviation Safety Assessment Programme to New Zealand Embassy staff in Washington D.C.)

¹³ Category 2 means that the US Federal Aviation Administration determined that the Authority does not provide safety oversight of its carrier operators in accordance with the minimum safety oversight standards established by International Civil Aviation Organization. See www.faa.gov for further details.

PART B:

REPORTING PROGRESS AGAINST THE AUTHORITY'S STATEMENT OF INTENT 2011-14

STRATEGIC PRIORITIES AND OPERATING INTENTIONS

TARGETING SPECIFIC PERFORMANCE AREAS

The Authority monitors the performance of 13 Safety Target Groups in three categories: Public Air Transport; Other Commercial Operations; and Non Commercial Operations. Segmentation highlights different accident and incident rates and enables the Authority to target specific safety risks in the different groups, and take appropriate action.

The number of fatalities and serious accidents are reducing for all three aircraft groupings. However, there are some sub-sectors where the opposite is happening. The sub-sectors warranting particular attention are: Adventure Aviation, Sport and Recreation Aviation, Agricultural Aviation, and the Flight Training Sector (which crosses over several target groups). A new rule has been introduced for Adventure Aviation (Rule Part 115) which will strengthen the regulatory framework in that sector. Sport and Recreational Aviation and Flight Training are sectors that are currently indirectly regulated where the Authority uses a range of tools to encourage safe practices.

For example, we planned for, and delivered, General Aviation flight instructor seminars in Wellington and Auckland during August, and Christchurch during October 2011, to be followed by a General Aviation flight examiner seminar in August 2012. These seminars are an opportunity for Flight Examiners and Instructors to keep up to date with the latest developments in the field and to meet and network with other examiners and instructors from around the country. Flight Examiners and Instructors are the gate keepers of flight training standards, and ultimately influence the standing of the New Zealand licence internationally.

The below table sets out some of our activity during 2011/12 focusing on sub-sectors of concern:

	Analysis of accident causes/planning interventions	New rules and advisory circular development	Safety promotion and education	Working with industry groups	Monitoring of safety performance
Adventure Aviation		New rule Part 115: Adventure Aviation. Certification of the adventure aviation sector in order to meet rule transition periods completed.	Provided information and advice about Safety Management Systems with particular focus on certification standards previously not required. Health and Safety in Employment education.	Build relationships with rule Part 149 Recreational Organisations and other sector interest groups.	Announced and unannounced surveillance to ensure compliance with new rule.
Sport and Recreation Aviation		Implementation of Part 21 changes. Encouragement of safe practises.	Advisory circulars. AvKiwi seminar series. Flight Instructor and Examiner seminars.	Build industry relationships to address safety issues at competitions, events and seminars.	Targeted surveillance (e.g. summer surveillance programmes).

	Analysis of accident causes/planning interventions	New rules and advisory circular development	Safety promotion and education	Working with industry groups	Monitoring of safety performance
Agricultural Aviation		<p>A proposed rewrite of rule Part 137 did not meet regulatory impact standards and will not proceed.</p> <p>The Authority is working with the industry to achieve on-going safety gains by non-regulatory means.</p>	<p>Chief Pilot courses.</p> <p>Health and Safety in Employment education.</p> <p>Provided information and advice about Safety Management Systems and other safety initiatives by industry participants.</p>	Continuing relationship with Agricultural Aviation Association.	Announced and unannounced surveillance.
Flight Training	<p>Initiated analysis programme to identify any primary common causes of flight training accidents.</p> <p>Flight training review.</p> <p>Submissions to the Transport Accident Investigation Commission review of flight training.</p> <p>Development of training sector risk profiling to target interventions better.</p>	Proposed developments to Rule Part 139 focused on flight safety in immediate aerodrome airspace, including training activity.	<p>31 AvKiwi seminars for 2,624 pilots.</p> <p>Flight Instructor and Examiner seminars.</p> <p>Provided input into the review of the joint Civil Aviation Safety Authority (Australia)/Civil Aviation Authority (New Zealand) helicopter flight instructor guide, and subsequently implemented the guide.</p> <p>Aviation Safety Advisors continue to attend Aerodrome User Group meetings and provide safety education and promotion information to these forums and in their wider interactions with the aviation community.</p>	<p>Continued engagement with sector groups (including for example, Aviation Industry Association Flight Training Division, Aviation, Tourism and Travel Training Organisation Aviation Training Council, and the Royal New Zealand Aero Club Flight Instructor Council).</p> <p>Produced guidance material for aerodromes in the form of an Advisory Circular on the establishment and maintenance of effective aerodrome user groups (June 2012).</p> <p>On-going support for aerodrome user groups.</p>	On-going surveillance of flight training activity under Parts 141 and 61 and other rules.

IMPROVING SAFETY OVERSIGHT

MAINTAINING STRONG PERFORMANCE IN THE AIR TRANSPORT SECTOR

The safety performance of the Air Transport Sector remains a key focus. New Zealand airlines employ a proactive safety approach, invest in new technology, and promote a positive safety culture. Aviation organisations in this region actively share safety information with other participants. This commitment to safety has resulted in an excellent record of safety performance.

The Authority works closely with New Zealand air transport operators to ensure their systems, training, technology and safety data address all relevant risks. The Authority is uncompromising in its focus on the safety goal for air transport, to maintain and enhance strong performance in this public transport sector.

Recent organisational change within the Authority will ensure a consistent approach to safety oversight of all air transport operations involving fixed wing aircraft. Our inspectors employ a risk-based approach to surveillance and safety monitoring; this will help to ensure that the Authority is targeting its resources at those areas which represent higher safety risk. In addition, we are improving the way we engage with industry stakeholders, including regular meetings with participants, proactive approach to identifying issues, and participation in safety forums (e.g. New Zealand Airline Flight Safety Committee meetings).

Several operators have voluntarily adopted a Safety Management Systems approach ahead of Rule requirements. This will provide an excellent framework for them to integrate and manage those processes which affect safety. In addition, several operators have voluntarily implemented human factors into their training programmes ahead of Rule requirements (new Part 121 Rules which come into effect in September 2012 will make this a mandatory requirement following a transition period).

We have conducted a comprehensive Risk Review of air transport operations at Queenstown to help guide the Authority's regulatory approach to operations at this aerodrome.

Other improvements such as increased safety analysis capacity are helping to ensure that our interventions (both regulatory and non-regulatory), and policy development are informed by good analysis of safety data, both local and international. It is important to learn from the limited number of serious safety failures that do occur in the airline sector globally – for example, international safety trends show us that the primary accident causal factors for airlines are mainly in-flight loss of control, controlled flight into terrain, and runway excursions.

Several operators have already adopted a Safety Management Systems approach within their operations

DEPLOYMENT OF THE SAFETY MANAGEMENT SYSTEMS APPROACH

For the last several years, the Authority has been working towards the introduction of Safety Management Systems as a means of gaining improvements in the safety performance of the Civil Aviation System. Safety Management Systems are based on more active identification and management of operational risks. Other countries, for example Canada, have introduced Safety Management Systems into their civil aviation regulatory systems and, in doing so, have identified a number of issues, including ensuring that the regulatory framework is appropriately focused on risk management.

In conjunction with the Ministry of Transport, we are developing proposals to change elements of civil aviation rules focused on quality assurance to include systems to actively identify and manage risk. The approach, which has yet to be fully developed and approved by Government, would embed in civil aviation rules the requirement for participants to develop and deploy safety management systems appropriate to the scale, size and nature of their operation. To facilitate industry understanding of this approach, in May 2012 we released for consultation a draft Advisory Circular on the base requirements for a safety management system. The feedback on the Advisory Circular will be used to inform the development of future changes to civil aviation rules, and the associated advice to the Government.

DEVELOPMENT OF SECTOR RISK PROFILES – PRIORITISING POOR PERFORMANCE AREAS

The Authority risk-profiles individual operators within the civil aviation system to help it target its resources to those areas in most need. Recently, the Authority started work with industry on the development of Sector Risk Profiles. These profiles will help us to determine where we need to deploy our resources across a sector in a more comprehensive way; and also help industry and us identify those actions the industry can take to help itself, those things we and industry can do in partnership, and those things we need to do solely as a regulator.

MANAGING SECURITY RISK AND MAJOR EVENTS – RUGBY WORLD CUP

During 2011/12 a particular focus for the Aviation Security Service was around Rugby World Cup. The Authority is pleased to report a highly successful and seamless aviation security response to the increased passenger numbers at airports and venue security during the Rugby World Cup. On Monday 24 November 2011 the Aviation Security Service screened double the number of passengers than normal with no flight delays resulting from security screening.

The systems and processes put in place for Rugby World Cup in 2011 are now legacies that are being retained, either by individual agencies or cross agency structures. These agencies, including the Authority, from both its security regulatory and aviation security service delivery perspectives, are maintaining and carrying forward the relationships, intelligence links, communications channels and whole of government coordination systems that proved very effective during Rugby World Cup. These will be used as a starting point for government agencies' contributions to the success of future major and international events in New Zealand.

On Monday 24 November 2011, during the Rugby World Cup, the Aviation Security Service screened double the number of passengers than normal with no flight delays resulting from security screening.

IMPROVING EFFICIENCY AND EFFECTIVENESS IN AVIATION SECURITY SERVICES

AVIATION SECURITY THREATS

Alignment of air cargo security measures between countries (i.e. European Union and the United States) and the increasing sophistication of security threats have resulted in security procedures being reviewed so that appropriate levels of public safety are achieved.

During 2011/12 the Aviation Security Service was focused on advancing a number of key strategic initiatives that both individually, and collectively, enhanced the provision of aviation security in New Zealand:

EFFICIENT UTILISATION OF AVIATION SECURITY RESOURCES

The installation of the electronic rostering system for aviation security staff was completed at all security designated airports in New Zealand by early 2012. The *Quintiq* electronic rostering system rosters staff to duties on the principle of supply and demand. Demand is created by importing daily flight schedules into *Quintiq* thereby enabling Scheduling Planners to roster staff to match that demand. Despite only operating for a short time, *Quintiq* is already generating improved efficiencies in the deployment of staff and the required ratios of full and part time employees to the various security functions. Post-installation reviews and on-going refinement of the rostering system will take place during 2012/13.

The Aviation Security Service has continued to focus on ensuring it is operating at an optimal level at airport screening points. This has involved validating the current 'safe' passenger throughput levels, continuation of the research around screening point design and equipment notwithstanding the constraints due to the airport infrastructures. Further development of leave management and rostering processes is underway.

PLANNING FOR EQUIPMENT REPLACEMENT OF HOLD BAGGAGE SCREENING X-RAY EQUIPMENT

Because existing equipment is nearing the end of its useful life there was significant pre-tender planning and associated project activity underway during 2011/12 for the replacement of the aviation security Hold Baggage Screening system. The equipment is an integral part of the security technology applied to the screening of departing international passengers and their baggage and is an International Civil Aviation Organization requirement.

The replacement equipment will require significant capital expenditure funding. The tender process closed in July 2012 and we are on target to have the new equipment in place to "go-live" by 31 December 2013.

AVIATION SECURITY SERVICE - ORGANISATIONAL PERFORMANCE INDICATORS

INDICATOR	MEASURE	TARGET 2011/12	ACTUAL 2011/12
<i>SECURITY EFFICIENCY AND EFFECTIVENESS</i>			
INTERNATIONAL PASSENGER PROCESSING	International passenger processing cost. (2010/11 average \$9.86)	In range: \$10.08 – \$10.17	\$10.54
DOMESTIC PASSENGER PROCESSING	Domestic passenger processing cost (2010/11 average \$3.93)	In range: \$3.67 – \$3.86	\$3.87
SCREENING ACTIVITY / CAPACITY	Metro-Domestic Metro International Regional Domestic	Based on the international standard optimum throughput of 270 passengers per hour	67.2% 62.4% 57.4%
ROSTERING SURPLUS	Operational Productivity percentage ¹⁴ identifies the rostered surplus.	88.5%	88.8%
<i>HUMAN RESOURCES CAPACITY</i>			
RESOURCING	Aviation security staffing level Aviation security staff turnover (rolling average)	787.3 In range 7.5 – 10% pa	768.58 6.47%

REVIEW OF FEES AND CHARGES

REGULATORY FEES AND CHARGES

Funding for the Authority's regulatory activity has not kept up with growth in the aviation sector and the expanding scope of regulatory requirements. The last major review of funding was in the mid-1990s.

To establish a new regulatory funding model that is broadly based, simple, transparent and equitable, which keeps administration and transaction costs to a minimum, and which is consistent with the Government's cost recovery objectives, the Authority initiated a Funding Review to:

- examine the Authority's regulatory financial base in the light of changing demands;
- consider a range of appropriate financial models;
- assess the range of services provided and their overall effectiveness; and
- consult with stakeholders.

In late 2010, we consulted the aviation industry on a variety of funding scenarios. We also conducted a Value for Money Review early in 2011. Proposals resulting from the Funding Review were put to the Government in mid-2012. Cabinet agreed to implement the proposals from 1 November 2012.

AVIATION PASSENGER SECURITY CHARGES

In July 2011, Cabinet approved a reduction in passenger security charges in order to reduce, by the end of 2012/13, high levels of funds accumulated in the domestic and international aviation security specific reserves. Implicit in this decision was recognition that, for a period, the lower charges would not fully recover costs. Once the reserve balances were reduced sufficiently the charges would be reset to fully recover costs.

The reduction in the charges has now lowered the reserves balances to an appropriate level. This has occurred sooner than expected due to:

¹⁴ Operational Productivity percentage is the measure of total hours of operational staff performing the various duties that are required as part of their role over the total hours of employed operational staff. The balance is the unproductive time.

- A difficult economic climate which has reduced passenger numbers and revenue by \$5.2 million compared to forecasts; and
- One-off costs incurred with implementing the Authority's change programme.

The aviation passenger security charges now need to be adjusted and this will be done in the context of a fees and charges review of the aviation security service during 2012/13. During this review we intend to more accurately match revenue streams to the actual costs of service delivery across the network.

RECOGNISING STAKEHOLDER EXPECTATIONS

STRENGTHENING SECTOR RELATIONSHIPS

Critical to the Authority being effective in its role, are effective relationships with both the Government and the aviation sector. The Authority is building on the strengths of the engagement it has enjoyed with the aviation sector by clearly articulating its role and identifying those areas where it and the sector can constructively work together. One such example of this approach is work scheduled for the 2012/13 year on the development of a risk profile of the agricultural aviation sector which is being undertaken in partnership with the New Zealand Agricultural Aviation Association.

We recognise the need for open and effective communication, and quicker decision making. Another example of a change in approach is the recent release of a draft Advisory Circular on Safety Management Systems. The Advisory Circular has been released for comment ahead of any specific proposals to amend Civil Aviation Rules, so that industry can provide more detailed feedback on the proposed approach, which in turn will help inform the Authority's decision-making and recommendations for subsequent Rule changes.

Finally, the Authority is acutely aware of its role as a Crown Entity, and the obligations it has to enable the priorities of Government, within the context of its statutory role. To this end, we are strengthening our engagement with the Government and its agents (primarily the Ministry of Transport).

The Authority is actively seeking to improve stakeholder and participant relationships, and understand better, user's perceptions of air safety and security

UNDERSTANDING USER PERCEPTIONS OF AIR SAFETY AND SECURITY

The benefits for the country from a safe and secure civil aviation system will only be fully realised if there is a corresponding perception by users that flying is safe. Currently there is limited understanding of stakeholder confidence in the civil aviation system.

A comprehensive programme is underway to survey public and participant perceptions of the safety and security of the civil aviation system. Baseline data has been obtained for the 2011/12 year and will be used to establish an on-going measure of user confidence. Surveys will continue on at least an annual basis. The survey's responses will help us to determine which parts of the system are perceived to be more or less safe than others, and enable understanding of what drives different perceptions. This will guide the actions to address perceived and actual risks.

The results of the 2012 public and participant perception survey are discussed on page 17.

IMPROVING EFFICIENCY AND EFFECTIVENESS IN REGULATORY PROCESSES

The Government's Regulatory Reform Programme is aimed at improving regulatory quality – that is, reforming regulations that raise unnecessary obstacles to competition, innovation and growth, while ensuring that regulations efficiently serve important social objectives. In aviation, regulations take the form of Civil Aviation Rules.

RULES DEVELOPMENT

The Authority has worked with the Ministry of Transport to implement the result of the Transport Sector Rules Redesign Project, led by the Ministry in 2011. While no increase in funding has been attained, the project has resulted in updated arrangements for Rules development. There will be increased focus on the underlying policy rationale for proposed civil aviation rules and ensuring that there is early Ministerial agreement for that rationale. This is aimed at expediting Civil Aviation Rules development. A summary of Rules development during the 2011/12 year is shown in Appendix 3 at page 111.

In addition, we are improving our capability in the use of interventions other than rules to achieve improvement in aviation safety and security performance.

The Authority is increasingly choosing to use administrative actions as opposed to the offence provisions of the Civil Aviation Act.

REGULATORY OPERATING MODEL

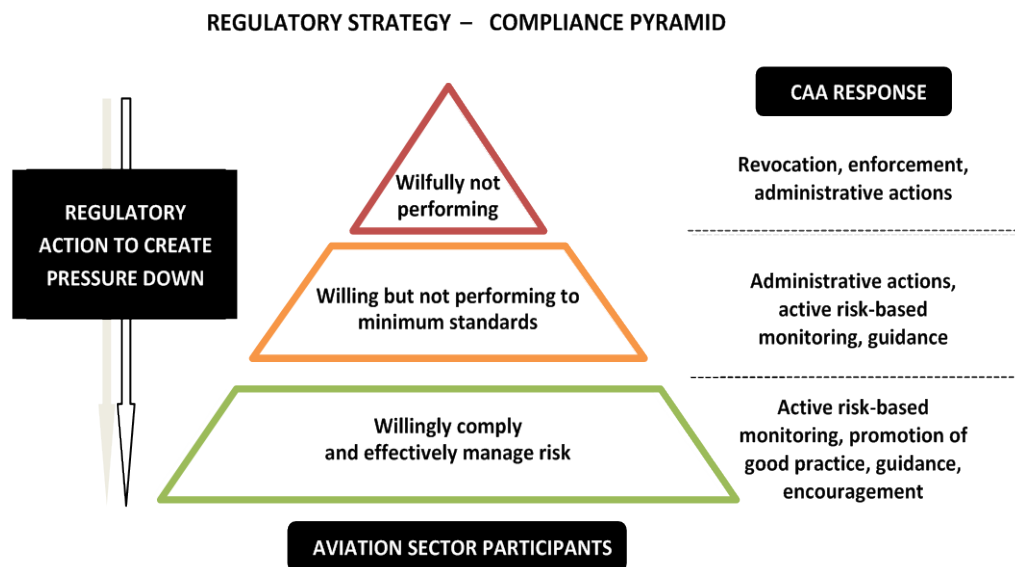
In exercising its regulatory role and functions the Authority operates to a consistently applied Regulatory Operating Model founded in the Civil Aviation Act 1990 which was developed and published in late 2011. The principles adopted in the Regulatory Operating Model are that the:

- public interest is paramount;
- participants are responsible for good safety management; and
- participants' safety attitudes and behaviours are key to effective safety performance.

In implementing the model, the Authority's regulatory approach is characterised by:

- timeliness and responsiveness;
- impartiality, fairness and consistency;
- risk-based, proportionate regulatory interventions;
- informed, analysis-led and evidence-based decisions; and
- transparency and trust.

The figure below summarises our general approach to assure safety performance:



The Regulatory Operating Model provides enduring regulatory principles and strategies that guide focus and underpin day to day decision making. This applies to all activities in the civil aviation system - a cross certification and licensing, surveillance, safety analysis, promotion, education, investigation and enforcement activity. The nature of the aviation operation and our assessment of the safety risk it presents will also be taken into account in determining the type of intervention to employ.

INTERNATIONAL COOPERATION

Bilateral Air Services Arrangements¹⁵ reduce regulatory compliance costs for the aviation industry enabling them to be more profitable. A profitable aviation industry is a catalyst to the economic growth of New Zealand (and other countries too). Aviation safety agreements between regulatory authorities enable commercial aviation to meet customers' expectation of "from anywhere to anywhere" services which are impossible to achieve in the absence of commercial and regulatory aviation agreements. On its own, commercial aviation will never be able to provide seamless travel without the support of appropriate international regulatory frameworks. In this regard, we hosted the Federal Aviation Administration-Asia Pacific Bilateral Dialogue in Wellington in March 2012.

Continued cooperation makes oversight more efficient for the industry. Examples include increased attention on "fatigue risk management" (i.e. the Federal Aviation Administration's draft rulemaking on proposed changes to pilot flight and duty time regulations), and increased collaboration to find the best practice approach to ensure uncompromised flight safety for operations after volcanic events, while maintaining schedule integrity to the greatest extent possible. New Zealand has played a major role in international forums regarding volcanic event aviation activity, and is involved in a number of committees established by the International Civil Aviation Organization – providing Chair or Co-chair for some.

EVALUATING THE EFFECTIVENESS OF REGULATORY INTERVENTIONS

In 2009, the Authority set about establishing a method to measure the effectiveness of the interventions it deploys. In the 2011/12 year, the method was applied to three types of intervention. The findings provided good insights on how effective the interventions were; and the areas we needed to improve to make the interventions more effective. This work has set the scene for the Authority to be one of the few regulatory agencies to have a structured evaluative tool it can systematically use to see if its interventions deliver what they are designed to.

Now we are setting our sights on how successful we are at delivering the outcomes for aviation safety and the contribution we are making to the Government's goals. Critical to this work is a re-appraisal of how the Authority's intervention logic drives the key performance measures it uses to determine progress towards its outcomes; and similarly, the extent to which we are contributing to the Government's goals. This work is in its infancy and will build on the knowledge gained to date to better understand better how effective the Authority's day-to-day interventions are.

MONITORING EMERGING TECHNOLOGIES

The rapid advances in aviation technologies have required the Authority to enhance existing information bases, and build relationships with participants in emerging technologies. Some of these are (but not limited to) rising fuel costs leading to redesign of aircraft and retooling of engines (i.e. Airbus A320Neo, Boeing B737 MAX), and the need for greater efficiency and longer range aircraft to reach more non-stop points. Aircraft engines are becoming quieter, lighter and more fuel efficient.

Composite aircraft designs allow for lighter aircraft and less restrictions on design. For example the Boeing B787 is constructed with composite which allows for larger windows, and the Airbus A350 XWB will be over 50% composite construction. Changes to in-flight cabin structure will enable lower cabin pressure, transparent rooflines, better ergonomics, and reduced in-cabin noise. Vision Flight Deck is industry's first to feature synthetic vision imagery on Head-Up Display, and improved cockpit designs and navigational instruments allow for improved Instrument Flight Rules navigation. Another example is in the area of Unmanned Aerial Systems, where the Authority is in the interim stage of development and application of policy and procedure for Part 19 pilotless aircraft. This is augmented by targeted surveillance of the users of such aircraft.

¹⁵ Bilateral Air Services Arrangements are government-to-government arrangements that allow cooperation between aviation safety regulators in areas including design, production, flight operations, environmental certification, and maintenance. It allows the "domestic" aviation authority to perform audits and make findings on behalf of the "foreign authority" thereby avoiding regulatory duplication and government waste.

