



# Briefing for the Incoming Minister

2011

**Organisation**

Civil Aviation Authority of New Zealand and  
Aviation Security Service

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## EXECUTIVE SUMMARY

Safe flight is a critical part of our way of life in New Zealand and our ability to connect with the world. People rely on air travel to do business across the country and to stay in touch with family and friends. Safe air transport underpins growth in tourism and cargo revenues and it enables access to valuable international markets.

The CAA and Avsec work to ensure continued safety and security of New Zealand aviation. The CAA develops civil aviation safety and security standards