This degree and speed of technology change requires that our staff are fully competent to carry out surveillance and certification of these new aircraft types and aviation systems in advance of their introduction to New Zealand airspace. Accordingly, our regulatory services staff are trained, both in New Zealand and overseas, to maintain their skills at international level, and through provision of on-the-job, experiential learning and external study assistance.

IMPLEMENTATION OF RECOMMENDATIONS OF THE AUDITOR-GENERAL

The Office of the Auditor-General released its report on "Civil Aviation Authority's progress with improving certification and surveillance" on 29th June 2010. Following the release of the 2010 report, the Civil Aviation Authority determined that a comprehensive Change Programme was needed to lift organisational performance to the level required to address the root causes of the Office of the Auditor-General's recommendations, provide effective regulatory oversight and security services in the future, and deliver them in a way that provides good value for money.¹⁶

The implementation of the Office of the Auditor-General's recommendations has been carried out within the context of the overarching Change Programme aimed at achieving management, policy, performance and culture changes within the organisation. The benefits from the work undertaken in these four areas are now being realised. We now have a key set of documents: the Strategic Direction document; the Regulatory Operating Model; and the Regulatory Tools policy (updated in May 2012) which, together with the changes being made under Phase 2 of the Authority's Organisational Design Review, set the framework for the organisation to move to being an effective, proactive, risk-based regulator best able to support the aviation sector's contribution to the economy.

Wrapped around these changes has been a cultural shift, facilitated by extensive training both at management and technical level. This has been combined with the development of new tools and ways of performing core regulatory functions. In addition, there have been significant senior and other management changes in the organisation. These changes have rectified the core deficiencies identified in the Office of the Auditor-General's 2010 report and are recognised by the Authority as essential to its ability to function as an effective and internationally credible civil aviation regulator.

The Office of the Auditor-General recommended more robust quality assurance of certification and surveillance work, improvement projects on both Certification and Surveillance have been completed. These have resulted in improvement in the performance of both functions demonstrated through quarterly measurement of function quality. Other recommendations were made in respect of improving the integrity and analysis of safety data, management training, more robust quality assurance of certification and surveillance work, and better guidance and documentation to support risk-based auditing of these processes. This, and other associated work, has been integrated within our Change Programme.

At year end, we have implemented, or transferred to business as usual activity, nine of the thirteen recommendations directed to the Authority. Of the remaining four recommendations, three are reliant on a post-implementation review of the methodology used to measure the effectiveness of our regulatory interventions, which is scheduled for the end of 2012. One remains a longer-term work-in-progress, which will improve with staff recruitment to be completed as part of the Organisational Design Review. On-going monitoring of the activity will continue as part of our management reporting.

The Authority has achieved the agreement of the Office of the Auditor-General that nine of the thirteen recommendations directed to the Authority be closed.

¹⁶ Quarterly status reports on progress towards meeting the recommendations were provided to the Minister of Transport detailing progress over the year.

5

MANAGING KEY STRATEGIC RISKS

The Authority's ability to manage in an uncertain and changeable operating environment is supported by the application of its risk management¹⁷ framework. That framework includes a set of elements within the Authority's management systems that are used to identify and manage risk, and ensures we mitigate risks to achieving our outcomes or delivering our outputs.

During 2011/12, we improved our organisational risk management approach to ensure there is systematic and regular assessment and monitoring of key organisational (or systemic) and operational risks facing the Authority. Of particular importance is the extent to which an organisational risk may create or intensify an operational risk for the Authority. Recognition of the extent of potential interaction between organisational and operational risks is an essential part of the Authority's risk management framework.

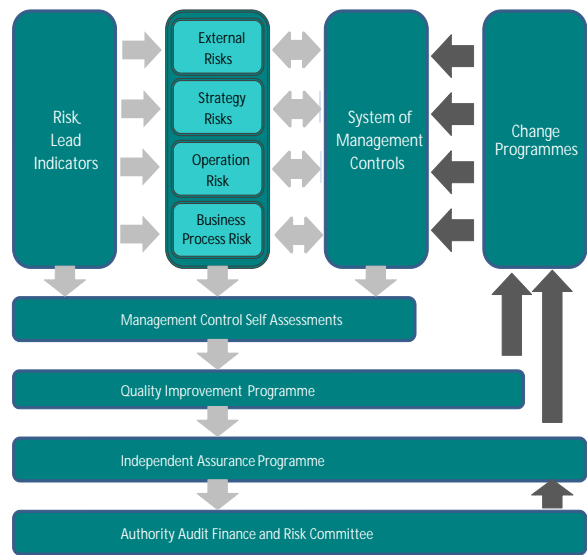
The Senior Leadership Team regularly identifies and assesses major strategic and emerging risks, and ensures that appropriate actions are taken to manage them. Regular risk assessments are carried out by business units. Risks are managed relating to our various change initiatives and projects to ensure that the Authority anticipates and deals with uncertainty as effectively as possible. Monitoring these programmes is part of the Authority's internal risk management programme. Their management and risk mitigation strategies are reported regularly to the Senior Leadership Team to ensure risks are appropriately managed, mitigations are in place and learnings developed and used.

Our overall set of risks is overseen by the Audit, Finance and Risk Committee, which includes three Authority members to provide independent perspectives.

Our risk management practices use an approach modelled on the Joint Australian/New Zealand International Risk Management Standard. As well as the specific regular risk assessments described above, risk management within the Authority is implemented through business processes such as strategic and operational planning and project management. Risk management functions, roles and frameworks are also embedded in regulatory activities including surveillance, certification and aviation security service provision. A dedicated Quality, Assurance and Risk role was appointed during the year with responsibility for further developing and maintaining an appropriate organisation-wide risk management approach, including further refinement of risk assessment, monitoring and reporting.

Our project management methodology has risk management embedded into it. In addition, the Authority contracts PricewaterhouseCoopers to carry out Internal Audit functions. We will continue to refine our risk management framework, and identify and manage strategic and operational risks effectively.

Our key risk is that we do not achieve our outcomes and therefore the system does not improve its performance and does not improve aviation safety and security, and the delivery of services to New Zealanders.



¹⁷ The New Zealand Risk Management Standard (AS/NZ ISO 31000:2009) defines risk as "the effect of uncertainty on objectives".

“ONE ORGANISATION” CHANGE PROGRAMME

In 2010 we embarked on a programme of work designed to transform the way in which the Authority works and, as a result, address the systemic issues identified by the Office of the Auditor-General, Martin Jenkins, and others. The Change Programme comprised a number of work streams, and resulted in proposals to re-organise the way in which the Authority is structured and how it delivers its services, particularly regulatory services.

The changes proposed resulted in a new organisation design. The new organisational structure is shown in Appendix 1 at page 108.

RATIONALE FOR CHANGE

There were compelling reasons for moving to one organisation and implementing the One Organisation Change Programme, as indicated by the Authority's Strategic Direction document and in the Annual Report for the 2010-11 year:

- the Authority, Government, industry and the public all expect the most effective and efficient organisation possible;
- the report of the Office of the Auditor-General highlighted weaknesses in performance of the regulatory functions of the Authority and the need for change;
- the 2011 Value for Money report supported the need for change; and
- growth and change are occurring in the aviation sector and the Authority must not only respond to this but also anticipate it.

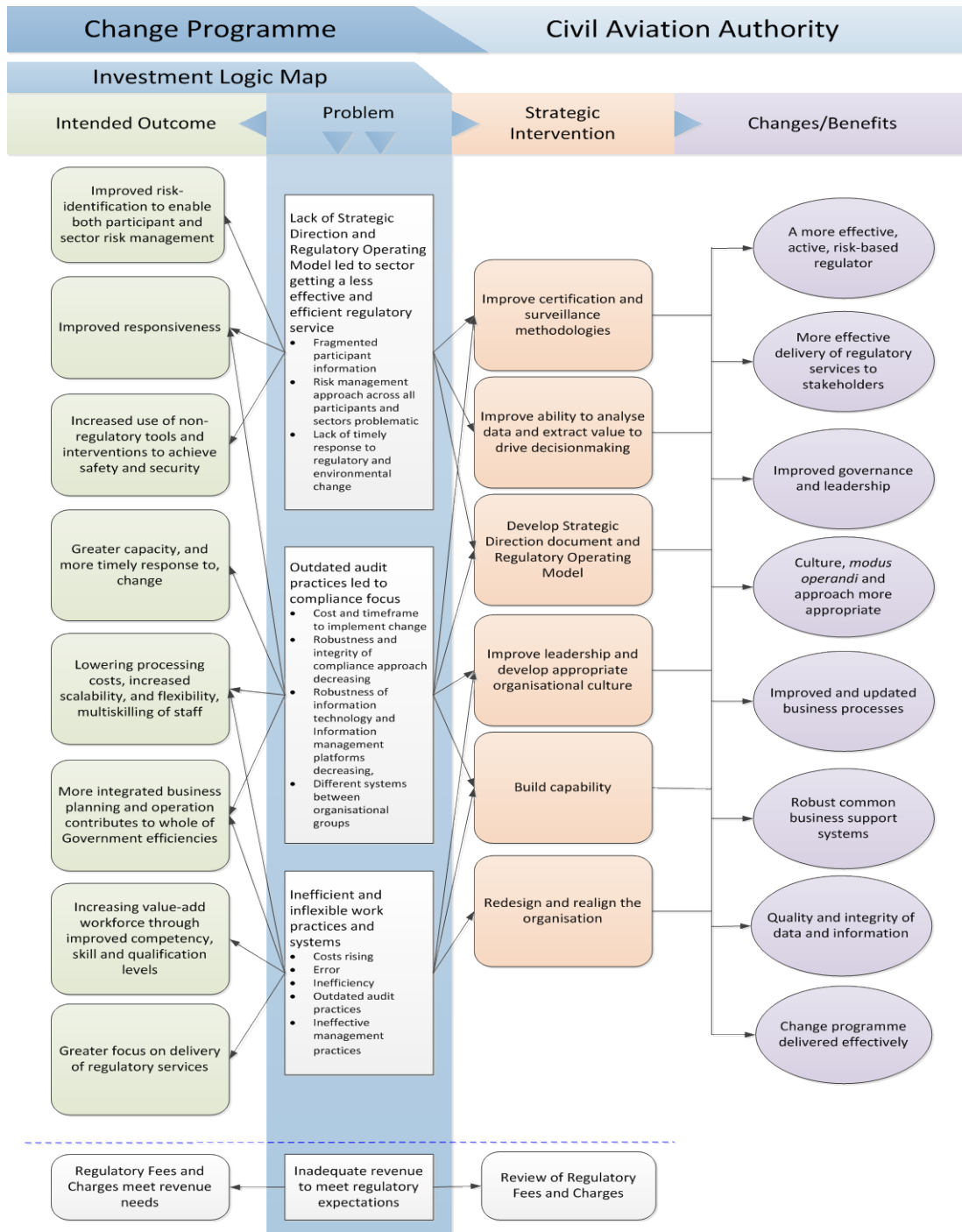
The Authority initiated the One Organisation Change Programme to improve performance and reduce costs, and chose to:

- implement a single organisation performing two sets of legislative responsibilities (with operational separation maintained as required by the current legislative framework);
- ensure best practice delivery of safety and security regulatory and security service functions (improved efficiency and effectiveness);
- change the management and leadership style of the Authority to provide a more flexible, responsive, effective, performance and outcome-focused organisation;
- drive cost savings by removing duplicated processes, functions and activities;
- provide a clear focus and strategy for delivery of the Authority's functions; and
- enhance the confidence of key stakeholders (e.g., Government, industry) in the Authority's operations.

The 2011 co-location of both regulatory services and aviation security services management into one building in central Wellington also provided an opportunity for efficiency gains through the sharing of corporate support services. Following the completion of Phase 3 of the Organisation Design project we intend to rationalise the use of floor space across two floors in Asteron House.

THE INVESTMENT LOGIC

The diagram on the next page sets out the investment logic applied during the change programme.



PROGRESS WITH THE CHANGE PROGRAMME

The table on the next page sets out the key activities carried out in each of the five streams of the Authority's One Organisation change programme during the 2011/12 year, and an assessment of the benefits resulting from the programme. The delivery of some items shown as progressing during the 2012/13 year will depend on funding availability arising from the Review of Regulatory Fees and Charges.

CHANGE STRATEGY	PROGRESS
<p>Complete improvements in certification and surveillance processes</p> <p>The Certification Improvement Project and a Surveillance Improvement Project were established to address weaknesses in core regulatory processes that were identified by the Office of the Auditor-General.</p>	<ul style="list-style-type: none"> completed Surveillance and Certification Improvement Projects; developed and delivered training to support Surveillance and Certification; and business process improvement systems are in place. <p><i>During 2012/13</i></p> <ul style="list-style-type: none"> on-going training and business process improvement. further work to address other recommendations on safety data analysis is continuing.
<p>Renew the Regulatory Operating Model</p> <p>The regulatory operating model (principles, framework and approach) has been updated to ensure that it is well-aligned with modern regulatory practice and reflects the change to a risk-based regulatory approach.</p> <p>Implications of the model for the Authority's organisational structures, systems, processes, capabilities, and culture have been identified and are being implemented. The regulatory operating model has been communicated to staff and will be communicated to the aviation sector in 2012/13.</p>	<p><i>During 2011/12</i></p> <ul style="list-style-type: none"> developed Strategic Directions and Regulatory Operating model documents, and communicated the regulatory operating model to staff; and identified implications of the model for the Authority's organisational structures, systems, processes, capabilities, and culture, and implementation of changes required (structure, staff, capability, systems, etc.) well underway. <p><i>During 2012/13</i></p> <ul style="list-style-type: none"> complete implementation of structure changes and staff appointments; on-going training for staff; communicate the regulatory operating model to industry; and update the Strategic Directions and Regulatory Operating model documents to incorporate aviation security matters, as appropriate.
<p>Leadership style and organisational culture</p> <p>Changing the management and leadership style of the Authority to provide a more flexible, responsive, performance and outcome-focused organisation, including:</p> <ul style="list-style-type: none"> refining the Authority's regulatory vision; determining key areas of focus in response to the staff engagement survey; developing and implementing a leadership model and expectations; and reviewing performance management practice and culture and identify actions/change. 	<p><i>During 2011/12</i></p> <ul style="list-style-type: none"> refined the Authority's vision (engaging leadership and staff) and communicated this to all staff and stakeholders; developed and implemented a new internal governance model; determined key areas of focus in response to the staff engagement survey; developed and commenced implementation of a leadership model and expectations; commenced leadership and management development training; reviewed and implemented new performance management policy and procedures; developed updated Key Performance Indicators for governance reporting; and established training/development needs as part of the performance management review process. <p><i>During 2012/13</i></p> <ul style="list-style-type: none"> embed the new internal governance model, and continue leadership and management development training; develop new Key Performance Indicators and measures for management reporting; and carry out annual staff survey and act upon the results.
<p>Build Capability</p> <p>Ensure the Authority has the capabilities required to achieve desired results in line with the developments in strategy and regulatory approach, including:</p> <ul style="list-style-type: none"> identifying key capability gaps, including those arising from the review of the Regulatory Operating Model, and from the implementation of Safety Management Systems; and developing a capability plan that will address these gaps. <p>It is expected that implementation of this plan would commence in the 2012/13 year. This work will be integrated with reviews of Information Technology, Knowledge Management, Human</p>	<p><i>During 2011/12</i></p> <ul style="list-style-type: none"> review of Regulatory and Policy service delivery identified capability and capacity gaps; phase 2 organisational re-design proposals took account of gaps identified; new Financial Management and Information systems implemented; payroll consolidation designed and implemented; Joint Information Technology governance arrangements and organisation determined; information Technology infrastructure and telecommunications requirements implemented; new surveillance and certification systems implemented and training incorporated into regular training cycles; online payments system implemented and Storage Area Network upgraded; and business process improvement activities are embedded in the projects above, as systems and processes change and implementation occurs.

CHANGE STRATEGY	PROGRESS
Resources and Finance strategies that exist already or are planned for development.	<p>During 2012/13</p> <ul style="list-style-type: none"> electronic document/records management system design phase to commence; implementation of capability plan; and implement organisational training and development plan.
<p>Organisational design and alignment</p> <p>The organisational design and alignment element of the change programme addresses structural changes to support the Authority's strategic directions for regulating the civil aviation system, and its desired development as One Organisation.</p> <ul style="list-style-type: none"> Phase 1 reviewed top level management structures and shared support services. Phase 2 of the organisation design work proposed an operational management structure to best support the Authority's regulatory operations. Phase 3 reviewed the management structure for aviation security service delivery in light of the Phase 1 and Phase 2 changes. 	<p>During 2011/12</p> <p>Phase 1</p> <ul style="list-style-type: none"> Design changes complete and implementation essentially complete. <p>Phase 2</p> <ul style="list-style-type: none"> Key regulatory and policy operations capability gaps identified and changes researched and designed. Staff consultation and decisions made. Implementation commenced April 2012, and will continue into 2012/13 (e.g. recruitment to vacancies). <p>Phase 3</p> <ul style="list-style-type: none"> Phase 3 decisions made in June 2012 with changes to be implemented in early 2012/13.

BENEFITS ARISING FROM THE CHANGE PROGRAMME

Financial Benefits

With the three phases of the Change Programme now essentially completed, savings have been estimated and are included in the 'baseline' numbers of both the Civil Aviation Authority and Aviation Security Service for the Statement of Intent 2012-15. Specifically, Value-for-Money savings of \$2.85million and \$2.25million will be achieved over the three years to 2014/15 for the Civil Aviation Authority and Aviation Security Service respectively.

Intangible Productivity Benefits

BENEFIT	DESCRIPTION
A more effective, active risk based regulatory capability	<p>The Authority has developed a Regulatory Operating Model that is consistent with Government policy regarding the preferred regulatory approach. As a result there is improved alignment between the strategic intent of the Authority and its deliverables, and a greater clarity internally about the regulatory model adopted by the Authority, that of a risk-based regulator. Because of this clarity and focus, system competency and system capability are increasing.</p> <p>The adoption of a risk-based approach to its regulatory responsibilities has led to improved clarity for participants and organisations about the Authority's approach as a regulator.</p>
More effective, delivery of regulatory services to stakeholders	<p>The design of new risk based surveillance and certification procedures, and delivery of staff training has led to a more consistent application of the new procedures across the Authority. The adoption of a risk-based approach to its regulatory responsibilities has led to improved clarity for participants and organisations about the Authority's approach as a regulator.</p> <p>The delivery of training in risk-based surveillance and certification has led to a more consistent application of surveillance and certification procedures across the Authority. The application of the risk-based techniques will lead to an improved ability to assess participant risk leading to engagement by risk factor, the ability to apply non-regulatory interventions to improve participant performance and a greater percentage of administrative actions being taken with respect to participants within higher risk profiles. These changes will lead to resourcing being focused on the most appropriate interventions to achieve both safety and economic benefits. In addition, the Authority will display greater agility and adaptability to context/environment changes.</p>

BENEFIT	DESCRIPTION
Improved governance and leadership	<p>Increased clarity internally and externally about the Authority's Strategic Direction, and better alignment with Government expectations for the transport sector is resulting in improved understanding of the roles and responsibilities of all participants in the aviation sector.</p> <p>With expectations around leadership, and management clarified, the Authority's governance capability has increased. There is improving connection and interaction with industry stakeholders.</p>
Culture, modus operandi, and approach more appropriate	<p>The delivery of leadership and management development training has resulted in improvements in engagement with Authority staff. Team working and synergies between groups has increased and staff are being more pro-active. Role clarity has improved as a result of the redefined organisation structure, and more flexible working across role boundaries is occurring. This is leading to improved responsiveness to participant needs.</p>
Improved and updated business processes	<p>The adoption of a risk-based approach to its regulatory responsibilities has led to improved clarity for participants and organisations about how the Authority needs to manage its internal business processes. This has resulted in:</p> <ul style="list-style-type: none"> • clear roles and lines of responsibility; • clear lines of communication; and • delegations clearly expressed and accountabilities established. <p>The design of risk based surveillance and certification procedures, and delivery of staff training has led to more consistent application of the new procedures across the Authority, improving the ability to assess participant risk and enabling engagement with participants by risk factor. In addition, it leads to an improved ability to apply non-regulatory interventions to improve participant performance.</p> <p>With expectations around culture and behaviour established and better alignment between actual performance and strategic intent, there is an improving work ethic.</p> <p>Ultimately, the Authority will be well placed to implement safety management systems.</p>
Robust common business support systems	<p>The establishment of a shared corporate support group across the organisation has enabled greater focus on regulatory activity. Implementation of Finance One as the core accounting system, and of Payglobal as the common core human resources management information and payroll system for the Authority, will improve access to consistent finance and human resources management information to improve management decision making.</p> <p>The implementation of a common information technology and systems infrastructure across the organisation with common desktop will simplify internal management and communication, and remove the need for parallel systems support and training. Disaster recovery will be simplified.</p> <p>A robust common platform will also enable the Authority to support other transport agencies information technology infrastructure needs if required.</p>
A system with quality and integrity of data and information	<p>There is increased capability in data analysis with growing ability to assess/quantify sector risk, but this area will require further capability and capacity. Planning is underway for an upgraded/replacement Aviation Safety Management System.</p> <p>Work is underway to refresh information management policy and processes, and establish joint records and document management systems across the whole organisation.</p>
Change program delivered effectively	<p>There was a clear mandate for change from the Authority which led to the adoption of an effective project management approach (including the establishment of the Authority Level Change Steering Committee).</p> <p>The approach utilised a high degree of engagement with management and staff during planning and design phases, which modelled how the organisation should operate in the future. A significant input to the planning and design of phase 2 was a fundamental review of the policy and regulatory responsibilities and activities of the Authority, which also engaged extensively with staff.</p> <p>There was extensive consultation on proposals, with amendments made to proposals as appropriate following receipt of feedback.</p>

ORGANISATIONAL HEALTH AND CAPABILITY

We have sought to enhance organisational health and develop capable and efficient people, processes and systems in support of regulatory and aviation security operations, both as part of, and in addition to the change programme that is underway.

ENHANCED BUSINESS PLANNING AND REPORTING MEASURES AND FRAMEWORKS

During 2011/12, a Strategic Directions document for regulatory services, and the Authority's Regulatory Operating Model were developed. A common framework and processes for business planning at strategic and operational levels have been implemented across the Authority including risk and capability elements. Combined quarterly reporting for both regulatory and aviation security service delivery continued during the year.

Further development of an overarching Strategic Direction document for both regulatory services and aviation security services will occur during the 2012/13 year.

A broader set of system and organisational performance measures was completed at the end of the 2011/12 year, and this will provide a base for improved reporting to the Authority and the Minister in the 2012/13 year.

ORGANISATIONAL OUTCOMES AND INDIVIDUAL PERFORMANCE AND DEVELOPMENT

Processes and systems to tie individual staff performance more closely to business plans for units and groups – directly reflecting the requirements of the Statement of Intent - have been enhanced. An updated performance management system has been introduced with a stronger focus on continuing development and which links all objectives to organisational outcomes and will affect future remuneration outcomes.

A management development programme has also been introduced, targeting all managers. The first two modules of the programme have been delivered, focusing on objective setting and performance management. The management development programme has three more modules to run for current managers. To date 75% of available managers have been trained. New managers will join the programme as they commence. Thorough evaluations have been carried out to ensure value for money, as Level 3 and 4 evaluations are built into the programme.

PROJECT MANAGEMENT SYSTEMS AND PROCESSES

Improvement in programme and project management capability has resulted in policies and tools being redeveloped and training programmes delivered for relevant managers and staff. The project management and monitoring framework will result in project management mentoring and assistance to staff across the Authority.

CORPORATE RISK MANAGEMENT SYSTEM

A review of the corporate risk management framework has been completed together with an updated risk policy. We are moving to a single risk management framework applied across both regulatory and aviation security service delivery. Identification of risks and mitigation actions is incorporated into planning processes. Work to embed the framework within other management processes will continue over 2012/13

IMPROVED FINANCIAL MANAGEMENT INFORMATION FOR EFFECTIVE DECISION MAKING

A common Financial Management Information System providing shared financial services for the Authority was in place as at 30 June 2012. Planned development to establish budgeting and forecasting functionality as part of the establishment of the common system is still pending.

BUSINESS PROCESSES, INTERNAL CONTROL AND EFFICIENCIES

An initial review of Purchasing, Financial and Information Technology policies has been completed but will be announced early in the 2012/13 year. The Authority's five year capital plan has been developed.

INFORMATION MANAGEMENT SYSTEMS DEVELOPMENT FOCUS ON OUTCOMES AND REGULATORY RESPONSIBILITIES.

Investment in the development of information systems is being prioritised according to the Information Systems Strategic Plan. The Information Systems Strategic Plan is due for review in 2012/13, alongside the planned consolidation of the information technology and information management functions of the Authority under a single management structure (This is an outcome of the Organisational Design Review – phase 1).

The Authority has moved to the “All of Government Procurement Programme” for the purchase of information technology hardware, and all upcoming hardware upgrades will see the completion of the Windows 7, Office 2010 upgrade.

The deployment of Windows 7 and Office 2010 across the Authority's offices in Wellington and most Aviation Security Service sites has been completed. Enhanced security software has been introduced and the documentation and testing for Information Technology and management disaster recovery plan (regulatory services only) has been completed.

Implementation of a common Firewall solution will see a reduction in software licensing cost and improvements in perimeter security for the Authority. Implementation of an integrated wide area network solution will see a reduction in the operational cost for regional communications and improved resiliency across Aviation Security Service related information technology operations.

The Authority is participating in the development of an initiative to share information technology infrastructure between the Authority and Maritime New Zealand with the potential to reduce on-going operational costs to both organisations.

RELATIONSHIPS WITH STAKEHOLDERS AND PARTICIPANTS

Education and support for effective relationship building processes is part of the management development training and has been enhanced by external systems based stakeholder management training for executive and senior managers. Ongoing efforts are planned to enhance stakeholder and participant engagement.

TALENT DEVELOPMENT

We seek to develop a workforce of competent and motivated individuals, highly trained and knowledgeable in areas that will enable them to provide high quality service. Professional development and talent management frameworks have been developed for all Authority's staff, and will be implemented over 2012/13. Coaching and mentoring skills for managers have been included in professional development programmes for executive managers. High level training evaluations are built into the training and development programme.

The senior and executive management development programme was delivered for regulatory managers during 2011/12, and will operate for all Authority senior and executive management through 2012/13 and beyond. In addition, targeted technical training was delivered for all regulatory fields staff during 2011/12.

A full leadership communications programme has run through 2011/12 targeting frontline supervisory and senior supervisory aviation security officers. Comprehensive operational training was delivered to all new aviation security officers along with on the job training and regular recurrent testing. Comprehensive operational training is delivered on an ongoing basis to all new aviation security officers with regular on the job assessment following basic training.

SAFE AND HEALTHY ENVIRONMENT FOR ALL EMPLOYEES, REPRESENTATIVES AND VISITORS

All health and safety in employment committees are running well. The National Quality Council is involved in the ongoing coordination of health and safety in aviation security service delivery sites.

EMPLOYMENT RELATIONS STRATEGIES

We seek to have positive employment relations, including timely and relevant communication with staff and encourage relationships that are positive and constructive. Engagement with all unions is ongoing, and employee perceptions are assessed through staff surveys and employee forums provide suggestions on service improvement. A new combined Authority-wide staff survey was completed in 2011 to establish baselines and this will be repeated in 2012 to assess progress.

THE AUTHORITY'S GOOD EMPLOYER PROGRAMME

The Authority's "Good Employer Programme" includes the following areas:

EQUAL EMPLOYMENT OPPORTUNITIES ELEMENTS	PROVISIONS
Leadership, accountability and culture	<ul style="list-style-type: none"> The Staff engagement baseline survey was carried out in 2011 with the follow-up survey carried out in September 2012. This is likely to be an annual survey for the next 3 years.
Recruitment, selection and induction	<ul style="list-style-type: none"> all position descriptions have role specific competencies; vacancies are advertised internally and externally, shortlisting is based on specific role competencies; interviews are behaviourally based, with all inexperienced interviewers receiving training and support; psychometric profiling and competency testing is carried out as appropriate, and thorough reference checking is carried out; candidates receive timely information on each stage of recruitment; and a comprehensive induction programme is in place for appointees.
Remuneration, recognition and conditions	<ul style="list-style-type: none"> an equitable transparent and gender neutral remuneration structure and policy, with Kiwi-saver contributions by employer; equal access to job opportunities and conditions; formal disputes resolution process; and a collective agreement for the majority of staff.
Flexibility and work design	<ul style="list-style-type: none"> working from home policy for regulatory staff complies with current legislation; and where possible part-time work available for staff returning from maternity leave.
Harassment and bullying prevention	<ul style="list-style-type: none"> discrimination and harassment prevention policy and training; internal and external employee assistance; and clear code of conduct that states bullying and harassment is not tolerated.
Employee development, promotion and exit	<ul style="list-style-type: none"> due to the nature of our work, our staff are trained in New Zealand and overseas to maintain their skills at international level; provision of on-the-job, experiential learning and external study assistance, along with in-house training (e.g. natural justice and fit and proper person; and internal software systems); restructuring and redundancy policy; resignation and termination policy; and exit survey completed by exiting staff, along with optional exit interview, conducted by HR/manager (exiting staff's choice) to encourage objective input.
Safe and healthy environment	<ul style="list-style-type: none"> subsidised vision allowance; member of Southern Cross discount scheme; health and safety committees; trained first aiders and floor wardens; personal protective equipment provided as required; wellness rooms available; flu vaccination offered to all staff, with other vaccinations available as required; pandemic kits available if/when required; and civil defence kits available as required.

EQUAL EMPLOYMENT OPPORTUNITIES PROGRAMME

The Authority is committed to the principles and practice of equal opportunity and reflects these in good employer programmes. The organisation will continue to foster a diverse workplace and an inclusive culture.

Vacancies are advertised internally and externally to give people an equal chance to be considered in the selection process, however aviation security recruitment processes recognise gender requirements for some security screening activities.

Appointments are based on merit and all staff will be valued, treated equitably and with respect, whatever their gender, ethnic or social background, sexual orientation or disability.

STAFF PROFILE

Staff Profile (for the year ended 30 June 2012)	Regulatory Services		Aviation Security Services	
	Number	%	Number	%
Total Staff Number				
Head count (including contracts)	212		831	
Full-time equivalent (FTE)	188.3	94%	768.58	100%
Contract staff (total FTE)	12	6%	0	0%
Length of service				
Less than 1 year	28	14%	60	7%
1 year to less than 2 years	28	14%	70	9%
2 years to less than 5 years	52	26%	52	6%
5 years to less than 10 years	39	20%	457	55%
10 years to less than 15 years	30	15%	124	15%
15 years to less than 20 years	10	5%	27	3%
20 years and over	13	6%	41	5%
Total	200		831	
Employment status				
Members of collective agreement	46	23%	764	92%
Individual employment agreements	154	77%	67	8%
Total	200		831	
KiwiSaver Enrolments				
Employees contributing to KiwiSaver	147	74%	564	68%
Frontline or Operations/ Management Support				
Frontline operations	132	66%	774	93%
Managerial and support (including the Director & General Managers)	68	34%	57	7%
Total	200		831	
Staff turnover				
Annualised attrition rate		17.2%		6.6%
Staff movement				
Headcount 30 June 2011	171		822	
Resignations	(31)		(55)	
Retired	(1)		0	
Recruited	66		69	
Retrenched	(5)		(10)	
Long Term Leave without pay	0		5	
Headcount 30 June 2012	200		831	

CAPITAL AND ASSET MANAGEMENT

The table below reflects comparative actual capital expenditure against budget:

	Budget 2011/12 (\$000)	Actual 2011/12 (\$000)	% of budget spent	Variance Comment
<i>Civil Aviation Authority</i>				
Computer hardware	175	178	102%	
Computer software	567	735	130%	This variance relates to the upgrade of business systems necessary to implement the organisational change programme.
Plant & equipment	0	0	0.0%	
Furniture & fittings	0	0	0%	
Motor vehicles	80	70	87%	
Leasehold improvements	0	0	0%	
TOTAL	822	983	120%	
<i>Aviation Security Service</i>				
Computer hardware	50	35	70%	
Computer software	248	436	176%	This variance relates to the replacement of the Airport Identification card system and E learning modules that was originally unbudgeted. This is offset by the delay in implementing a new records management solution.
Plant & equipment	2,173	912	42%	This variance relates to the delay in the replacement of the Closed Circuit Television equipment and savings from the replacement in the Trace Detection Equipment.
Furniture & fittings	29	6	21%	
Motor vehicles	658	615	93%	
Leasehold improvements	150	77	51%	
TOTAL	3,308	2,081	63%	

PART C:

STATEMENT OF SERVICE PERFORMANCE AND FINANCIAL STATEMENTS

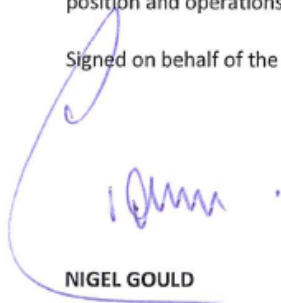
STATEMENT OF RESPONSIBILITY

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

- The preparation of the financial statements and the statement of service performance and for the judgments used therein.
- The establishment and maintenance of a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial and non-financial reporting.

In the opinion of the Authority, the financial statements and Statement of Service Performance fairly reflect the financial position and operations of the Civil Aviation Authority for the year ended 30 June 2012.

Signed on behalf of the Board:



NIGEL GOULD

Chairman of the Civil Aviation Authority of New Zealand

19 October 2012



PETER GRIFFITHS

Deputy Chairman

19 October 2012

Independent Auditor's Report

To the readers of Civil Aviation Authority's financial statements and non-financial performance information for the year ended 30 June 2012

The Auditor-General is the auditor of Civil Aviation Authority. The Auditor-General has appointed me, John O'Connell, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and non-financial performance information of the Civil Aviation Authority on her behalf.

We have audited:

- the financial statements of the Civil Aviation Authority on pages 64 to 105, that comprise the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and notes to the financial statements that include accounting policies and other explanatory information; and
- the non-financial performance information of the Civil Aviation Authority that comprises the statement of service performance on pages 49 to 63 and the report about outcomes on pages 11 to 19.

Opinion

In our opinion:

- the financial statements of the Civil Aviation Authority on pages 64 to 105:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect the Civil Aviation Authority's:
 - financial position as at 30 June 2012; and
 - financial performance and cash flows for the year ended on that date.
- the non-financial performance information of the Civil Aviation Authority on pages 11 to 19 and 49 to 63:
 - complies with generally accepted accounting practice in New Zealand; and
 - fairly reflects the Civil Aviation Authority's service performance and outcomes for the year ended 30 June 2012, including for each class of outputs:
 - its service performance compared with forecasts in the statement of forecast service performance at the start of the financial year; and

- its actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.

Our audit was completed on 19 October 2012. This is the date at which our opinion is expressed.

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

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and non-financial performance information are free from material misstatement.

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

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and non-financial performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and non-financial performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Civil Aviation Authority's financial statements and non-financial performance information that fairly reflect the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Civil Aviation Authority's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board;
- the appropriateness of the reported non-financial performance information within the Civil Aviation Authority's framework for reporting performance;
- the adequacy of all disclosures in the financial statements and non-financial performance information; and
- the overall presentation of the financial statements and non-financial performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and non-financial performance information. We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board

The Board is responsible for preparing financial statements and non-financial performance information that:

- comply with generally accepted accounting practice in New Zealand;
- fairly reflect the Civil Aviation Authority's financial position, financial performance and cash flows; and
- fairly reflect its service performance and outcomes.

The Board is also responsible for such internal control as is determined necessary to enable the preparation of financial statements and non-financial performance information that are free from material misstatement, whether due to fraud or error.

The Board's responsibilities arise from the Crown Entities Act 2004.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and non-financial performance information and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001, and the Crown Entities Act 2004.

Independence

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

In addition to the audit we have carried out an independent review of the Civil Aviation Authority's implementation of the Office of the Auditor-General's recommendations. Other than the audit and this assignment, we have no responsibility with or interest in the Civil Aviation Authority.



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

DISCLAIMER BY THE AUDITOR-GENERAL ON AUDITED FINANCIAL STATEMENTS ON THIS WEB SITE

Matters relating to the electronic presentation of the audited financial statements and non-financial performance information

This audit report relates to the financial statements and non-financial performance information of Civil Aviation Authority for the year ended 30 June 2012 included on Civil Aviation Authority's website. The Authority is responsible for the maintenance and integrity of Civil Aviation Authority's website. We have not been engaged to report on the integrity of Civil Aviation Authority's website. We accept no responsibility for any changes that may have occurred to the financial statements and non-financial performance information since they were initially presented on the website.

The audit report refers only to the financial statements and non-financial performance information named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements and non-financial performance information. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and non-financial performance information as well as the related audit report dated 19 October 2012 to confirm the information included in the audited financial statements and non-financial performance information presented on this website.

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

STATEMENT OF SERVICE PERFORMANCE

The Authority's statement of service performance comprises the following output classes:

	Output Classes:
Civil Aviation Authority	Output Class 1: Policy advice Output Class 2: Assessment and certification Output Class 3: Investigation, analysis and education Output Class 4: Enforcement
Aviation Security Service	Output Class 5: Aviation security services Output Class 6: Maritime security services

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 the International Civil Aviation Organization regarding matters of a specifically technical or safety regulatory nature;
- administration of aviation security matters;
- participation in appropriate International Civil Aviation Organization 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, including the development and review of legislation;
- Ministerial servicing, including ministerial correspondence, Parliamentary Questions, and reports to the Minister and Select Committees; and
- services to develop Civil Aviation Rules under contract to the Ministry of Transport.

IMPACTS AND CONSEQUENCES FOR A SAFE CIVIL AVIATION SYSTEM

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

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

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

The impacts and consequences of rules development are that the Civil Aviation Rules are aligned with international civil aviation standards.

OUTPUT CLASS 1 – POLICY ADVICE			
2010/11 Actuals	Output Measures	2011/12 Targets/ Standards	2011/12 Actuals

1.1 Ministerial support.

- Q Responses to ministerial correspondence, Parliamentary Questions and Select Committees as well as weekly reports and other briefings to the Minister.

Demand-driven. Provided as required. 43 responses to Ministerial correspondence 68 reports and briefings to the Minister 21 responses to Parliamentary Questions 2 responses to Select Committee questions 2 comments on government initiatives.	QUANTITY: Number of responses and reports provided as required.	Demand-driven – estimated ranges: 20-50 responses to Ministerial correspondence. 50-80 reports and briefings to Minister. 15-50 responses to Parliamentary Questions 2-4 reports and responses to Select Committees.	Demand-driven. Provided as required. 33 responses to Ministerial correspondence. 43 reports and briefings to Minister. 42 responses to Parliamentary Questions 1 report and response to Select Committees.
100% were acceptable to recipients' requests and/or expectations, based on comments received .	QUALITY: Percentage of briefings responses, or reports, to Ministerial correspondence and Parliamentary Questions are acceptable to the Minister and advisers.	100%	100%
96% overall	TIMELINESS: Percentage of on-time submission of reports at due dates.	100%	100%

1.2 Reports to Parliament and the Minister.

Statement of Intent, Annual and Quarterly Reports.

1 Statement of Intent 1 Annual Report 4 Quarterly Reports	QUANTITY: Number of reports to Parliament and the Minister.	Regular reports to the Minister and Parliament: 5 - 6.	1 Statement of Intent 1 Annual Report 4 Quarterly Reports
100%	QUALITY: Percentage of briefings responses, or reports, are acceptable to the Minister and advisers.	100%	100%
100%	TIMELINESS: Percentage of on-time submission of reports at due dates.	100%	100%

1.3 International Civil Aviation Organization

- Q respond to International Civil Aviation Organization proposals for amendments to International Civil Aviation Organization Annexes (State letters);
- Q maintain effective links within the Authority and other agencies;
- Q ensure participation and input to the major technical forums of International Civil Aviation Organization: the Air Navigation Commission, the Aviation Security Panel and the Committee on Aviation Environmental Protection;
- Q transition to on-line filing of differences (assuming International Civil Aviation Organization system is operational); and
- Q co-ordinate implementation of the International Civil Aviation Organization Corrective Action Plan.

100%	QUALITY: Percentage of advice and representation meet the priorities and goals of the government and the Authority.	100%	100%
100%	TIMELINESS: Percentage of on-time completion of projects, responses, implementation of changes by due dates.	100%	100%

OUTPUT CLASS 1 – POLICY ADVICE			
2010/11 Actuals	Output Measures	2011/12 Targets/ Standards	2011/12 Actuals
1.4 International relations and obligations			
<ul style="list-style-type: none"> ○ Hosting visits, general liaison with other regulatory authorities. ○ Development of technical arrangements with overseas authorities <ul style="list-style-type: none"> - Provide support for implementation of the United States of America Bilateral Aviation Safety Agreement. - Provide support for expansion of existing technical arrangement with the European Aviation Safety Agency (Design and Production approvals) subject to Agreements between the New Zealand government and the European Union. 			
5 high level agreements in place.	QUALITY: Percentage of advice and representation meet the priorities and goals of the Government and the Authority.	100%	100%
Less than 100%	TIMELINESS: Percentage of on-time completion of projects, responses, implementation of changes by due dates.	100%	100%
1.5 Pacific responsibilities			
<ul style="list-style-type: none"> ○ Oversight and coordination of safety and security support agreements with Pacific Island Countries. ○ Represent New Zealand on the Council of the Pacific Aviation Safety Organisation plus coordination of Authority support for Pacific Aviation Safety Organisation. 			
The Authority attended 100% of Pacific Aviation Safety Organisation council meetings.	QUALITY: Percentage of advice and representation meet the priorities and goals of the Government and the Authority.	100%	100%
100% of all administration work completed.	TIMELINESS: Percentage of on-time completion of projects, responses, implementation of changes by due dates.	100%	100%
1.6 Projects continuing on from 2010/11			
a)	Implementation of Safety Management Systems approach through: <ul style="list-style-type: none"> - general support for Safety Management Systems implementation in the Authority and industry; and - development of New Zealand's State Safety Programme. 		100%
b)	Continued support in relation to implementation of revised levy, fees and charges.		100%
c)	Development of the national Airspace and Air Navigation Plan: <ul style="list-style-type: none"> - assistance to the Ministry of Transport to develop the Ministerial Policy Statement - initial development work for a national Airspace and Air Navigation Plan; and - on-going implementation of the New Zealand Performance Based Navigation Plan 		<p>Eight Task Groups have been set-up to develop the technical elements of the Plan.</p> <p>Assistance was given to the Ministry of Transport to develop the Policy Statement, which was presented to the Cabinet Business Committee on 16 April.</p>
100% achieved	QUALITY: Percentage of projects meeting their respective requirements and objectives	100% of projects meet their respective requirements and objectives.	100%
Less than 100%, still on-going projects	TIMELINESS: Percentage of projects completed within agreed timeframes (subject to resources and any changes in Authority priorities).	100% of projects completed within agreed timelines.	100%

OUTPUT CLASS 1 – POLICY ADVICE			
2010/11 Actuals	Output Measures	2011/12 Targets/ Standards	2011/12 Actuals
1.7 Rules development			
5 out of 6 final rules delivered, plus 1 additional rule from 2011/12 programme,	QUANTITY: Number of Rules agreed between the Authority and the Ministry of Transport. Note: As at 1 March 2012, the quantity of rule development projects is identified in the Transport Regulatory Plan maintained by the Ministry of Transport. This plan details the rules programme which now commences yearly from 1 March.	100% of Rules provided as agreed in the 2011/12 Agreement for Rules Development Services with the Ministry of Transport.	During the year ending 30 June 2012, the Authority delivered 4 final rules and 3 draft Notices of Proposed Rulemaking (NPRM).
80-90%	QUALITY: Percentage of achieved quality requirements based on the rules contract between the Authority and the Ministry of Transport.	100% of Rule documentation meets the quality requirements in the 2011/12 Agreement for Rules Development Services with the Ministry of Transport.	100%
Less than 100%.	TIMELINESS: Percentage of achieved timeliness requirements based on the rules contract between the Authority and the Ministry of Transport ¹⁸ .	100% of contracted deliverable documents meet the timeliness requirements in the 2011/12 Agreement for Rules Development Services with the Ministry of Transport.	During this period the Authority and the Ministry of Transport have adjusted project timelines as necessary to accommodate capacity and prioritisation.

FINANCIAL PERFORMANCE OF OUTPUT CLASS 1: POLICY ADVICE

	2011/12 Actual \$000	2011/12 Budget \$000	2010/11 Actual \$000
Crown funding (Vote Transport: Policy advice)	1,779	1,779	1,821
Ministry contracts revenue (Rules development)	1,493	1,418	1,418
Other Income	50	39	68
Total output revenue	3,322	3,236	3,307
Total output expenses	(3,739)	(4,237)	(3,846)
Net Surplus/(Deficit)	(417)	(1,001)	(539)

¹⁸ Note: During the 2011/12 year the Ministry of Transport undertook and completed the Transport Rules Redesign Project which amended the method of engagement regarding rule development processes, reporting, and agreements for deliverables.

OUTPUT CLASS 2: ASSESSMENT AND CERTIFICATION

DESCRIPTION

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

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

IMPACTS AND CONSEQUENCES FOR A SAFE CIVIL AVIATION SYSTEM

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

OUTPUT CLASS 2 – ASSESSMENT AND CERTIFICATION			
2010/11 Actuals	Output Measures	2011/12 Targets/ Standards	2011/12 Actuals ¹⁹
2.1 Airline sector: audits and inspections			
193	QUANTITY: Number of units, based on an estimate of the safety risk of participants.	Demand-driven (estimate: 200-250)	242
83% followed Authority policy and procedures	QUALITY: Authority staff follow policy and procedures, as demonstrated by a sample of 5% of events.	Of the 5% sampled events, 100% followed Authority policy and procedures.	100%
89% of reports were issued within 30 working days.	TIMELINESS: Percentage of audit/inspection reports are issued to the subject within 30 working days of the entry meeting.	90% of audit/inspection reports issued within 30 working days.	79%
2.2 Airline sector: organisation certification			
541	QUANTITY: Number of airline organisation certificates issued (including amendments)	Demand-driven	522
100% followed Civil Aviation Authority policy and procedures.	QUALITY: Authority staff follow policy and procedures, as demonstrated by a sample of 5% of events.	Of the 5% sampled events, 100% followed Authority policy and procedures.	100%
100% of certification occurred within: 60 working days for renewals of existing certification, and 100% within 90 working days for new certifications.	TIMELINESS: From acceptance of fully compliant documentation, the percentage of certification will occur within 60 working days for renewals, and 90 working days for new certification.	100% of renewals completed within 60 working days, and 100% of new certifications within 90 working days.	100%

¹⁹ The basis for determining quantity and timeliness results for some outputs in this output class varies slightly from the basis upon which the original targets/standards were prepared in order to improve the robustness of those results.

OUTPUT CLASS 2 – ASSESSMENT AND CERTIFICATION			
2010/11 Actuals	Output Measures	2011/12 Targets/ Standards	2011/12 Actuals ¹⁹

2.3 Airline and General Aviation sectors: aircraft certification

1,467 total for both Airlines and General Aviation. The system does not distinguish the totals for each sector.	QUANTITY: Number of aircraft certifications.	Demand-driven (Estimated range: 180-250 Airline and 750-920 general aviation)	973
Of the sampled events, 98% followed Civil Aviation Authority policy and procedures.	QUALITY: Authority staff follow policy and procedures, as demonstrated by a sample of 5% of events.	Of the 5% sampled events, 100% followed Authority policy and procedures.	94%
100% of certification occurred within: 60 working days for renewals of existing certification, and 100% within 90 working days for new certifications.	TIMELINESS: From acceptance of fully compliant documentation, the percentage of certification completed within 60 working days for renewals, and 90 working days for new certifications.	100% of renewals completed within 60 working days, and 100% of new certifications within 90 working days.	100% 100%

2.4 General Aviation sector: audits and inspections

316	QUANTITY: Number of units based on assessed safety risk of participants.	Demand driven (Estimate: 200-250).	247
Of the sampled events, 92% followed Authority policy and procedures.	QUALITY: Authority staff follow policy and procedures, as demonstrated by a sample of 5% of events.	Of the 5% sampled events, 100% followed Authority policy and procedures.	100%
71% of audit/inspection reports issued within 30 working days.	TIMELINESS: Percentage of audit/inspection reports issued within 30 working days of entry meeting.	90% of audit/inspection reports issued within 30 working days.	69% Delays were due to heavy commitment of resources to implementation of Part 115 adventure aviation certification process, and certifications of operators under Part 115, and implementation of new surveillance and risk assessment methodologies.

2.5 General Aviation sector: airworthiness directives

216	QUANTITY: Number of Airworthiness Directives.	Demand-driven (Estimate: 200 - 350).	198
Of the sampled events, 100% followed Authority policy and procedures.	QUALITY: Authority staff follow policy and procedures, as demonstrated by a sample of 5% of events.	Of the 5% sampled events, 100% followed Authority policy and procedures.	100%
100% of emergency ADs issued prior to State of Design effective date or within 24 hours. 100% of routine ADs issued prior to State of Design effective date or	TIMELINESS: Percentage of issuance of Emergency and Routine Airworthiness Directives prior to State of Design's effective date. Note: The intent of this measure is for emergency Airworthiness Directives to be issued prior to the State of Design effective date or within 24 <u>working</u> hours i.e. 3 working days.	100% of emergency Airworthiness Directives issued prior to State of Design effective date or within 24 hours. 100% of routine Airworthiness Directives issued prior to State of	70% ²⁰ 100%

²⁰ Delays in publishing emergency Airworthiness Directives are primarily due to delays in receiving the State of Design Airworthiness Directives in New Zealand particularly over the December/January period

OUTPUT CLASS 2 – ASSESSMENT AND CERTIFICATION			
2010/11 Actuals	Output Measures	2011/12 Targets/ Standards	2011/12 Actuals ¹⁹
within 30 working days.		Design effective date or within 30 working days.	
2.6 General aviation sector: organisation certification			
787	QUANTITY: Number of general aviation organisation certificates issued (including amendments)	Demand-driven.	832
95% followed Authority policy and procedures.	QUALITY: Authority staff follow policy and procedures, as demonstrated by a sample of 5% of events.	Of the 5% sampled events, 100% followed Authority policy and procedures.	91%
95% of renewals completed within 60 working days, and 95% of new certifications within 90 working days.	TIMELINESS: From acceptance of fully compliant documentation, the percentage of certification completed within 60 working days for renewals, and 90 working days for new certifications.	100% of renewals completed within 60 working days, and 100% of new certifications within 90 working days.	100% 100%
2.7 Audits and inspections of aeronautical services and aviation security			
256	QUANTITY: Number of units based on an estimate of the safety risk of participants.	Demand-driven (estimate: 200-250)	212
Of the sampled events, 100% followed Authority policy and procedures.	QUALITY: Authority staff follow policy and procedures, as demonstrated by a sample of 5% of events.	Of the 5% sampled events, 100% followed Authority policy and procedures.	100%
100% of audit/inspection reports issued within 30 working days.	TIMELINESS: Percentage of audits and inspection reports are issued to the subject within 30 working days of the entry meeting.	90% of audit/inspection reports issued within 30 working days.	92%
2.8 Personnel licensing			
7,367	QUANTITY: Number of personnel license changes completed.	Demand-driven (estimate: 5,000 – 7,000)	6,904
Of the sampled events, 100% followed Authority policy and procedures.	QUALITY: Authority staff follow policy and procedures, as demonstrated by a sample of 2% of events.	Of the 2% sampled events, 100% followed Authority policy and procedures.	99%
100% of personnel license certification completed within 10 working days.	TIMELINESS: Percentage of, from acceptance of fully compliant documentation, completion of licensing and certification within 10 working days.	95% of personnel license certification completed within 10 working days.	100%
2.9 Service provider certification			
130	QUANTITY: Number of aviation service provider certification changes completed.	Demand-driven (estimates: 35-45)	128
Of the sampled events, 94% followed Authority policy and procedures.	QUALITY: Authority staff follow policy and procedures, as demonstrated by a sample of 5% of events.	Of the 5% sampled events, 100% followed Authority policy and procedures.	100%
88% of certification occurred within: 60 working days for renewals of existing certification, and 88% within 90 working days for new certifications.	TIMELINESS: From acceptance of fully compliant documentation, the percentage of certification completed within 60 working days for renewals, and 90 working days for new certification.	100% of renewals completed within 60 working days 100% of new certification within 90 working days.	100% 100%

OUTPUT CLASS 2 – ASSESSMENT AND CERTIFICATION			
2010/11 Actuals	Output Measures	2011/12 Targets/ Standards	2011/12 Actuals ¹⁹
2.10 Aviation community health and safety in employment: Health and Safety in Employment investigations			
40	QUANTITY: Number of units based on an estimate of the safety risk of participants.	Demand-driven (estimates: 30-35).	4
Of the sampled events, 100% followed Authority policy and procedures	QUALITY: Authority staff follow policy and procedures, as demonstrated by a sample of 5% of events.	Of the 5% sampled events, 100% followed Authority policy and procedures.	67%
Of the 40 closed (received in current and previous years): 30% of Health and Safety in Employment investigations were completed within 12 months and 75% within 24 months.	TIMELINESS: Percentage of investigations completed within 12 and 24 months.	75% of Health and Safety in Employment investigations completed within 12 months and 100% within 24 months.	65% 91%
2.11 Aviation community health and safety in employment: Health and Safety in Employment audits and inspections			
30	QUANTITY: Number of activities based on health and safety risk.	Demand-driven (estimate:20-30)	12
Of the sampled events, 100% followed Authority policy and procedures.	QUALITY: Authority staff follow policy and procedures, as demonstrated by a sample of 5% of events.	Of the 5% sampled events, 100% followed Authority policy and procedures.	100%
100% of Health and Safety in Employment reports issued within 30 days.	TIMELINESS: Percentage of reports issued within 30 working days of entry meeting.	90% of Health and Safety in Employment reports issued within 30 days.	0% Reports were delayed due to staffing resource unavailability. This area is now fully resourced.

FINANCIAL PERFORMANCE OF OUTPUT CLASS 2: ASSESSMENT AND CERTIFICATION

	2011/12 Actual \$000	2011/12 Budget \$000	2010/11 Actual \$000
Crown funding (Vote Transport: Health and safety in aviation)	440	440	440
Fees and charges	3,767	4,032	4,085
Levies	15,537	14,561	15,870
Other income	299	455	393
Total output revenue	20,043	19,488	20,788
Total output expenses	(24,437)	(24,583)	(21,852)
Net surplus / (deficit)	(4,394)	(5,095)	(1,064)

Fees and charges include \$4,000 (2011: \$15,000) for audit work of the Aviation Security Service which has been eliminated on consolidation.

OUTPUT CLASS 3: INVESTIGATION, ANALYSIS AND EDUCATION

DESCRIPTION

Output Class 3 covers the following outputs and activities:

- investigation and identification of causes of civil aviation safety and security occurrences, received by way of occurrence information and complaints; and
- 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.

IMPACTS AND CONSEQUENCES FOR A SAFE CIVIL AVIATION SYSTEM

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

Work on the analysis of safety and security data, and on the provision of information services and educational programmes, is aimed at minimising the future risk of accidents or incidents and maximising compliance with civil aviation rules.

OUTPUT CLASS 3 – INVESTIGATION, ANALYSIS AND EDUCATION			
2010/11 Actuals	Output Measures	2011/12 Targets/ Standards	2011/12 Actuals
3.1 Safety and security investigations: investigation and reporting of accidents and serious incidents			
652 61 critical	QUANTITY: Number of safety and security investigations completed. Note: The 2010/11 figure included all incidents and occurrences that were examined by safety investigators including those categorised as serious. The 2011/12 figure includes only those events where an actual investigation was carried out.	Demand driven (of total investigations, estimate 25 – 30 serious accident and incident investigations).	91 critical
90% required no rework. Areas for improvement are currently being addressed	QUALITY: Of investigation reports independently peer reviewed, percentage of sample found to require no rework or alteration.	Of the sampled investigation reports peer reviewed, 100% required no rework.	100%
89% completed within 12 months of registration. 96.5% completed within 24 months of registration.	TIMELINESS: Percentage of completion of safety and security investigations from period of registration.	75% completed within 12 months of registration and 100% within 2 years.	77% completed within 12 months of registration and 82% within 2 years.
3.2 Safety investigations under section 15A (power of Director to investigate holder of aviation document)			
New measure in 2010/11.	QUANTITY: Number of section 15A investigations completed.	Demand driven	3
New measure in 2010/11.	QUALITY: Completed to the lead investigator's satisfaction.	100% completed to satisfaction.	100%
New measure in 2010/11.	TIMELINESS: Completed to the lead investigator's timeframe.	100% completed to timeframe.	100%
3.3 Aviation and safety summary reports			
4 Safety Summary Reports and 2 Aviation Safety Reports released.	QUANTITY: Number of aviation safety summary reports released.	4 safety summary reports and 2 aviation summary reports are released.	4 Safety Summary Reports and 2 Aviation Safety Reports released.
100% of reports published without any errata.	QUALITY: Number of errata published (to determine accuracy of information).	All 6 reports published without any errata.	100% of reports published without any errata.

OUTPUT CLASS 3 – INVESTIGATION, ANALYSIS AND EDUCATION			
2010/11 Actuals	Output Measures	2011/12 Targets/ Standards	2011/12 Actuals
100% of Safety Summary reports published within 40 days of quarter end, and 100% of Aviation Safety reports within 6 months of period end.	TIMELINESS: Reports published on-time: (4 safety summary reports within 40 days of quarter end and 2 aviation summary reports within 6 months of period end.	4 safety summary reports and 2 aviation summary reports published within required timeframes.	100% of Safety Summary reports published within 40 days of quarter end, and 100% of Aviation Safety reports within 6 months of period end.
3.4 Education and information (publications)			
14 publications	QUANTITY: Number of publications	12-20 publications	23
100% accurate or no errata published.	QUALITY: Number of errata published (to determine accuracy of information).	All publications without any errata.	100%
100% of publications delivered on-time	TIMELINESS: Percentage of on-time delivery.	95% of publications delivered on-time	100%
3.5 Seminars, workshops and courses			
32 programmes	QUANTITY: Number of units	Estimate: 20-30	34
100% positive impact	QUALITY: Percentage of survey respondents state that, activities have intended impact upon target audience.	100% of survey respondents rated the activity to meet its intended impact.	100%
100% delivered on-time	TIMELINESS: Percentage of activity delivered on schedule.	95% of activity delivered on schedule.	100%

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

	2011/12 Actual \$000	2011/12 Budget \$000	2010/11 Actual \$000
Levies	5,724	6,769	5,118
Other income	87	82	100
Total output revenue	5,811	6,851	5,218
Total output expenses	(5,780)	(6,887)	(5,413)
Net surplus / (deficit)	31	(36)	(195)

OUTPUT CLASS 4: ENFORCEMENT

DESCRIPTION

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

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

IMPACTS AND CONSEQUENCES FOR A SAFE CIVIL AVIATION SYSTEM

The Authority's enforcement policy recognises that preventive action to minimise the risk of accidents and incidents and 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 to promote a high standard of aviation safety. However, if willing compliance with those standards is not achieved the Authority will take appropriate enforcement action.

The impacts and consequences of the Authority's enforcement activities are to:

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

OUTPUT CLASS 4 - ENFORCEMENT			
2010/11 Actuals	Output Measures	2011/12 Targets/Standards	2011/12 Actuals
60	QUANTITY: Number of detailed enforcement investigations undertaken.	Demand-driven (Estimate: 50-80).	39
External review confirmed that 100% of decisions were reasonable in the context of the Authority's enforcement policy. 100% of prosecutions resulted in a finding of guilt.	QUALITY: a) 5% of investigations are independently reviewed and found to meet Authority quality expectations. b) Success rate of prosecutions undertaken.	a) 100% of decisions are reasonable in the context of the Authority's enforcement policy. b) 90% of prosecutions result in a finding of guilt.	100% 92% of prosecutions resulted in a finding of guilt.
100% of detailed investigations completed within 12 months of the date of the event.	TIMELINESS: Percentage of detailed investigations completed from commencement date.	100% of detailed investigations completed within 12 months of the date of the event.	100%

FINANCIAL PERFORMANCE OF OUTPUT CLASS 4: ENFORCEMENT

	2011/12 Actual \$000	2011/12 Budget \$000	2010/11 Actual \$000
Levies	1,189	1,805	1,179
Other income	18	22	21
Total output revenue	1,207	1,827	1,200
Total output expenses	(1,356)	(1,548)	(1,274)
Net surplus / (deficit)	(149)	279	(74)

OUTPUT CLASS 5: AVIATION SECURITY SERVICES

DESCRIPTION

Output Class 5 covers the following outputs, and associated activities and services:

- screening of all passengers and their carry-on baggage at seven security designated airports⁶;
- screening of all hold baggage carried on departing international flights;
- screening of proportion of airport workers with access to, and within, enhanced security areas at international airports;
- managing the issue of airport identity cards through delegation by the Director of Civil Aviation; and
- 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.

IMPACTS THESE OUTPUTS HAVE ON AVIATION SECURITY:

- activities under this output class are the minimisation of risks of aviation security incidents, and ensuring compliance with international and other regulatory requirements; and
- ensure that the travelling public and other stakeholders have increasing confidence in the security of commercial aircraft departing from and flying within New Zealand at airports, where the Aviation Security Service is required to apply security measures.

OUTPUT CLASS 5: AVIATION SECURITY SERVICES				
2010/11 Actuals		Output Measures	2011/12 Targets/ Standards	2011/12 Actuals
(a): Prevention of in-flight security incidents (including dangerous goods screening)				
General screening activity performance measures				
These performance measures reflect the Aviation Security Service's capability to process a significant number of passengers ⁷ their baggage, detect prohibited items and ensure the Aviation Security Service is not responsible for delays to aircraft departures.				
100%	1.	QUANTITY: Percentage of international hold baggage screened.	100%	100%
1	2.	TIMELINESS: Number of flight delays attributable to screening activities (due to an Aviation Security Service system failure).	Nil	Nil
Nil	3.	TIMELINESS: Number of flight delays attributable to aircraft search activities.	Nil	Nil
Waiting time performance measures				
These performance measures are a test of the Aviation Security Service's capability and efficiency in processing passengers at international and domestic screening points within prescribed international standards.				
AKL: 1 min 54 sec CHC: 1 min 19 sec	4.	TIMELINESS: Average passenger wait times at international departure screening points (benchmark tested six-monthly ⁸ at Auckland & Christchurch international airports; also note that airport infrastructure can directly impact wait times).	No more than three minutes.	Auckland – 1 min 13sec Christchurch – 1 min 11sec
AKL: 1 min 10 sec CHC: 53 sec	5.	TIMELINESS: Average passenger wait times at domestic departure screening points (benchmark tested six-	No more than three minutes.	Auckland 56sec Christchurch 57sec

⁶ All departing international passengers and their carry-on baggage are screened. All domestic passengers and their carry-on baggage are screened where the passenger is travelling on aircraft with seats for 90 or more passengers.

⁷ For 2011/12 the forecast number of screened passengers is: International Passengers 4,775,762; Domestic Passengers 5,640,916.

⁸ 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 the Aviation Security Service undertakes passenger screening.

OUTPUT CLASS 5: AVIATION SECURITY SERVICES			
2010/11 Actuals	Output Measures	2011/12 Targets/ Standards	2011/12 Actuals

monthly at Auckland and Christchurch international airports; also note that airport infrastructure can directly impact wait times).

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.

3	6.	QUALITY: Number of verified unauthorised or prohibited items discovered post screening points (due to an Aviation Security Service system failure). ²¹	3.4 items per million items screened (0.00034%)	0.9 items per million items screened
Nil		QUALITY: Number of verified unauthorised dangerous goods discovered post screening points (due to an Aviation Security Service system failure).	3.4 items per million items screened (0.00034%)	0.0 items per million items screened

Complaints and audit performance measures

These performance measures are quality tests and measure of the proficiency that is expected of all Aviation Security Officers in screening activities and detecting prohibited items.

100%	7.	TIMELINESS: Percentage of any audit findings cleared within the specified timeframes.	100%	100%
Nil	8.	QUALITY: Number of corrective action requests issued pertaining to the aircraft search function issued by external auditors during any programmed audit.	Nil	Nil
Nil	9.	QUALITY: Number of corrective action requests pertaining to screening functions issued by external auditors during any programmed audit.	Nil	Nil
One formal complaint per 1,398,528 passengers screened.	10	QUALITY: Number of substantiated complaints against Aviation Security Officers involved in the screening function (includes 'free riders'). ²²	No more than one formal complaint per 250,000 passengers screened.	One formal complaint per 698,230 passengers screened
Nil airline complaints.	11	QUALITY: Number of substantiated airline complaints against Aviation Security Officers pertaining to aircraft search.	No more than 5 airline complaints per annum	Nil airline complaints

(b): Prevention of airside security incidents

Access control management and response to security-related emergencies

These performance measures are a reflection of the Aviation Security Service's management of access control at a security designated airport and its ability to respond with urgency to a security related emergency.

Nil	1.	QUALITY: Number of corrective action requests pertaining to access control issued by external auditors.	Nil	Nil
99.63%		QUALITY: Percentage compliance ²³ by Airport Identity Cardholders per Civil Aviation Rule 19.357.	100%	99.65%
Nil		QUALITY: Number of corrective action requests issued	Nil	Nil

²¹ "The Six Sigma benchmark is 3.4 defects per million opportunities for each product or service transaction." *The British Foundation for Quality- publication website* www.bfq.org.uk/performance-improvement/about-lean-six-sigma.

²² "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

²³ Applies only to those cards checked by the Aviation Security Service. Civil Aviation Rule 19.357 sets out the requirements for the issuing 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.

OUTPUT CLASS 5: AVIATION SECURITY SERVICES			
2010/11 Actuals	Output Measures	2011/12 Targets/ Standards	2011/12 Actuals
	pertaining to Aviation Security Service management of the Airport Identity Card process.		

FINANCIAL PERFORMANCE OF OUTPUT CLASS 5: AVIATION SECURITY SERVICE

	2011/12 Actual \$000	2011/12 Budget \$000	2010/11 Actual \$000
<i>Output (a): Prevention of in-flight security incidents</i>			
Contracted services	372	990	765
Passenger security charges	51,345	52,735	61,992
Other income	1,901	1,494	2,714
Total output revenue	53,618	55,219	65,471
Total output expenses	(60,835)	(60,752)	(57,939)
Net surplus / (deficit)	(7,217)	(5,533)	7,532

Total output expenses includes \$4,000 (2011: \$15,000) for an audit work undertaken by Aviation Safety which has been eliminated on consolidation.

	2011/12 Actual \$000	2011/12 Budget \$000	2010/11 Actual \$000
<i>Output (b): Prevention of air-side security incidents</i>			
Contracted services	2,437	2,583	2,509
Other income	307	328	707
Total output revenue	2,744	2,911	3,216
Total output expenses	(16,495)	(15,648)	(16,307)
Net surplus / (deficit)	(13,751)	(12,737)	(13,091)

	2011/12 Actual \$000	2011/12 Budget \$000	2010/11 Actual \$000
<i>Output 5 Total</i>			
Contracted services	2,809	3,573	3,274
Passenger security charges	51,345	52,735	61,992
Other income	2,208	1,822	3,421
Total output revenue	56,362	58,130	68,687
Total output expenses	(77,330)	(76,400)	(74,246)
Net surplus / (deficit)	(20,968)	(18,270)	(5,559)

OUTPUT CLASS 6: MARITIME SECURITY SERVICES

OUTPUT CLASS 6: MARITIME SECURITY SERVICES			
2010/11 Actuals	Output Measures	2011/12 Targets/ Standards	2011/12 Actuals
This performance measure is a reflection of the Aviation Security Service's preparedness to respond 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:			
New measure for 2011/12	QUALITY: percentage of scheduled x-ray equipment maintenance and training of standby personnel undertaken	100%	100%

FINANCIAL PERFORMANCE OF OUTPUT CLASS 6: MARITIME SECURITY SERVICES

	2011/12 Actual \$000	2011/12 Budget \$000	2010/11 Actual \$000
Crown funding	145	145	145
Total output revenue	145	145	145
Total output expenses	(145)	(145)	(145)
Net surplus / (deficit)	-	-	-

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2012

	Note	2012 Actual \$000	2012 Budget \$000	2011 Actual \$000
Income				
Levies revenue	2	22,450	23,135	22,167
Revenue from passenger security charges and other services	2	57,926	60,485	69,355
Crown funding revenue	3	2,364	2,364	2,406
Ministry contract revenue	3	1,705	1,676	1,934
Other income	4	2,440	2,002	3,466
Total income		86,885	89,662	99,328
Expenditure				
Personnel costs	5	83,380	81,309	77,848
Depreciation and amortisation expense	14,15	6,001	6,800	5,841
Capital charge	6	-	-	2,316
Finance costs	7	592	198	687
Other cost of services	8	22,809	25,479	20,067
Total expenses		112,782	113,786	106,759
NET SURPLUS / (DEFICIT)		(25,897)	(24,124)	(7,431)
Other Comprehensive Income:				
Loss on revaluation of land and buildings		-	-	(44)
Total comprehensive income		(25,897)	(24,124)	(7,475)

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2012

	Note	2012 Actual \$000	2012 Budget \$000	2011 Actual \$000
Equity				
<i>Opening balance of equity at 1 July</i>				
General funds		27,591	28,106	34,255
Property, plant and equipment revaluation reserve	21	746	790	790
Passenger security charges and other fees and charges reserves	21	43,955	43,681	49,812
Total opening balance of equity at 1 July		72,292	72,577	84,857
<i>Comprehensive Income</i>				
Deficit		(25,897)	(24,124)	(7,431)
Other Comprehensive Income		-	-	(44)
Total comprehensive income for the year		(25,897)	(24,124)	(7,475)
<i>Owner Transactions</i>				
Repayment of capital		-	-	(7,500)
Capital contributions		102	303	2,410
Total changes in equity during the year		(25,795)	(23,821)	(12,565)
<i>Closing balance of equity at 30 June</i>				
General funds	21	23,575	22,556	27,591
Property, plant and equipment revaluation reserve	21	746	790	746
Passenger security charges and other fees and charges reserves	21	22,176	25,410	43,955
Total closing balance of equity at 30 June		46,497	48,756	72,292

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	Note	2012 Actual \$000	2012 Budget \$000	2011 Actual \$000
Assets				
Current Assets				
Cash and cash equivalents	9	19,436	11,780	37,175
Debtors and other receivables	10	8,180	8,375	9,100
Inventories	11	31	105	80
Services work in progress		445	278	314
Investments - term deposits	12,29	25,000	33,250	29,000
Total Current Assets		53,092	53,788	75,669
Non-Current Assets				
Property, plant and equipment	14	16,344	18,800	20,045
Intangible assets	15	2,579	2,753	2,787
Investment property	16	330	-	310
Total Non-Current Assets		19,253	21,553	23,142
Total Assets		72,345	75,341	98,811
Liabilities				
Current Liabilities				
Creditors and other payables	17	3,844	6,293	5,059
Employee entitlements	18	10,116	9,873	8,959
Provisions	19	83	-	83
Borrowings	20	2,089	1,585	1,936
Derivative financial instruments	13	-	-	23
Total Current Liabilities		16,132	17,751	16,060
Non-Current Liabilities				
Employee entitlements	18	5,455	4,545	4,185
Provisions	19	304	233	233
Borrowings	20	3,957	4,056	6,041
Total Non - Current Liabilities		9,716	8,834	10,459
Total Liabilities		25,848	26,585	26,519
NET ASSETS		46,497	48,756	72,292
EQUITY				
General funds	21	23,575	22,556	27,591
Property, plant and equipment revaluation reserve	21	746	790	746
Passenger security charges and other fees and charges reserves	21	22,176	25,410	43,955
TOTAL EQUITY		46,497	48,756	72,292

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 30 June 2012

	Note	2012 Actual \$000	2012 Budget \$000	2011 Actual \$000
Cash Flows from Operating Activities				
Receipts from levies		21,625	26,593	21,912
Receipts from passenger security charges and other services		59,329	61,719	68,900
Receipts from Crown funding and Ministry contracts		4,069	4,586	4,340
Interest received		2,535	1,970	3,185
Payments to employees		(78,063)	(74,986)	(73,718)
Payments to suppliers		(25,990)	(32,871)	(25,174)
Interest paid		(471)	(198)	(452)
Payments of capital charge to the Crown		-	-	(2,316)
Goods and Services Tax (net)		(109)	(2,256)	51
Net Cash Flows from Operating Activities	22	(17,075)	(15,443)	(3,272)
Cash Flows from Investing Activities				
Maturity of investments		4,000	10,500	-
Sale of property, plant and equipment		343	53	216
Placement of investments		-	-	(14,250)
Purchase of property, plant and equipment		(1,896)	(3,890)	(8,297)
Purchase of intangible assets		(1,171)	(247)	(1,199)
Net Cash Flows from Investing Activities		1,276	6,416	(23,530)
Cash Flows from Financing Activities				
Capital contributions from the Crown		102	303	2,410
Proceeds from external borrowings		-	-	4,340
Repayment of capital		-	-	(7,500)
Repayment of external borrowings		(2,042)	(1,935)	(1,646)
Net Cash Flows from Financing Activities		(1,940)	(1,632)	(2,396)
Net increase/(decrease) in cash and cash equivalents		(17,739)	(10,659)	(29,198)
Opening cash and cash equivalents at 1 July		37,175	22,439	66,373
CLOSING CASH AND CASH EQUIVALENTS AT 30 JUNE	9	19,436	11,780	37,175

The accompanying notes form part of these financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS

1 STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

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

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

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

These financial statements of the Authority are for the year ended 30 June 2012. The financial statements were approved by the Authority on 16 October 2012.

Section 72B (3B) of the Civil Aviation Act 1990 states that the Authority shall perform its functions in respect of the Aviation Security Service separately from its other functions and shall maintain accounts, records, and reports accordingly.

BASIS OF PREPARATION

Statement of Compliance

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

Measurement basis

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

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

Functional and presentation currency

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

CHANGES IN ACCOUNTING POLICIES

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

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

- New Zealand equivalents to International Accounting Standards - Related Party Disclosures (Revised 2009) - The effect of adopting the revised New Zealand equivalents to International Accounting Standards is that it:
 - Removes the previous disclosure concessions applied by the Authority for arms-length transactions between

the Authority and entities controlled or significantly influenced by the Crown. The effect of the revised standard is that more information is required to be disclosed about transactions between the Authority and entities controlled or significantly influenced by the Crown.

- Provides clarity on the disclosure of related party transactions with Ministers of the Crown. Further, with the exception of the Minister of Transport, the Authority will be provided with an exemption from certain disclosure requirements relating to transactions with other Ministers of the Crown. The clarification could result in additional disclosures should there be any related party transactions with Ministers of the Crown.

NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED THAT ARE NOT YET EFFECTIVE AND NOT YET EARLY ADOPTED

The following standards, amendments and interpretations that are relevant to the Authority are not yet effective for the year ended 30 June 2012 and have not been applied in preparing these financial statements:

- New Zealand equivalents to International Financial Reporting Standards 9 *Financial Instruments* will eventually replace New Zealand equivalents to International Accounting Standards 39 *Financial Instruments: Recognition and Measurement*. New Zealand equivalents to International Accounting Standards 39 is being replaced through the following 3 main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology and Phase 3 Hedge Accounting. Phase 1 has been completed and has been published in the new financial instruments standard New Zealand equivalents to International Financial Reporting Standards 9. New Zealand equivalents to International Financial Reporting Standards 9 uses a single approach to determine whether a financial asset is measured at a amortised cost or fair value, replacing the many different rules in New Zealand equivalents to International Accounting Standards 39. The approach in New Zealand equivalents to International Financial Reporting Standards 9 is based on how an entity manages its financial assets (its business model) and the contractual cash flow characteristics of the financial assets. The financial liability requirements are the same as those of New Zealand equivalents to International Accounting Standards 39, except for when an entity elects to designate a financial liability at fair value through the surplus/deficit. The new standard is required to be adopted for the year ended 30 June 2016. However, as a new Accounting Standards Framework will apply before this date, there is no certainty when an equivalent standard to New Zealand equivalents to International Financial Reporting Standards 9 will be applied by public benefit entities. The Authority has not yet assessed the impact of the new standard and expects it will not be early adopted.

SIGNIFICANT ACCOUNTING POLICIES

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

Revenue

The Authority earns revenue from:

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

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

- Provision of fee-based services

Revenue derived from the Authority's provision of regulatory and aviation safety services is recognised in the Statement of Comprehensive Income in the period that the services have been rendered, in proportion to the stage of

completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to the time spent on the work to date and the estimated time to completion.

- Interest

Interest income is recognised using the effective interest method.

- Crown funding and Ministry contracts

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

Capital Charge

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

Goods and Service Tax

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

Net Goods and Services Tax 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 Goods and Services Tax.

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

Income Tax

The Authority is a Public Authority in terms of the Income Tax Act 2004 and is 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 repayment of the Aviation Security Service surplus funds to the Crown may be requested by the Minister of Finance at their discretion.

Derivative Financial Instruments and Foreign Currency Transactions

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

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

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

The full fair value of a forward foreign exchange derivative is classified as current if the contract is due for settlement within 12 months of balance date, otherwise derivatives are classified as non-current.

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 Comprehensive Income.

Other Financial Instruments

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

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

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

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

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

Impairment of Financial Assets

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

Leases

Finance Leases

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

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

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

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

Operating Leases

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

Cash and Cash Equivalents

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

Services Work in Progress

The Authority carries services work in progress that includes costs incurred in the partial completion of certification and audit engagements.

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

Inventories

Inventories held for use in the provision of services

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

Inventory write-downs

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

Investments

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

Bank deposits

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

Property, Plant and Equipment

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

Revaluations

Buildings held for service delivery purposes are valued at least every three years to ensure that the carrying amount does not differ materially from fair value. All other asset classes are carried at depreciated historical cost.

Accounting for Revaluations

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

Additions

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

Disposals

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

Subsequent Costs

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

Depreciation

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

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

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

Intangible Assets

Software acquisition and development

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

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

Staff training costs are recognised as an expense when incurred.

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

Amortisation

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

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

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

Impairment of Property, Plant and Equipment and Intangibles

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

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

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

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

Investment property

Properties leased to third parties under operating leases are classified as investment property unless the property is held to meet service delivery objectives, rather than to earn rentals or capital appreciation. Property held to meet service delivery objectives is classified as property, plant, and equipment.

Investment property is measured initially at its cost, including transaction costs. After initial recognition, investment property is measured at fair value as determined annually by an independent valuer.

Gains or losses arising from a change in the fair value of investment property are recognised in the surplus or deficit.

Borrowings

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

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

Employee Entitlements

Short-Term Employee Entitlements

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

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

Long-Term Employee Entitlements

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

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

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

Post-Employment Entitlements

Superannuation schemes

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

Provisions

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

Provisions are measured at the present value of the expenditure 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.

Equity

Equity is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into the following components:

- *General funds*
- *Property, plant and equipment revaluation reserve*
This reserve relates to the revaluation of property, plant and equipment to fair value.
- *Passenger security charges and other fees and charges reserves*
This reserve relates to the accumulated surpluses/deficits arising from the recovery of costs relating to passenger security activities.

Budget figures

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

Output costing

Criteria for Direct and Indirect Costs:

Direct costs for the Authority are those costs directly attributable to an output. Indirect costs are those costs that cannot be

identified with a specific output in an economically feasible manner.

Indirect personnel, property, occupancy and certain other indirect costs for the Aviation Security Service are charged on the basis of actual staff hours attributable to an output. Depreciation and capital charges are charged on the basis of asset utilisation.

Indirect costs for the Authority, including indirect depreciation, are charged on the basis of full time equivalent staff members attributable to an output.

Criteria for apportioning Shared Services costs

The delivery of shared services for both the safety and regulatory services and the security service was established from 7 November 2011. The costs arising in each shared services group (Corporate Services, Organisational Development and Strategy, and Legal Services) will be apportioned to the safety and regulatory services and security services applying an allocation methodology reflecting the underlying key business drivers. These business drivers will be reviewed on a regular basis to ensure that both regulatory services and security services bear an equitable share of the costs of providing shared services.

Apart from the change to apportioning the shared services costs, there have been no other changes to the cost allocation methodology since the date of the last audited financial statements.

Critical Accounting Estimates, Assumptions and Judgements

Preparing financial statements to conform to New Zealand equivalents to International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

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

Internally developed computer software intangible assets availability of use

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

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

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

Lease classification

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

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

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

Retirement and long service leave

An analysis of the exposure in relation to estimates and uncertainties surrounding retirement and long service leave liabilities is disclosed in note 18.

2 REVENUE FROM LEVIES AND SERVICES

	Actual 2012 \$000	Actual 2011 \$000
Levies revenue		
International passenger levies	4,234	4,066
Domestic passenger levies	17,187	17,068
Other levies	1,029	1,033
Total levies revenue	22,450	22,167
Revenue from passenger security charges and other services		
International passenger security charges	33,200	40,725
Domestic passenger security charges	18,139	21,267
Aviation regulatory and safety services	3,762	4,089
Other contracted aviation security services	2,825	3,274
Total revenue from passenger security charges and other services	57,926	69,355

3 CROWN FUNDING AND MINISTRY CONTRACT REVENUE

CROWN FUNDING REVENUE

The Authority has been provided with funding from the Crown for the following specific purposes of the Authority as set out in the Civil Aviation Act 1990 and the scope of the relevant government appropriations. Apart from these general restrictions, there are no unfulfilled conditions or contingencies attached to government funding (2011: nil).

	Actual 2012 \$000	Actual 2011 \$000
Policy	1,779	1,821
Health and Safety	440	440
Maritime security	145	145
Total revenue from the Crown	2,364	2,406

Policy

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

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

Health and Safety in employment

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

- conduct Health and Safety in Employment investigations, audits and inspections
- provide advice and education on Health and Safety in Employment in the aviation sector; and
- fund other activities connected with Health and Safety in Employment practice in the aviation industry.

Maritime security

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

	Actual 2012 \$000	Actual 2011 \$000
Ministry contract revenue		
Rules development (Ministry of Transport)	1,493	1,418
Pacific Security Fund (Ministry of Foreign Affairs and Trade)	212	268
Other Consulting	-	248
	<u>1,705</u>	<u>1,934</u>

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

4 OTHER INCOME

	Actual 2012 \$000	Actual 2011 \$000
Interest income	2,200	3,286
Net gain on sale of property, plant and equipment	153	145
Net foreign exchange gains	20	-
Other Income	67	35
Total other income	<u>2,440</u>	<u>3,466</u>

During the year the Authority disposed of vehicles and screening equipment that formed part of the capital replacement programme as determined by the useful life of the asset. The total gain on sale of assets was \$153,000 (2011: 145,000).

5 PERSONNEL COSTS

	Actual 2012 \$000	Actual 2011 \$000
Salaries and wages	72,612	70,251
Employer contributions to defined contribution plans	1,310	1,168
Other personnel expenses	7,032	6,033
Increase/(decrease) in employee entitlements	2,426	396
Total personnel costs	<u>83,380</u>	<u>77,848</u>

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

6 CAPITAL CHARGE

The Authority paid a capital charge to the Crown in the year to 30 June 2011, but this requirement ceased in the current financial year as the Authority fell below the minimum crown funded net asset level at which the Capital Charge becomes payable according to the Crown Entities (capital charge rules) regulations 2011. The Capital Charge for the year to 30 June 2011 was 7.5%, which equated to \$2,316,000.

7 FINANCE COSTS

	Actual 2012 \$000	Actual 2011 \$000
Interest on Crown Loan	274	163
Interest on finance leases	198	289
Discount unwind on long-term employee entitlements	120	235
Total finance costs	592	687

8 OTHER COST OF SERVICES

	Actual 2012 \$000	Actual 2011 \$000
Fees to auditor:		
Fees to Audit New Zealand for audit of financial statements	104	100
Fees to Audit New Zealand for other services	19	42
Audit related fees for assurance and related services	-	32
Operating lease expenses	5,183	4,132
Building operating expenses	789	588
Information technology expenses	1,886	1,721
Staff travel	3,111	3,304
Severance costs in accordance with s152(d) of the Crown Entities Act 2004	323	-
Insurances	1,021	1,123
Impairment of receivables	3	14
Safety information services	1,852	1,885
Consultancy	2,989	2,291
Consumables and maintenance	2,282	2,031
Net foreign exchange losses	1	32
Net loss on disposal of property, plant and equipment & intangibles	873	329
Impairment of property, plant, equipment & intangibles	-	113
Other expenses	2,373	2,330
Total other cost of services	22,809	20,067

Fees to Audit New Zealand for other services were for an assurance review over the Authority's quarterly reports to the Minister of Transport.

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

The Net loss on disposal of property, plant and equipment & Intangibles includes the write-off of the Aeronautical Information Service database which has been superseded by new technology resulting in the information being freely available to authorised participants. The write-off amounted to \$860,869 and occurred in the current financial year.

9 CASH AND CASH EQUIVALENTS

	Actual 2012 \$000	Actual 2011 \$000
Cash on hand and at bank	7,211	1,590
Cash equivalents -- short-term deposits	12,225	35,585
Total cash and cash equivalents	19,436	37,175

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

The weighted average effective interest rate for the short-term deposits held is 3.9% (2011: 4.0%).

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

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

10 DEBTORS AND OTHER RECEIVABLES

	Actual 2012 \$000	Actual 2011 \$000
Debtors	7,319	7,931
Other receivables	876	1,183
Less: provision for impairment	(15)	(14)
Total debtors and other receivables	8,180	9,100

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

As at 30 June 2012 and 2011, all receivables were reviewed for evidence of impairment. Both provisioned and non-provisioned bad debts are written-off when recovery actions have been unsuccessful and when the likelihood of recovery is considered remote.

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

	----- 2012 -----			----- 2011 -----		
	Gross \$000	Impairment \$000	Net \$000	Gross \$000	Impairment \$000	Net \$000
Not past due	6,215	-	6,215	3,123	-	3,123
Past due 1-30 days	1,772	-	1,772	5,310	-	5,310
Past due 31-60 days	77	-	77	458	-	458
Past due 61-90 days	72	-	72	139	(3)	136
Past due over 90 days	59	(15)	44	84	(11)	73
Total	8,195	(15)	8,180	9,114	(14)	9,100

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

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

	Actual 2012 \$000	Actual 2011 \$000
Balance at 1 July	(14)	-
Additional provisions made during the year	(3)	(14)
Receivables written-off during the period	2	-
Balance at 30 June	(15)	(14)

11 INVENTORIES

	Actual 2012 \$000	Actual 2011 \$000
Inventories held for use in the provision of services	31	80
Total inventories	31	80

Inventories held for use in the provision of services

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

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

There have been no write-downs (2011: \$nil) or reversals of write-downs (2011: \$nil) for inventories during the year.

12 INVESTMENTS

	Actual 2012 \$000	Actual 2011 \$000
<i>Current investments are represented by:</i>		
Term deposits	25,000	29,000
	<u>25,000</u>	<u>29,000</u>
<i>Maturity analysis and effective interest rates of term deposits</i>		
Term deposits with maturities of 4-6 months (91-180 days)	25,000	29,000
Effective interest rate	4.3%	3.8%
	<u>25,000</u>	<u>29,000</u>

13 DERIVATIVE FINANCIAL INSTRUMENTS

The Authority has taken a forward exchange contract for \$US 445,000 (2011: \$US 440,000) to settle liability insurance cover premiums for the 2011/12 financial year. The contract will be settled within six months from balance date.

The fair value of the forward exchange contract has been determined using the market rate as at balance date.

14 PROPERTY, PLANT AND EQUIPMENT

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

	Asset under construction	Buildings (incl components)	Leasehold improvements	Furniture & fittings	Plant & equipment	Office equipment	Motor vehicles	Computer equipment	Leased HBS screening equipment	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<i>Cost or valuation</i>										
Balance at 1 July 2010	3,281	818	2,612	1,095	12,467	717	3,172	3,908	6,207	34,277
Additions/(transfers)	(3,195)	-	7,118	1,522	1,021	119	712	1,001	-	8,298
Revaluation increase	-	(170)	-	-	-	-	-	-	-	(170)
Disposals	-	(48)	(867)	(471)	(308)	(116)	(466)	(163)	-	(2,439)
Transfer to investment assets	-	(600)	-	-	-	-	-	-	-	(600)
Balance at 30 June 2011	86	-	8,863	2,146	13,180	720	3,418	4,746	6,207	39,366
Balance at 1 July 2011	86	-	8,863	2,146	13,180	720	3,418	4,746	6,207	39,366
Additions/(transfers)	(50)	-	129	10	912	10	685	200	-	1,896
Revaluation increase	-	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	(2,081)	(119)	(601)	(2,420)	-	(5,221)
Balance at 30 June 2012	36	-	8,992	2,156	12,011	611	3,502	2,526	6,207	36,041
<i>Accumulated depreciation and impairment losses</i>										
Balance at 1 July 2010	-	(96)	(1,790)	(679)	(7,383)	(597)	(1,338)	(3,380)	(986)	(16,249)
Depreciation expense	-	(63)	(667)	(138)	(1,733)	(77)	(764)	(420)	(1,552)	(5,414)
Eliminate on disposal	-	33	844	357	275	116	428	163	-	2,216
Eliminate on revaluation	-	126	-	-	-	-	-	-	-	126
Balance at 30 June 2011	-	-	(1,613)	(460)	(8,841)	(558)	(1,674)	(3,637)	(2,538)	(19,321)
Balance at 1 July 2011	-	-	(1,613)	(460)	(8,841)	(558)	(1,674)	(3,637)	(2,538)	(19,321)
Depreciation expense	-	-	(858)	(212)	(1,548)	(60)	(797)	(468)	(1,552)	(5,495)
Eliminate on disposal	-	-	-	-	2,079	116	504	2,420	-	5,119
Balance at 30 June 2012	-	-	(2,471)	(672)	(8,310)	(502)	(1,967)	(1,685)	(4,090)	(19,697)
<i>Carrying amounts</i>										
At 1 July 2010	3,281	722	822	416	5,084	120	1,834	528	5,221	18,028
At 30 June 2011	86	-	7,250	1,686	4,339	162	1,744	1,109	3,669	20,045
At 30 June 2012	36	-	6,521	1,484	3,701	109	1,535	841	2,117	16,344

The total amount of property, plant and equipment in the course of construction is \$36,000 (2011: \$86,000).

The net carrying amount of property, plant and equipment held under finance leases is \$2,118,000 (2011: \$3,669,000). Other than items of property, plant and equipment that are subject to finance leases, there are no title restrictions for any of the Authority's property, plant and equipment assets, nor are any items of property, plant and equipment

pledged as security for liabilities or contingent liabilities.

15 INTANGIBLE ASSETS

Movements for each class of intangible asset are as follows:

	AIS navigation database	Acquired software	Assets under construction	Internally developed software	Software under development	Total \$000
	\$000	\$000	\$000	\$000	\$000	\$000
<i>Cost</i>						
Balance at 1 July 2010	816	1,537	449	1,910	20	4,732
Additions	45	720	327	-	107	1,199
Transfer to available for use	-	449	(449)	-	-	-
Disposals	-	(89)	-	-	-	(89)
Balance at 30 June 2011	861	2,617	327	1,910	127	5,842
Balance at 1 July 2011	861	2,617	327	1,910	127	5,842
Additions	-	291	742	138	-	1,171
Transfer to available for use	-	472	(472)	107	(107)	-
Disposals	(861)	(248)	-	(167)	(20)	(1,296)
Balance at 30 June 2012	-	3,132	597	1,988	-	5,717
<i>Accumulated amortisation and impairment losses</i>						
Balance at 1 July 2010	-	(1,200)	-	(1,497)	(20)	(2,717)
Amortisation expense	-	(254)	-	(173)	-	(427)
Disposals	-	89	-	-	-	89
Balance at 30 June 2011	-	(1,365)	-	(1,670)	(20)	(3,055)
Balance at 1 July 2011	-	(1,365)	-	(1,670)	(20)	(3,055)
Amortisation expense	-	(380)	-	(126)	-	(506)
Disposals	-	248	-	155	20	423
Balance at 30 June 2012	-	(1,497)	-	(1,641)	-	(3,138)
<i>Carrying amounts</i>						
At 1 July 2010	816	337	449	413	-	2,015
At 30 June 2011	861	1,252	327	240	107	2,787
At 30 June 2012	-	1,635	597	347	-	2,579

The total amount of intangibles in the course of construction is \$597,000 (2011: \$434,000). The amortisation expense for intangible assets is included within depreciation and amortisation expense in the Statement of Comprehensive Income. There are no title restrictions for any of the Authority's intangible assets, nor are any intangible assets pledged as security for liabilities or contingent liabilities.

Intangible assets

Under the Civil Aviation Act 1990, the Authority is required to ensure that an information service is provided and readily available for the safety, regularity and efficiency of air navigation in New Zealand. To achieve this, the Authority acquired in 2000 the Aeronautical Information Service database which comprised maps, charts and other aeronautical information of a lasting character essential to New Zealand air navigation.

This database has now been superseded and replaced, with the information in this new database being provided by various third party participants. For this reason, the Authority has decided that the Aeronautical Information Service database no longer meets the criteria for an intangible asset and has fully written-off the carrying value in the current financial year. The Authority is still required to ensure that the information is maintained and is available to participants.

16 INVESTMENT PROPERTY

	Actual 2012 \$000	Actual 2011 \$000
Balance at 1 July	310	-
Transfer from Property, Plant, and Equipment	-	600
Fair value gains/(losses) on valuation	20	(290)
Balance at 30 June	330	310

The Authority owns a building at Auckland International Airport (former Aviation Security Services operational base). The original carrying cost of this building was \$900,000.

The building was re-valued at 30 June 2012 by an independent valuer, Seagar & Partners, FPINZ to a fair value of \$330,000 (2011: 310,000). Buildings are valued at fair value using market based evidence. Market rents and capitalisation rates were applied to reflect market value.

17 CREDITORS AND OTHER PAYABLES

	Actual 2012 \$000	Actual 2011 \$000
Creditors	1,526	1,931
Other payables	2,318	3,128
Total creditors and other payables	3,844	5,059

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

18 EMPLOYEE ENTITLEMENTS

	Actual 2012 \$000	Actual 2011 \$000
<i>Current employee entitlements are represented by:</i>		
Accrued salaries and wages	2,646	2,328
Annual leave	6,784	5,985
<i>Current portion of long-term employee entitlements</i>		
Sick leave	168	147
Retiring and long service leave	518	499
Total current portion	10,116	8,959
<i>Non-current employee entitlements are represented by:</i>		
<i>Long-term employee entitlements</i>		
Retiring and long service leave	5,080	3,887
Sick leave	375	298
Total non-current portion	5,455	4,185
Total employee entitlements	15,571	13,144

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

In determining the appropriate discount rate, the Authority considered the interest rates on New Zealand Treasury Bills and Government Bonds which have terms to maturity that match, as closely as possible, the estimated future cash outflows. The salary inflation factor has been determined after considering historical salary inflation patterns and after obtaining advice from an independent actuary. Term-specific risk-free rates as at 30 June 2012 ranging from 2.43% pa to 6.00% pa (2011: ranged from 2.84% pa to 6.00% pa) and a salary inflation factor of 2.0% pa (2011: 3.0% pa) were used.

Actuarial estimate sensitivity analysis

If the discount rate were to be 1% per annum higher/lower than the Authority's estimates, with all other factors held constant, the carrying amount of the liability would be an estimated \$501,000 lower/\$581,000 higher respectively (2011: \$367,000 lower/\$427,000 higher respectively).

If the salary inflation factor was 1% per annum higher/lower than the Authority's estimates, with all other factors held constant, the carrying amount of the liability would be an estimated \$522,000 higher/\$456,000 lower respectively (2011: \$390,000 higher/\$335,000 lower respectively).

19 PROVISIONS

	Actual 2012 \$000	Actual 2011 \$000
<i>Current provisions are represented by:</i>		
Restructuring	83	-
Lease make-good	-	83
Total current portion	83	83
 <i>Non-current provisions are represented by:</i>		
Hold Baggage Screening equipment decommissioning	233	233
Lease make-good	71	-
Total non-current portion	304	233
Total provisions	387	316

Movements for each class of provision are as follows:

	HBS screening equipment decommissioning	Restructuring	Lease make- good	Total \$000
	\$000	\$000	\$000	\$000
2012				
Balance at 1 July	233	-	83	316
Additional provisions made/(reversed)	-	83	(12)	71
Balance at 30 June 2012	233	83	71	387
2011				
Balance at 1 July	233	-	210	443
Additional provisions made/(reversed)	-	-	(127)	(127)
Balance at 30 June 2011	233	-	83	316

Hold Baggage Screening equipment decommissioning

The Authority has recognised a provision for the cost of decommissioning the Hold Baggage Screening equipment at the end of its estimated useful life.

Leasehold exit obligation

The Authority has recognised a liability for the cost to make good the office space leased in Wellington upon the expiry of the lease term. Information about the Authority's leasing arrangements is disclosed in Note 23.

Restructuring provision

The Authority approved a detailed and formal restructuring plan, which was announced in February 2012. The provision represents the estimated cost for redundancy payments arising but not yet paid.

20 BORROWINGS

	Actual 2012 \$000	Actual 2011 \$000
<i>Current borrowings are represented by:</i>		
Finance leases	1,689	1,535
Advances from the Crown	400	401
Total current portion	2,089	1,936
<i>Non-current borrowings are represented by:</i>		
Finance leases	617	2,301
Advances from the Crown	3,340	3,740
Total non-current portion	3,957	6,041
Total borrowings	6,046	7,977
<i>Analysis of finance leases</i>		
Minimum lease payments payable:		
Not later than one year	1,793	1,733
Later than one year and not later than five years	634	2,422
Total minimum lease payments	2,427	4,155
Future finance charges	(121)	(319)
Present value of minimum lease payments	2,306	3,836
Present value of minimum lease payments payable:		
Not later than one year	1,689	1,535
Later than one year and not later than five years	617	2,301
Total present value of minimum lease payments	2,306	3,836

Fair Value

Due to the interest rate on the unsecured loan being set at a market related level, the carrying amounts of unsecured loans approximates their fair value.

The fair value of finance leases is \$2,306,000 (2011: 3,836,000). Fair value has been determined using contractual cash flows discounted using a rate of 3.5%.

Description of leasing arrangements

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

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

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

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

Description of Advances from the Crown

On 30 August 2010 the Crown agreed to provide an unsecured loan to the Authority (\$4,340,000) for the purposes of funding the hard fit-out of new premises at 55 Featherston Street, Wellington. The loan is for a period of five years to 30 June 2015. The loan was issued at a fixed rate of 6.84%.

21 EQUITY

	Actual 2012 \$000	Actual 2011 \$000
General funds		
Opening balance at 1 July	27,591	34,255
Transfer from Statement of Comprehensive Income	(25,897)	(7,475)
Transfer to property, plant and equipment revaluation reserve	-	44
Transfer from passenger security charges reserve	21,779	5,857
Capital contributions	102	2,410
Repayment of capital	-	(7,500)
Closing balance at 30 June	23,575	27,591
Reserves		
Property, plant and equipment revaluation reserve		
Opening balance at 1 July	746	790
Transfer from Statement of Comprehensive Income	-	(44)
Closing balance at 30 June	746	746
Passenger security charges reserve		
Opening balances at 1 July		
Passenger security charges reserve - Domestic	9,373	9,914
Passenger security charges reserve - International	34,582	39,898
	43,955	49,812
Transfer to General Funds from:		
Passenger security charges reserve - Domestic	(3,691)	(541)
Passenger security charges reserve - International	(17,140)	(5,316)
Passenger security charges reserve - Other fees and charges	(948)	-
Passenger security contingency reserve - Domestic	-	-
Passenger security contingency reserve - International	-	-
Total transfers to General Funds	(21,779)	(5,857)
Closing balances at 30 June		
Passenger security charges reserve - Domestic	5,682	9,373
Passenger security charges reserve - International	17,442	34,582
Passenger security charges reserve - Other fees and charges	(948)	-
Total passenger security reserves	22,176	43,955

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 repayment of the Aviation Security Service surplus funds to the Crown may be requested by the Minister of Finance at his discretion.

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

	Actual 2012 \$000	Actual 2011 \$000
Net deficit	(25,897)	(7,431)
<i>Add/(less) non-cash items:</i>		
Depreciation and amortisation expense	6,001	5,841
Writedown of property, plant & equipment	-	329
Impairment of receivables	3	14
Net foreign exchange (gains) / losses	(19)	31
Discount unwind on employee entitlements	120	235
Non-current employee entitlements	-	(2)
Impairment losses - property, plant & equipment	-	113
Fair value gains on investment property	(20)	-
Total non-cash items	6,085	6,561
<i>Add/(less) items classified as investing or financing activities:</i>		
(Gains) / losses on disposal of property, plant & equipment and intangibles	741	(145)
Total items classified as investing or financing activities	741	(145)
<i>Add/(less) movements in working capital items:</i>		
Debtors & other receivables (increase)/decrease	917	(667)
Inventories (increase)/decrease	49	10
Services work in progress (increase)/decrease	(131)	(59)
Creditors & other payables increase/(decrease)	(1,217)	(1,578)
Employee entitlements increase/(decrease)	2,306	164
Provisions increase/(decrease)	72	(127)
Net movements in working capital items	1,996	(2,257)
Net cash from operating activities	(17,075)	(3,272)

23 CAPITAL AND OPERATING COMMITMENTS

	Actual 2012 \$000	Actual 2011 \$000
Capital commitments		
Property, plant and equipment	36	85
Intangible assets	61	376
Total capital commitments	97	461
<i>Non-cancellable operating leases</i>		
Not later than one year	5,479	6,202
Later than one year and not later than five years	18,360	21,024
Later than five years	16,680	23,390
Total non-cancellable operating leases	40,519	50,616

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

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

Other non-cancellable operating commitments

	Actual 2012 \$000	Actual 2011 \$000
Not later than one year	1,635	1,666
Later than one year and not later than five years	307	1,891
Later than five years	-	-
Total non-cancellable operating commitments	1,942	3,557

The Authority has entered into several contracts that have non-cancellable terms. The most significant of these is the contract with Airways Corporation to maintain and update the Aeronautical Information Service database.

24 CONTINGENCIES

Contingent liabilities

Legal actions

Legal actions pending that have been taken or are being responded to by the Authority involve five (2011: nine) aviation participants or external parties and no staff members (2011: one). The Authority has relied on advice from legal counsel in forming the view that contingent liabilities with an estimated value of \$nil (2011: \$nil) exist in relation to these proceedings.

Contingent assets

The Authority has no contingent assets (2011: \$nil).

25 RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT PERSONNEL

Related party transactions

All related party transactions have been entered into on an arm's length basis.

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

The Authority has been provided with funding from the Crown of \$2,219,000 (2011: \$2,261,000) for specific purposes as set out in its founding legislation and the scope of the relevant government appropriations. The Aviation Security Service also received \$145,000 (2011: \$145,000) funding for maritime security preparedness, specifically focused on the Port of Auckland during the financial year.

During the year, the Authority exercised its statutory obligations and levied Air New Zealand for Domestic and International Passenger movements. It also conducted safety and regulatory audits on Air New Zealand. These transactions accounted for revenue of \$45,762,000 (2011: \$52,063,000).

The Authority enters into transactions with government departments, state-owned enterprises and other Crown entities that are related parties of the Authority solely by virtue of their common Crown ownership. The Authority is required to pay various taxes and levies (such as Goods and Services Tax, Fringe Benefit Tax, Pay As You Earn tax, and Accident Compensation Corporation levies) to the Crown and entities related to the Crown. The payment of these taxes and levies, other than income tax, is based on the standard terms and conditions that apply to all tax and levy payers. The Authority is exempt from paying income tax.

The Authority purchases goods and services from entities controlled, significantly influenced, or jointly controlled by the Crown. Purchases from these government-related entities for the year ended 30 June 2012 totalled \$3,947,000 (2011: \$2,616,000). These purchases included the purchase of services mainly from Crown Law Office, Airways Corporation, Air New Zealand, New Zealand Post and New Zealand Debt Management Office.

The Authority also sold goods and services to entities controlled, significantly influenced, or jointly controlled by the Crown. Sales to these government-related entities for the year ended 30 June 2012 totalled \$1,011,000 (2011: \$945,000). These Sales included the sale of goods or services mainly to Airways Corporation, New Zealand Air Force, New Zealand Post and the Ministry of Foreign Affairs.

The Authority can have up to five members who are appointed for terms of up to three years, and who report to the Minister of Transport.

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

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

Transactions	Ref	Transaction value year ended 30 June		Balance outstanding year ended 30 June	
		2012 \$	2011 \$	2012 \$	2011 \$
Income					
C Toss will - Chief Operating Officer, Aviation Security	(i)	26,000	-	-	-
P Griffiths - Authority member	(ii)	61	-	-	-
Expense					
Revera Limited	(iii)	-	119,553	-	-

- (i) Purchase of surplus vehicle
- (ii) Purchase of commercial pilot's licence by the son of the Authority member
- (iii) R Bettle, an Authority member until April 2011, is a Director of Revera Limited. The Authority paid Revera Limited for business continuity services and systems storage. The fee paid was on normal commercial terms at the usual rate for the services provided.

No provision has been required, nor any expense recognised, for impairment of receivables from related parties (2011: \$nil).

Key management personnel compensation

	Actual 2012 \$000	Actual 2011 \$000
Salaries and other short-term employee benefits	3,625	3,724
Post-employment benefits	591	92
Other long-term benefits	-	21
Termination benefits	867	-
Total key management personnel compensation	5,083	3,837

Key management personnel include Authority Members, the Director of Civil Aviation and his eight member Executive team, and the General Manager of Aviation Security and his eight member Aviation Security Service Executive Management team.

The Authority does not provide remuneration or benefits to the Minister of Transport or the Associate Minister of Transport.

26 AUTHORITY MEMBER REMUNERATION

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

	Actual 2012 \$000	Actual 2011 \$000
J Bartlett (appointed June 2010)	24	23
R Bettle (ex-Chairman - resigned 5th April 2011)	-	38
N Gould (Chairman - appointed 6th April 2011)	50	12
P Griffiths (appointed June 2010)	28	27
S Hughes (resigned July 2011)	2	24
G Lilly (appointed September 2011)	20	-
A Mazzoleni (appointed June 2010)	24	23
Total Authority member remuneration	148	146

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

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

27 EMPLOYEE REMUNERATION

Total remuneration paid or payable

	Actual 2012 \$000	Actual 2011 \$000
Total remuneration paid or payable		
\$100,000 - \$109,999	32	32
\$110,000 - \$119,999	15	12
\$120,000 - \$129,999	8	9
\$130,000 - \$139,999	10	9
\$140,000 - \$149,999	9	13
\$150,000 - \$159,999	9	4
\$160,000 - \$169,999	8	5
\$170,000 - \$179,999	2	2
\$180,000 - \$189,999	1	1
\$190,000 - \$199,999	3	4
\$200,000 - \$209,999	1	2
\$210,000 - \$219,999	5	3
\$220,000 - \$229,999	2	-
\$230,000 - \$239,999	1	1
\$240,000 - \$249,999	-	-
\$250,000 - \$259,999	1	-
\$260,000 - \$269,999	-	-
\$270,000 - \$279,999	1	-
\$280,000 - \$289,999	-	-
\$290,000 - \$299,999	1	-
\$300,000 - \$309,999	-	1
\$310,000 - \$319,999	-	-
\$320,000 - \$329,999	-	-
\$330,000 - \$339,999	1	-
\$340,000 - \$349,999	-	-
\$540,000 - \$549,999	-	1
\$650,000 - \$659,999	1	-
Total number of employees	111	99

The former Director of Civil Aviation, resigned effective 5th April 2012. His remuneration for the year, of \$659,000, included cashed up annual leave and retirement entitlements.

The General Manager, Aviation Security Services, remuneration included cashed up annual leave and retirement entitlements of \$180,000 and other employee benefits of \$22,000 during the 2010/11 financial year.

During the year ended 30 June 2012, 18 (2011: 18) employees and no Authority members (2011: nil) received compensation and other benefits in relation to cessation totalling \$1,369,000 (2011: \$689,000). No Authority members received compensation or other benefits in relation to cessation (2011: nil).

28 EVENTS AFTER THE BALANCE SHEET DATE

There were no significant events after the balance sheet date.

29 CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

The carrying amounts of financial assets and liabilities in each of the New Zealand equivalents to International Accounting Standards 39 categories are as follows:

	Actual 2012 \$000	Actual 2011 \$000
Financial assets		
<i>Loans and receivables</i>		
Cash and cash equivalents	19,436	37,175
Debtors and other receivables	8,180	9,100
Investments - term deposits	25,000	29,000
Total loans and receivables	52,616	75,275

Investments consist of term deposits with maturities ranging from 91 to 180 days with ANZ Bank Ltd, ASB Bank Ltd, Westpac New Zealand, and National Bank of New Zealand Ltd.

Financial liabilities

Financial liabilities measured at amortised cost

Creditors and other payables	3,844	5,059
Finance lease liabilities	2,306	3,836
Advances from the Crown	3,740	4,141
Total financial liabilities measured at amortised cost	9,890	13,036

Fair value through profit and loss

Derivative financial instrument liabilities	-	23
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Fair value hierarchy disclosures

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

30 FINANCIAL INSTRUMENT RISKS

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

These policies do not allow the Authority to enter into any transactions that are speculative in nature.

There have been no changes from the previous reporting period in either the types of financial instrument held, the type of risk exposure, or the way in which these financial instrument risks are managed.

Market Risk

Price risk

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

Interest rate risk

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

As the Authority's short-term deposits are invested at fixed interest rates, any change in interest rates prior to deposit maturity has no impact on net surplus/(deficit). As these financial assets are carried at amortised cost, rather than at fair value, there is no direct impact on equity from any change in interest rates.

Currency risk

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

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

Credit risk

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

The Authority holds no collateral or other credit enhancements for financial instruments that give rise to credit risk.

Concentrations of credit risk

	2012 \$000	2012 concentration %	2011 \$000	2011 concentration %
<i>Loans & receivables</i>				
New Zealand registered banks	44,436	84.5%	66,175	87.9%
New Zealand airports	57	0.1%	2	0.0%
Domestic and International passenger airlines	6,496	12.3%	8,354	11.1%
Other	1,627	3.1%	744	1.0%
Total	52,616	100.0%	75,275	100.0%

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

Liquidity risk

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

Contractual maturity analysis of financial liabilities, excluding derivatives

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

	Carrying amount	Contractual cash flows	Less than 6 months	Between 6 months & 1 year	Later than 1 year
	\$000	\$000	\$000	\$000	\$000
2012					
Creditors and other payables (Note 17)	3,844	3,844	3,844	-	-
Borrowings (Note 20)	6,046	6,654	1,168	1,165	4,321
Derivative financial instruments	-	-	-	-	-
Total contractual undiscounted cash flows	9,890	10,498	5,012	1,165	4,321
2011					
Creditors and other payables (Note 17)	5,059	5,059	5,059	-	-
Borrowings (Note 20)	7,977	8,973	1,204	1,202	6,567
Derivative financial instruments	23	23	23	-	-
Total contractual undiscounted cash flows	13,059	14,055	6,286	1,202	6,567

Sensitivity Analysis

At year end, a movement of one percentage point in interest rates would affect the Authority's surplus and equity by \$444,000 (2011: \$662,000).

31 CAPITAL MANAGEMENT

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

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

32 AVIATION SECURITY SPECIFIC RESERVES

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

	International Passenger Security Charges	Domestic Passenger Security Charges	Other Fees / Charges	Actual 2012	Budget 2012	Actual 2011
	\$000	\$000	\$000	\$000	\$000	\$000
2012						
Revenue	33,203	18,141	3,168	54,512	56,710	65,672
Expenditure	(50,343)	(21,832)	(3,305)	(75,480)	(74,981)	(71,231)
Net surplus / (deficit)	(17,140)	(3,691)	(137)	(20,968)	(18,271)	(5,559)
Opening balance at 1 July	34,582	9,373	(811)	43,144	43,681	48,703
Closing balance at 30 June	17,442	5,682	(948)	22,176	25,410	43,144
2011						
Revenue	40,725	21,267	3,680	65,672	66,034	82,360
Expenditure	(46,041)	(21,808)	(3,382)	(71,231)	(76,378)	(67,316)
Net surplus / (deficit)	(5,316)	(541)	298	(5,559)	(10,344)	15,044
Opening balance at 1 July	39,898	9,914	(1,109)	48,703	46,116	33,659
Closing balance at 30 June	34,582	9,373	(811)	43,144	35,772	48,703

33 EXPLANATION OF MAJOR VARIANCES AGAINST BUDGET

Explanations for major variances from the Authority's budgeted figures in the Statement of Intent are provided in the paragraphs below.

STATEMENT OF COMPREHENSIVE INCOME

Income

Income for the year ended 30 June 2012 of \$86.9 million was lower than the budget of \$89.7 million by \$2.8 million (3%). The significant variances are as follows:

Levies revenue

Regulatory levy revenue from departing domestic and international passengers of \$22.5 million was broadly in line with budget of \$23.1 million. As a reflection of general economic conditions, domestic passenger volumes were weaker than budget by \$655,000 (3%), while international passenger volumes were largely consistent with budget expectations.

Revenue from passenger security charges and other services

Revenue from passenger security charges and other revenue of \$57.9 million was lower than the budget of \$60.5 million by \$2.6 million (4%).

This revenue is primarily driven from passenger security charge revenue levied on airlines, based on departing domestic and international passengers that totalled \$51.3 million for the 2011/12 financial year. While revenue from international passenger volumes was marginally below budget (\$0.1 million), domestic passenger revenue of \$18.1 million was lower than the budget of \$19.4 million by \$1.3 million (7%). This is consistent with levy revenue above.

The remaining adverse variance is from aviation regulatory and safety services arising from lower chargeable activity than planned for regulatory services (\$0.5 million) and lower contracted aviation security services revenue (\$0.7 million).

Expenditure

Expenditure for the year ended 30 June 2012 of \$112.8 million was lower than the budget of \$113.8 million by \$1.0 million (1%). The significant variances are as follows:

Personnel costs

Personnel costs of \$83.4 million were higher than the budget of \$81.3 million by \$2.1 million (2.6%). These costs were lower in the Civil Aviation Authority (\$0.2 million). Personnel costs were higher in the Aviation Security Service (\$2.3 million) due to the need to transition from full-time to part-time staff to improve operational efficiency, additional costs associated with the Rugby World Cup and an additional personnel related liability due to an adverse one-off actuarial valuation adjustment.

Other cost of services

Other cost of services of \$22.8 million was lower than the budget of \$25.5 million by \$2.7 million. This was from lower costs in the Civil Aviation Authority and Aviation Security Service of \$2.0 million and \$0.7 million respectively.

The lower costs for the Civil Aviation Authority (\$2.0 million) are primarily due to lesser expenditure in projects under the Authority's change programme. These projects either did not proceed, are being resourced through the investment in increased capability in the business, or have been reassessed and deferred until 2012/13.

Aviation Security Service's lower costs are due primarily to lower building and office costs from lower than anticipated rent increases and operating costs.

There were no significant variances in either the Statement of Financial Position or Statement of Cash Flows other than what is explained above.

ADDITIONAL FINANCIAL INFORMATION

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

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2012

Group		Aviation Safety		Aviation Security		Elimination		Group	
		2012 Actual \$000	2012 Budget \$000	2012 Actual \$000	2012 Budget \$000	2012 Actual \$000	2012 Budget \$000	2012 Actual \$000	2012 Budget \$000
	Income								
22,167	Levies revenue	22,450	23,135	-	-	-	-	22,450	23,135
69,355	Revenue from passenger security charges and other services	3,766	4,192	54,164	56,308	(4)	(15)	57,926	60,485
2,406	Crown funding revenue	2,219	2,219	145	145	-	-	2,364	2,364
1,934	Ministry contract revenue	1,493	1,418	212	258	-	-	1,705	1,676
3,466	Other income	455	438	1,985	1,564	-	-	2,440	2,002
99,328	Total income	30,383	31,402	56,506	58,275	(4)	(15)	86,885	89,662
	Expenditure								
77,848	Personnel costs	21,728	21,959	61,652	59,350	-	-	83,380	81,309
5,841	Depreciation and amortisation expense	1,102	1,137	4,899	5,663	-	-	6,001	6,800
2,316	Capital charge	-	-	-	-	-	-	-	-
687	Finance costs	287	-	305	198	-	-	592	198
20,067	Other cost of services	12,195	14,159	10,618	11,335	(4)	(15)	22,809	25,479
106,759	Total expenses	35,312	37,255	77,474	76,546	(4)	(15)	112,782	113,786
(7,431)	NET SURPLUS / (DEFICIT)	(4,929)	(5,853)	(20,968)	(18,271)	-	-	(25,897)	(24,124)
	Other comprehensive Income:								
(44)	Gain on revaluation of land and buildings	-	-	-	-	-	-	-	-
(7,475)	Total comprehensive income	(4,929)	(5,853)	(20,968)	(18,271)	-	-	(25,897)	(24,124)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2012

Group	Aviation Safety		Aviation Security		Elimination		Group		
	2012 Actual \$000	2012 Budget \$000	2012 Actual \$000	2012 Budget \$000	2012 Actual \$000	2012 Budget \$000	2012 Actual \$000	2012 Budget \$000	
Equity									
<i>Opening balance of equity at 1 July</i>									
34,255	General funds	14,605	14,309	12,986	13,797	-	-	27,591	28,106
790	Property, plant and equipment revaluation reserve	-	-	746	790	-	-	746	790
49,812	Passenger security charges reserve	-	-	43,955	43,681	-	-	43,955	43,681
84,857	Total opening balance of equity at 1 July	14,605	14,309	57,687	58,268	-	-	72,292	72,577
(7,431)	Net surplus / (deficit) for the year	(4,929)	(5,853)	(20,968)	(18,271)	-	-	(25,897)	(24,124)
(7,500)	Repayment of capital	-	-	-	-	-	-	-	-
2,410	Capital contributions	-	-	102	303	-	-	102	303
(44)	Transfer to property, plant and equipment revaluation reserve	-	-	-	-	-	-	-	-
(12,565)	Total changes in equity during the year	(4,929)	(5,853)	(20,866)	(17,968)	-	-	(25,795)	(23,821)
<i>Closing balance of equity at 30 June</i>									
27,591	General funds	9,675	8,456	13,900	14,100	-	-	23,575	22,556
746	Property, plant and equipment revaluation reserve	-	-	746	790	-	-	746	790
43,955	Passenger security charges reserves	-	-	22,176	25,410	-	-	22,176	25,410
72,292	Total closing balance of equity at 30 June	9,675	8,456	36,822	40,300	-	-	46,497	48,756

Statement of Financial Position as at 30 June 2012

Group		Aviation Safety		Aviation Security		Elimination		Group	
2011		2012	2012	2012	2012	2012	2012	2012	2012
Actual		Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget
\$000		\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
	CURRENT ASSETS								
37,175	Cash and cash equivalents	7,649	7,380	11,787	4,400	-	-	19,436	11,780
9,100	Debtors and other receivables	3,585	2,748	6,258	5,627	(1,663)	-	8,180	8,375
80	Inventories	-	-	31	105	-	-	31	105
314	Services Work in Progress	445	278	-	-	-	-	445	278
29,000	Investments - term deposits	-	-	25,000	33,250	-	-	25,000	33,250
75,669	TOTAL CURRENT ASSETS	11,679	10,406	43,076	43,382	(1,663)	-	53,092	53,788
	NON-CURRENT ASSETS								
20,045	Property, plant and equipment	5,283	5,290	11,061	13,510	-	-	16,344	18,800
2,787	Intangible assets	944	1,545	1,635	1,208	-	-	2,579	2,753
310	Investment property	-	-	330	-	-	-	330	-
23,142	TOTAL NON-CURRENT ASSETS	6,227	6,835	13,026	14,718	-	-	19,253	21,553
98,811	TOTAL ASSETS	17,906	17,241	56,102	58,100	(1,663)	-	72,345	75,341
	CURRENT LIABILITIES								
5,059	Creditors and other payables	1,853	3,384	3,654	2,909	(1,663)	-	3,844	6,293
8,959	Employee entitlements	2,101	1,585	8,015	8,288	-	-	10,116	9,873
83	Provisions	83	-	-	-	-	-	83	-
1,936	Borrowings	400	-	1,689	1,585	-	-	2,089	1,585
23	Derivative financial instruments	-	-	-	-	-	-	-	-
16,060	TOTAL CURRENT LIABILITIES	4,437	4,969	13,358	12,782	(1,663)	-	16,132	17,751
	NON-CURRENT LIABILITIES								
4,185	Employee entitlements	383	476	5,072	4,069	-	-	5,455	4,545
233	Provisions	71	-	233	233	-	-	304	233
6,041	Borrowings	3,340	3,340	617	716	-	-	3,957	4,056
10,459	TOTAL NON-CURRENT LIABILITIES	3,794	3,816	5,922	5,018	-	-	9,716	8,834
26,519	TOTAL LIABILITIES	8,231	8,785	19,280	17,800	(1,663)	-	25,848	26,585
72,292	NET ASSETS	9,675	8,456	36,822	40,300	-	-	46,497	48,756
	EQUITY								
27,591	General funds	9,675	8,456	13,900	14,100	-	-	23,575	22,556
746	Property, plant and equipment revaluation reserve	-	-	746	790	-	-	746	790
43,955	Passenger security charges reserves	-	-	22,176	25,410	-	-	22,176	25,410
72,292	TOTAL EQUITY	9,675	8,456	36,822	40,300	-	-	46,497	48,756

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2012

Group	Aviation Safety		Aviation Security		Elimination		Group	
	2012 Actual \$000	2012 Budget \$000	2012 Actual \$000	2012 Budget \$000	2012 Actual \$000	2012 Budget \$000	2012 Actual \$000	2012 Budget \$000
Cash Flows from Operating Activities								
21,912	21,516	26,593	-	-	109	-	21,625	26,593
68,900	4,628	4,830	54,705	56,889	(4)	-	59,329	61,719
4,340	3,712	4,183	357	403	-	-	4,069	4,586
3,185	491	375	2,044	1,595	-	-	2,535	1,970
(73,718)	(20,289)	(19,414)	(57,774)	(55,572)	-	-	(78,063)	(74,986)
(25,174)	(13,538)	(18,367)	(12,347)	(14,504)	(105)	-	(25,990)	(32,871)
(452)	(273)	-	(198)	(198)	-	-	(471)	(198)
(2,316)	-	-	-	-	-	-	-	-
51	(9)	(2,211)	(100)	(45)	-	-	(109)	(2,256)
(3,272)	(3,762)	(4,011)	(13,313)	(11,432)	-	-	(17,075)	(15,443)
Cash Flows from Investing Activities								
-	-	-	4,000	10,500	-	-	4,000	10,500
216	4	-	339	53	-	-	343	53
(14,250)	-	-	-	-	-	-	-	-
(8,297)	(248)	(862)	(1,648)	(3,028)	-	-	(1,896)	(3,890)
(1,199)	(735)	-	(436)	(247)	-	-	(1,171)	(247)
(23,530)	(979)	(862)	2,255	7,278	-	-	1,276	6,416
Cash Flows from Financing Activities								
2,410	-	-	102	303	-	-	102	303
-	-	-	-	-	-	-	-	-
4,340	-	-	-	-	-	-	-	-
(7,500)	-	-	-	-	-	-	-	-
(1,646)	(400)	(400)	(1,642)	(1,535)	-	-	(2,042)	(1,935)
(2,396)	(400)	(400)	(1,540)	(1,232)	-	-	(1,940)	(1,632)
(29,198)	(5,141)	(5,273)	(12,598)	(5,386)	-	-	(17,739)	(10,659)
66,373	12,791	12,653	24,384	9,786	-	-	37,175	22,439
37,175	7,650	7,380	11,786	4,400	-	-	19,436	11,780

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

PART D:

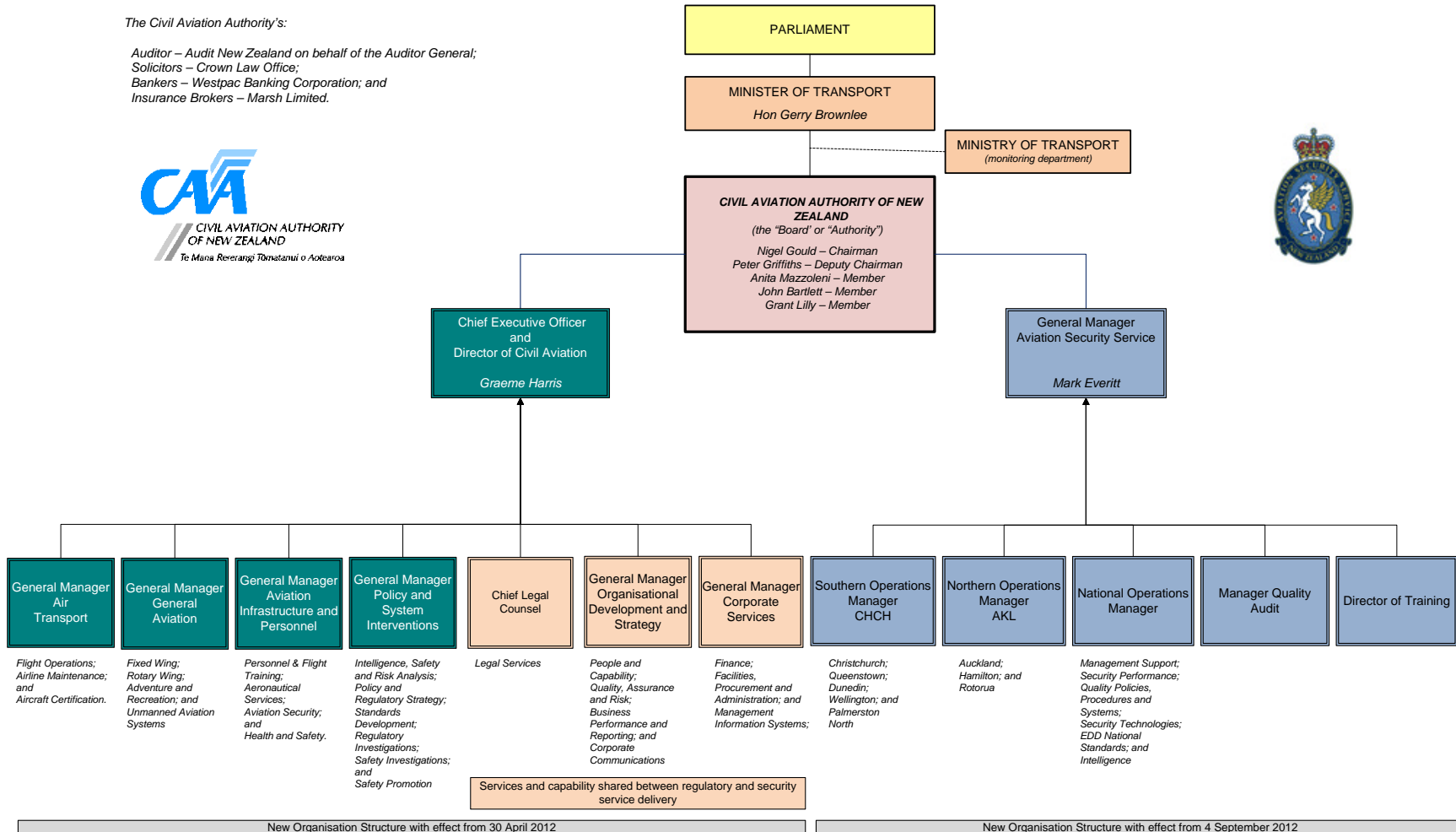
APPENDICES

APPENDIX 1: ORGANISATIONAL STRUCTURE

As at 30 June 2012

The Civil Aviation Authority's:

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



APPENDIX 2: GOVERNANCE AND ACCOUNTABILITY

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

Members act in accordance with applicable statutory requirements (for example, the *Civil Aviation Act 1990*, the *Crown Entities Act 2004*), and in the interests of the role and functions of aviation safety and aviation security.

AUTHORITY RESPONSIBILITIES

The Authority, the Director of Civil Aviation, and the General Manager of Aviation Security Service have statutory functions in the civil aviation system. The Director and the General Manager are accountable in the exercise of their functions by the Authority to the extent permissible under the *Civil Aviation Act 1990*, the *Crown Entities Act 2004*. The Authority is accountable to the Minister of Transport for the efficient and effective performance of its functions. The Authority clearly demonstrates its role by ensuring that the delegation of responsibility and authority to the Director of Civil Aviation and the General Manager of Aviation Security Service (Part 140, aviation security organisation, aviation document holder) is concise and complete.

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

The Authority performs six functions that direct the operations of the Civil Aviation Authority to achieve its outcome. These are:

- Influencing and contributing to safety and security in the aviation sector;
- Setting the direction of the Civil Aviation Authority;
- Setting plans and targets for services and financial performance;
- Reviewing the Civil Aviation Authority's performance against plans and targets;
- Providing quality assurance of key operational policies, systems and processes; and
- Making significant planning, investment and funding decisions.

The planning, investment and funding decisions reserved for the Authority include:

- Approving annual budgets;
- Making significant funding decisions and contract awards;
- Authorising changes to the organisational structure; and
- Reviewing the performance and remuneration of the Chief Executive, and the General Manager Aviation Security.

The Authority defines the individual and collective responsibilities of the Authority committee management, operating structure and lines of responsibility and what each has authority for. Operational responsibility is delegated to the Chief Executive by way of a formal delegated authority framework. Day-to-day operations are managed by senior managers led by the Chief Executive.

AUTHORITY MEMBERSHIP AND COMPOSITION

The Minister of Transport appoints five independent non-executive members to the Civil Aviation Authority. The Authority selects the membership of its committees.

AUTHORITY COMMITTEES

The Authority has three committees: Audit Finance and Risk Committee; Remuneration and Performance Committee; and a Change Steering Committee.

While the Authority committees have no delegated authority, they assist the Authority to; provide assurance that policies and controls are complied with, monitor and advise on delegated investment decisions, monitor operational procedures and projects and appoint and annually, review the performance of the Chief Executive/Director and the General Manager Aviation Security Service.

INTERNAL AUDIT

The overall responsibility for maintaining effective systems of organisational control remains with the Authority. The Authority requires the Chief Executive to establish, maintain and monitor internal control to provide assurance that specific objectives of the Authority will be achieved. The Authority contracts PricewaterhouseCoopers to carry out its Internal Audit function that monitors internal controls.

RISK MANAGEMENT

The Authority accepts it is responsible for the management of organisational risks, and requires the Chief Executive of the Civil Aviation Authority to establish and operate a Risk Management Programme. The Authority has a risk management process whereby the likelihood and consequence of strategic and operational risks are regularly assessed, mitigations are reviewed and the level of residual risk reappraised.

LEGISLATIVE COMPLIANCE AND ETHICS

The Civil Aviation Authority is guided by its Codes of Conduct and the State Services Commissioner's Standards of Integrity and Conduct. Authority members are required to complete a declaration of interests each year. The process is independently audited annually. An updated schedule of Authority members' interests is tabled and reviewed at the opening of every Authority meeting.

The Authority ensures that the Civil Aviation Authority complies with all legislation. The Authority has delegated responsibility to the Chief Executive of the Civil Aviation Authority for the development and operation of a programme to systematically identify compliance issues and ensure that members of the staff are aware of legislative requirements that are particularly relevant to them.

STANDARD FOR QUALITY MANAGEMENT

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

ENGAGEMENT WITH STAKEHOLDERS

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

AUTHORITY MEMBER REMUNERATION

The rates of remuneration for Authority members are set by the Minister of Transport, in accordance with government rates for directors' fees.

APPENDIX 3: OPERATING ENVIRONMENT

SECTOR PROFILE

NEW ZEALAND'S ACTIVE AVIATION DOCUMENT HOLDERS AS AT 30 JUNE 2012		
Organisations	Individuals	Aircraft
1 Australian AOC with ANZA privileges	2,576 Part 66 Aircraft Maintenance Engineer	1,977 aeroplane
63 Part 109 regulated air cargo agent	158 Part 66 Certificate of Inspection Authorisation	797 microlight class 2
20 Part 115 adventure aviation operator ²⁴	263 Part 66 Certificate of Maintenance Approval	216 microlight class 1
181 Part 119 air operator	23,787 Pilot licences (4,021 with active class 1 medical and 6,355 with active class 2 medical; ATPL aeroplane 3,392 where 1,134 with active class 1 and 868 with class 2)	297 glider
27 Part 129 foreign air operator	944 air traffic services licences (586 with active class 3 medical)	35 paraglider
99 Part 137 agricultural aircraft operator	15,461 others (i.e. 53 design designation holders, 79 Part 63 flight engineer licence etc.)	285 amateur built aeroplane
26 Part 139 aerodrome certification	TOTAL = 43,189	174 parachute
1 Part 140 aviation security		39 gyroplane
57 Part 141 training		72 balloon
67 Part 145 maintenance		47 power glider
15 Part 146 design		5 amateur built glider
23 Part 148 manufacturing		776 helicopter
8 Part 149 recreation		13 hang glider
2 Part 171 telecommunication service		22 amateur built helicopter
1 Part 172 air traffic service		TOTAL = 4,755
3 Part 173 instrument flight procedure		
2 Part 174 meteorological service		
1 Part 175 information service		
60 Part 19F supply organisation		
57 Part 92 dangerous goods packaging		
9 Synthetic training device (airlines)		
33 Synthetic training device (general aviation)		
TOTAL = 756		

In 2011/12, there were 252,658 total flights in New Zealand; of these 192,248 were domestic flights (or 1,716 one way flights per week); and 60,410 were international flights (or 539 one way flights per week).

²⁴ Rules Part 115, Adventure aviation – certification and operations - came into effect on 10 November 2011. An adventure aviation operation involves carrying passengers for hire or reward, where the purpose of the operation is for the passenger's recreational experience of participating in the flight or engaging in the aerial operation. This includes operations of hot air balloons, parachute drop, tandem parachute, glider, hang glider and paraglider, special category aircraft and microlight aircraft.

AVIATION SAFETY

The following table compares New Zealand's civil aviation safety with Oceania and the rest of the world.

Aviation accidents, limited to commercial air transport aircraft above 2,250 kg*					
	Accidents	Fatalities	Fatal accidents	Flight Departures (000)	Accident Rate (million departures)
2011					
World	126	414	16	30,053	4.2
Oceania	4	55	2	855	4.7
New Zealand	1	0	0	221	4.5
2010					
World	121	707	19	29,023	4.2
Oceania	6	0	0	869	6.9
New Zealand*	4	0	0	222	18.0
2009					
World	113	670	13	27,870	4.1
Oceania	3	0	0	848	3.5
New Zealand	1	0	0	225	4.4
<i>*2011: 343 aircraft on the register (2012: 336; 2010: 327)</i> <i>**2010: (1) 21Jun/BK117/Raglan NZ/ aerial work/accident; (2) 01Oct/A320/NZ/en route to BNE/incident; (3) 21Jun/BK117/Helipro/aerial work/accident; (4) 05Jun/AS350B2/Milford Helicopters/ general aviation/accident; 02Feb/1900/Timaru/scheduled revenue ops/accident</i> Source: https://portal.icao.int/ISTARS					

MEASURE: FLIGHT PHASE AND RISK CATEGORY OF NEW ZEALAND AVIATION ACCIDENTS

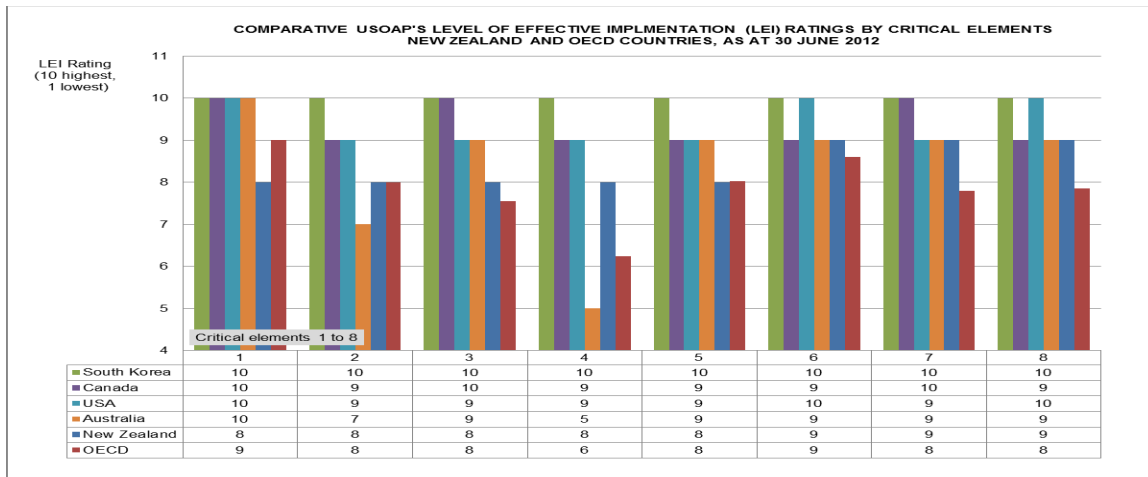
The following table illustrates the flight phase and risk category of New Zealand aviation accidents from 2009 to 2012.

New Zealand aviation accidents by flight phase and risk category, limited to commercial air transport on aircraft above 2,250 kg*					
	2009	2010**	2011	2012	Total
FLIGHT PHASE					
Taxi (TXI)	0	1	0	0	1
Take-off (TOF)	1	1	0	0	2
Landing (LDG)	0	2	1	3	6
Total	1	4	1	3	9
RISK CATEGORY					
RSE (runway safety events)	0	3	0	1	4
SCF (system/component failure/malfunction)	1	1	1	0	3
Total	1	4	1	1	7
<i>*2011: 343 aircraft on the register (2012: 336; 2010: 327; 2011: 314)</i> <i>**2010: (1) 21Jun/BK117/Raglan NZ/ aerial work/accident; (2) 01Oct/A320/NZ/en route to BNE/incident; (3) 21Jun/BK117/Helipro/aerial work/accident; (4) 05Jun/AS350B2/Milford Helicopters/ general aviation/accident; 02Feb/1900/Timaru/scheduled revenue ops/accident</i> Source: https://portal.icao.int/ISTARS					

COMPLIANCE WITH INTERNATIONAL CIVIL AVIATION ORGANIZATION STANDARDS AND RECOMMENDED PRACTICES

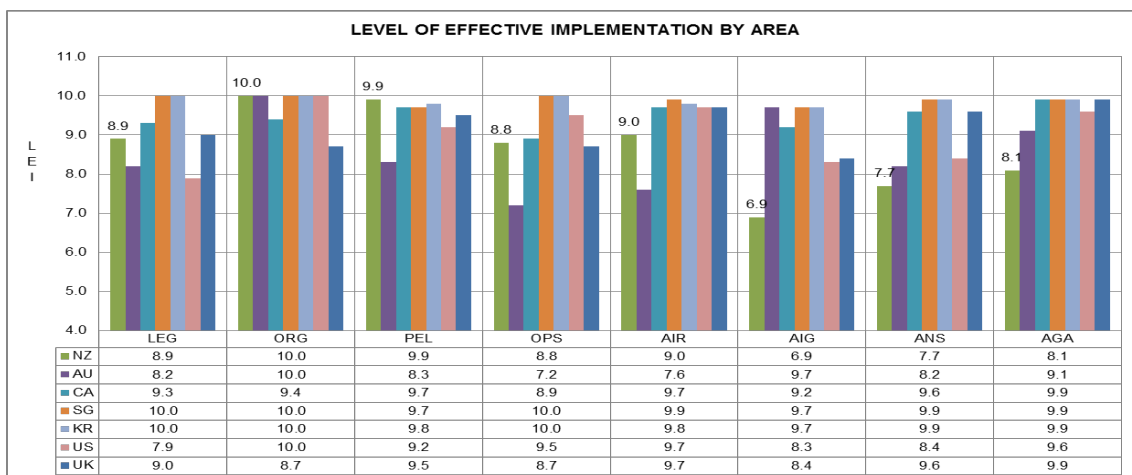
MEASURE: LEVEL OF EFFECTIVE IMPLEMENTATION

The chart below compares New Zealand's aviation safety oversight with Organisation for Economic Co-operation and Development countries by critical element.



Critical elements: 1-Primary aviation legislation, 2-Specific operating regulations, 3- Civil aviation system and safety oversight functions, 4-Qualification and training of technical personnel, 5-Procedures and technical guidance, 6-Licensing and certification obligations, 7-Surveillance obligations, and 8-Resolution of safety concerns. (Source: International Civil Aviation Organization)

The chart below compares New Zealand's Level of Effective Implementation with other selected State authorities, by critical element.



Measurement Areas: LEG - Primary aviation legislation and civil aviation regulations, ORG - Civil aviation organization, PEL - Personnel licensing and training, OPS - Aircraft operations, AIR - Airworthiness of aircraft, AIG - Air navigation services, ANS - Aerodromes, AGA - Aircraft accident and incident investigation. (Source: International Civil Aviation Organization)

APPENDIX 4: RULES DEVELOPMENT PROGRAMME

Under the Rule Development Services Agreement with the Ministry of Transport, the Civil Aviation Authority is responsible for delivery of the draft final rule package. The Ministry of Transport is responsible for progressing this through government processes to secure the Minister's signature. A number of strategies are being employed to speed up the process of rules development. The Civil Aviation Authority is fully engaging in the Ministry of Transport process, as this is considered to offer the greatest opportunity to consolidate low value steps and eliminate redundancies in the rule-making process.

STATUS	<i>Steady and positive progress – on track</i>	<i>Minor delay/issues identified – should be delivered by agreement period</i>	<i>Major impediments – delivery unlikely within agreement period</i>	<i>Project removed from programme</i>
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Rule No.	Project Title	Latest milestone achievement	Progress status and comment	Next milestone/ Expected Delivery Date
Part 121	Training Requirements	Draft Final Rule sent to Ministry of Transport, May 2011	Regulatory Impact Statement reviewed and accepted by the Ministry of Transport. Cabinet paper approved and presented to the EGI Cabinet Committee on 25 July 2012.	Minister to sign rule
	International Civil Aviation Organization Equipment Compliance	Draft Notice of Proposed Rule Making and draft Regulatory Impact Statement forwarded to Ministry of Transport, 24 November 2010.	Work is progressing on development of a Regulatory Impact Statement. Some project delay has resulted from the level of technical complexity of the rule. Working with Ministry of Transport to gain approval to publish the Notice of Proposed Rule Making.	Draft final rule – date yet to be determined with the Ministry of Transport
Part 61	Pilot Licences and Ratings Stage 2		Development of a Regulatory Impact Statement will be delivered in late July.	Draft Notice of Proposed Rule Making – new date yet to be determined with the Ministry of Transport
Part 125	Training Requirements	Draft Notice of Proposed Rule Making – March 2011	Regulatory Impact Statement has been redeveloped and submitted to the Ministry of Transport. Working with the Ministry to gain approval to publish the Notice of Proposed Rule Making.	Draft final rule – new date yet to be determined with the Ministry of Transport
	Security Review	Draft Final Rule delivered – June 2012	The Draft Final rule was delivered in June 2012.	Minister to sign rule – estimated in-force date December 2012
Part 139	Review of Aerodrome Requirements	Notice of Proposed Rule Making – May 2011	The Notice of Proposed Rulemaking has been published. The consultation period closed on 29 June 2012. Working on summary of public submissions.	Draft final rule - new date yet to be determined with the Ministry of Transport
	International Civil Aviation Organization Safety Management Systems – Group 1	Draft Notice of Proposed Rule Making – November 2010	Project focus has shifted to development of an overarching policy on risk-based regulation. This policy will be consulted and will be used to develop a risk-based regulation Regulatory Impact Statement. Development of the associated advisory circular is in the draft final stage.	Draft final rule – new date yet to be determined with the Ministry of Transport
	International Civil Aviation Organization Safety Management Systems Group 2		Project is still in planning, and dependent upon the outcome of Project Group policy work.	Draft Notice of Proposed Rule Making – new date yet to be determined with the Ministry of Transport

Rule No.	Project Title	Latest milestone achievement	Progress status and comment	Next milestone/ Expected Delivery Date
Part 137	Agricultural Operations	The draft final rule package was forwarded to Ministry of Transport in March 2011.	The Regulatory Impact Statement concluded there was no justification for the change to the Rule part to proceed.	The Authority will consider other non-rule-based safety interventions based on better risk profiling and including an amendment to Rule Part 61, and during the implementation of the Safety Management System rule.

APPENDIX 5: SAFETY DATA

OUTCOME MEASURES

ACCIDENT RATES: PERFORMANCE ACHIEVEMENT 2011/12

NUMBER OF CIVIL AVIATION ACCIDENT FATALITIES AND SERIOUS INJURIES						
Aviation Safety Target Groups	2010/11			2011/12		
	Accidents	Fatalities	Serious Injuries	Accidents	Fatalities	Serious injuries
Public air transport						
1. Airline operations — large aeroplanes	0	0	0	0	0	0
2. Airline operations — medium aeroplanes	0	0	0	0	0	0
3. Airline operations — small aeroplanes	0	0	0	0	0	0
4. Airline operations — helicopters	0	0	0	0	0	1
5. Adventure aviation transport operations	0	0	4	1	1	3
Other commercial operations						
6. Other commercial Operations — aeroplane	2	1	3	0	0	0
7. Other commercial Operations — helicopter	2	4	1	2	3	1
8. Agricultural operations — aeroplanes	0	0	0	0	0	0
9. Agricultural operations — helicopters	0	0	0	1	1	0
10. Agricultural operations — sport aircraft	0	0	0	0	0	0
Non-commercial operations						
11. Private operations — aeroplanes	0	0	0	1	1	5
12. Private operations — helicopters	1	1	3	0	0	0
13. Private operations — sport aircraft	5	5	9	4	6	8

MEASURE: SOCIAL COST OF AVIATION PER UNIT OF PASSENGER EXPOSURE

SOCIAL COST PER SEAT HOUR BY AVIATION SAFETY GROUP (\$)									
Aviation Safety Target Groups	For the 3 years ended 30 June							2011/14 Targets	% above or below target
	2006	2007	2008	2009	2010	2011	2012		
Public air transport									
1. Airline operations — large aeroplanes	0.11	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.0%
2. Airline operations — medium aeroplanes	5.31	4.87	0.30	0.00	0.02	0.02	0.02	0.02	0.0%
3. Airline operations — small aeroplanes	57.47	45.97	0.03	0.41	2.44	2.40	2.26	2.34	-3.4%
4. Airline operations — helicopters	3.23	2.93	0.00	5.59	9.61	10.60	5.30	6.50	-18.5%
5. Adventure Aviation transport operations	16.26	21.02	14.96	68.43	61.06	65.47	156.59	13.0	+1105%
Other commercial operations									
6. Other commercial Operations — aeroplane	57.72	36.49	46.24	25.85	26.26	58.81	58.33	6.50	+797%
7. Other commercial Operations — helicopter	4.16	32.38	74.05	65.53	38.23	59.82	98.72	6.50	+1419%
8. Agricultural operations — aeroplanes	169.56	112.11	118.41	77.41	104.50	53.31	12.46	14.00	-11%
9. Agricultural operations — helicopters	18.89	18.98	20.99	23.15	9.02	7.22	22.31	8.56	+161%
10. Agricultural operations — sport aircraft								28.00	N/A
Non-commercial operations									
11. Private operations — aeroplanes	182.54	86.41	84.19	50.30	52.85	59.12	99.73	10.00	+897%
12. Private operations — helicopters	399.94	191.08	169.33	36.42	41.05	96.33	77.96	10.00	+680%
13. Private operations — sport aircraft	112.58	95.96	101.11	100.96	100.14	91.39	105.78	20.00	+429%
<p>Social cost per unit of person exposure is defined as an economic measure of the cost of aviation to the nation. It assigns values to any deaths, rehabilitation costs from injuries, cost of property damaged or lost, and other specific external costs. The gross social cost calculated is pro-rated over the volume of aviation activity in any specified sector of the aviation community. The volume of aviation activity, the unit of person exposure, is per seat flying hour. For target groups that are not predominantly passenger carrying, a surrogate of 500 kg of aircraft weight assessed as being the equivalent of an occupied seat. For sport groups, calculation of social cost is based on CIVIL AVIATION AUTHORITY estimates of aviation activity.</p>									

MEASURE: RATE OF AIRCRAFT ACCIDENTS PER 100,000 FLYING HOURS

RATE OF AIRCRAFT ACCIDENTS PER 100,000 FLYING HOURS									
Aviation Safety Target Groups	For the years ended 30 June							% against target	2011/14 Targets
	2006	2007	2008	2009	2010	2011	2012		
Public air transport									
1. Airline operations — large aeroplanes	0.11	0.00	0.00	0.11	0.32	0.62	0.52	+63%	0.32
2. Airline operations — medium aeroplanes	1.51	1.50	1.02	0.52	1.11	1.70	2.23	+101%	1.11
3. Airline operations — small aeroplanes	3.55	3.70	2.83	3.75	5.18	5.21	3.51	-32%	5.18
4. Airline operations — helicopters	2.58	1.47	1.46	2.58	5.16	5.20	4.01	-22%	5.16
5. Adventure aviation transport operations	-	-	-	-	-	-	-	-	-
Other commercial operations									
6. Other commercial Operations — aeroplane	4.32	4.79	5.86	5.07	4.73	4.26	3.86	-18%	4.72
7. Other commercial Operations — helicopter	9.17	9.57	10.50	11.33	7.76	9.55	10.54	+47%	7.16
8. Agricultural operations — aeroplanes	17.67	12.10	13.36	15.66	19.26	15.90	11.58	-40%	19.28
9. Agricultural operations — helicopters	12.18	10.99	9.36	9.55	10.36	9.36	9.10	-12%	10.32
10. Agricultural operations — sport aircraft	-	-	-	-	-	-	-	-	-
Non-commercial operations									
11. Private operations — aeroplanes	28.12	23.82	15.17	24.63	26.07	29.58	23.20	-11%	26.05
12. Private operations — helicopters	35.96	34.90	37.84	26.46	32.99	34.80	38.20	+16%	33.02
13. Private operations — sport aircraft	-	-	-	-	-	-	-	-	-

MEASURE: DISTRIBUTION OF RISK PROFILES FOR AVIATION DOCUMENT HOLDERS

MEASURE: AVERAGE DISTRIBUTION OF RISK PROFILES FOR AVIATION DOCUMENT HOLDERS (ASSESSED PARTICIPANTS)							
Activity Type	2005 /06	2006 /07	2007 /08	2008 /09	2009 /10	2010 /11	Trend
Australia AOC with Australia and New Zealand Aviation Mutual Recognition Agreement Privileges			6.4	4.1			*
Australia AOC with Australia and New Zealand Aviation Mutual Recognition Agreement Part 108 Security			0.0	5.5	5.9		*
Part 108 Security Programme	7.5	8.0	7.5	8.4	7.5	8.0	-
Part 109 Regulated Air Cargo Agent			8.5	13.6	11.1	10.7	↓
Part 119 Air Operator Certificate - Pacific	7.5	13.1	9.4	9.8			*
Part 121 Air Operator Large Aeroplanes	12.4	11.1	9.7	10.1	10.0	11.1	↓
Part 125 Air Operator Medium Aeroplanes	23.5	17.5	14.5	15.1	16.1	15.0	↓
Part 129 Foreign Air Transport Operator	9.4	13.3	10.7	7.2	8.9	8.6	↓
Part 135 Air Operator Helicopters and Small Aeroplanes	28.4	21.3	17.2	16.7	15.8	15.5	↓
Part 137 Agricultural Aircraft Operator	33.3	25.9	18.6	16.3	16.2	14.9	↓
Part 139 Aerodrome Operator	8.3	6.7	5.3	6.5	5.8	5.7	↓
Part 140 Aviation Security Service Organisation	29.7	11.0	4.8	5.5	4.6	4.7	↓
Part 141 Aviation Training Organisation	15.8	15.4	11.1	11.5	9.4	9.2	↓
Part 145 Maintenance Organisation	14.4	11.9	10.9	10.5	10.4	10.6	↓
Part 146 Aircraft Design Organisation	12.0	12.4	8.4	7.6	11.8	13.3	↑
Part 148 Aircraft Manufacturing Organisation	13.0	13.1	11.1	10.5	11.2	10.0	↓
Part 149 Aviation Recreation Organisation	11.8	3.0	5.1	30.7	8.4	9.7	↑
Part 171 Telecom Service Organisation	21.9	10.8	6.0	4.9	6.8	15.4	↓
Part 172 Air Traffic Service Organisation	29.2	25.9	7.5	9.6	10.0	16.6	↓
Part 173 Instrument Flight Procedure			5.7	6.1	8.7	11.1	*
Part 174 Meteorological Service Organisation	16.3	30.2	7.0	10.1	10.3	10.3	↓
Part 175 Aeronautical Info Service Organisation	25.1	34.4	6.1	8.0	12.1	15.5	↓
Part 19F Supply Organisation	12.9	12.6	12.6	10.8	11.2	10.3	↓
Part 61 Pilot Licence (Aeroplane) Holder	2.6	0.0	82.6		2.7	2.9	*
Part 66 Aircraft Maintenance Engineer	2.6	18.2					*
Part 92 Dangerous Goods Pack Approval Holder	2.6			2.6	5.6		*

*Insufficient data points

MEASURE: RATE OF SECURITY INCIDENTS

SECURITY INCIDENTS									
	For the years ended 30 June								2011/14 Targets
	2006	2007	2008	2009	2010	2011	2012	% against target	
Public air transport									
1. In-flight security incidents	0	0	0	0	0	0	0	100%	Nil
2. Airside security incidents	0	0	0	0	0	0	0	100%	Nil
3. Airside incidents involving dangerous goods	0	0	0	0	0	3	0	100%	Nil

OTHER SAFETY INFORMATION

MEASURE: NUMBER OF AIRCRAFT ACCIDENTS

MEASURE: NUMBER OF AIRCRAFT ACCIDENTS BY AVIATION SAFETY GROUP								
Aviation Safety Target Groups	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	Trend
Public air transport								
1. Airline operations — large aeroplanes	0	0	0	2	2	3	1	↓
2. Airline operations — medium aeroplanes	1	1	0	0	2	1	1	-
3. Airline operations — small aeroplanes	3	1	2	3	2	2	1	↓
4. Airline operations — helicopters	2	0	1	4	4	1	2	↑
5. Adventure aviation transport operations	4	9	0	11	13	9	8	↓
Other commercial operations								
6. Other commercial Operations — aeroplane	7	11	16	9	13	12	6	↓
7. Other commercial Operations — helicopter	3	7	4	6	3	7	8	↑
8. Agricultural operations — aeroplane	5	4	11	6	5	6	3	↓
9. Agricultural operations — helicopter	6	4	4	6	5	4	7	↑
10. Agricultural operations — sport aircraft	Data not available							
Non-commercial operations								
11. Private operations — aeroplanes	7	10	4	18	10	5	9	↑
12. Private operations — helicopters	9	6	8	3	10	6	2	↓
13. Private operations — sport aircraft	36	39	38	46	54	52	38	↓
Others	0	0	0	1	1	1	1	-

MEASURE: SOCIAL COST PER 100,000 FLIGHT HOURS

MEASURE: SOCIAL COST PER 100,000 FLIGHT HOURS (\$)								
Aviation Safety Target Groups	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	Trend
Public air transport								
1. Airline operations — large aeroplanes	0.01	0.01	0.13	0.03	0.00	0.00	0.02	↑
2. Airline operations — medium aeroplanes	0.93	0.00	0.00	0.00	0.09	0.00	0.00	-
3. Airline operations — small aeroplanes	0.00	0.00	0.03	0.40	1.35	0.00	0.33	↑
4. Airline operations — helicopters	0.00	0.00	0.00	4.02	2.43	0.55	0.64	↑
5. Adventure aviation transport operations	Insufficient data							
Other commercial operations								
6. Other commercial Operations — aeroplane	5.72	0.02	6.66	0.07	1.48	17.34	0.06	↓
7. Other commercial Operations — helicopter	0.09	13.88	19.67	1.35	0.00	31.47	22.82	↓
8. Agricultural operations — aeroplane	24.31	0.58	14.25	14.26	4.91	0.00	0.00	↓
9. Agricultural operations — helicopter	1.24	7.95	3.21	2.15	0.00	1.97	8.21	↑
10. Agricultural operations — sport aircraft	Insufficient data							
Non-commercial operations								
11. Private operations — aeroplanes	17.31	16.92	0.04	3.46	19.57	0.50	22.60	↑
12. Private operations — helicopters	128.33	3.51	4.19	19.10	8.22	55.05	0.00	↓
13. Private operations — sport aircraft	Insufficient data							

MEASURE: FATALITIES AND INJURIES PER 100,000 FLIGHT HOURS

MEASURE: NUMBER OF FATALITIES AND SERIOUS INJURIES PER 100,000 FLIGHT HOURS								
Aviation Safety Target Groups	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	Trend [#]
Public air transport								
1. Airline operations — large aeroplanes	0.00	0.00	0.32	0.00	0.00	0.00	0.00	–
2. Airline operations — medium aeroplanes	0.00	0.00	0.00	0.00	0.00	0.00	0.00	–
3. Airline operations — small aeroplanes	0.00	0.00	0.00	0.00	2.30	0.00	0.00	–
4. Airline operations — helicopters	0.00	0.00	0.00	3.42	0.00	0.00	1.67	↑
5. Adventure aviation transport operations	Insufficient data							
Other commercial operations								
6. Other commercial Operations — aeroplane	1.41	0.00	2.78	0.00	0.36	5.71	0.00	↓
7. Other commercial Operations — helicopter	0.00	2.42	3.65	1.86	0.00	9.09	7.01	↓
8. Agricultural operations — aeroplane	6.24	0.00	4.16	3.09	2.97	0.00	0.00	↓
9. Agricultural operations — helicopter	0.00	1.99	0.00	2.07	0.00	0.00	1.57	↑
10. Agricultural operations — sport aircraft	Insufficient data							
Non-commercial operations								
11. Private operations — aeroplanes	4.23	4.29	0.00	7.74	5.07	0.00	22.78	↑
12. Private operations — helicopters	40.10	0.00	0.00	4.78	0.00	28.86	0.00	↓
13. Private operations — sport aircraft	Insufficient data							
<i># trend compares latest year's figure over previous year's, trend over all 7 points may be different</i>								

MEASURE: SOCIAL COST OF FATALITIES AND SERIOUS INJURIES

MEASURE: SOCIAL COST OF FATALITIES AND SERIOUS INJURIES (\$MILLIONS)								
Aviation Safety Target Groups	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	Trend
Public air transport								
1. Airline operations — large aeroplanes	0.00	0.00	0.39	0.00	0.00	0.00	0.00	–
2. Airline operations — medium aeroplanes	0.00	0.00	0.00	0.00	0.00	0.00	0.00	–
3. Airline operations — small aeroplanes	0.00	0.00	0.00	0.00	0.39	0.00	0.00	–
4. Airline operations — helicopters	0.00	0.00	0.00	0.77	0.00	0.00	0.39	↑
5. Adventure aviation transport operations	1.54	2.70	0.00	20.37	1.54	1.54	41.72	↑
Other commercial operations								
6. Other commercial Operations — aeroplane	7.37	0.00	15.91	0.00	3.69	41.72	0.00	↓
7. Other commercial Operations — helicopter	0.00	0.39	7.37	0.39	0.00	15.13	11.45	↓
8. Agricultural operations — aeroplane	11.06	0.00	4.07	3.69	0.39	0.00	0.00	–
9. Agricultural operations — helicopter	0.00	3.69	0.00	0.39	0.00	0.00	3.69	↑
10. Agricultural operations — sport aircraft	Data not available							
Non-commercial operations								
11. Private operations — aeroplanes	7.37	7.37	0.00	1.16	7.37	0.00	5.62	↑
12. Private operations — helicopters	19.21	0.00	0.00	3.69	0.00	4.85	0.00	↓
13. Private operations — sport aircraft	4.25	21.52	27.35	12.01	21.14	21.91	25.21	↑

MEASURE: NUMBER OF NON-COMPLIANCES WITH CIVIL AVIATION RULES OR EXPOSITIONS BY OPERATORS²⁵

MEASURE: NUMBER OF NON-COMPLIANCES WITH CIVIL AVIATION RULES OR EXPOSITIONS BY OPERATORS												
Finding Category	FY 2009/10				FY 2010/11				FY 2011/12			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Number of Non-compliances	473	443	291	312	337	300	243	282	367	322	254	298
	1519				1162				1241			

MEASURE: ENFORCEMENT ACTIONS/PROSECUTIONS FOR NON-COMPLIANCE AND/OR BREACH OF CIVIL AVIATION RULES

MEASURE: ENFORCEMENT ACTIONS / PROSECUTIONS FOR NON-COMPLIANCE AND/OR BREACH OF CIVIL AVIATION RULES					
Year	Total number of occurrences	Number of Prosecutions commenced	Prosecutions as a % of Occurrences	Written Warnings issued	Infringement Notices issued
2000	4538	21	0.46%	42	0
2001	4787	21	0.44%	23	0
2002	4004	22	0.54%	34	0
2003	4131	18	0.43%	27	0
2004	4688	19	0.40%	31	0
2005	4707	22	0.46%	26	0
2006	5324	23	0.43%	18	4
2007	5007	21	0.41 %	16	5
2008	5927	19	0.32%	12	10
2009	5275	17	0.32%	11	9
2010	5529	24	0.43%	9	7
2011	6071	11	0.18%	4	7
2012 (1Jan to 30Jun)	2993	8	0.26%	5	5

²⁵ Non-compliance finding values are measures of how well participants in the civil aviation system are meeting their obligations. Each person or entity that holds an aviation document is required to meet the performance standards applicable to the specific aviation document held. The Authority uses a safety monitoring system to determine how well document holders are adhering to the requirements of the document they hold. Where safety monitoring reveals that a document holder is not adhering to the required standard, the Authority issues a non-compliance finding. The Authority measures the number of non-compliance findings issued

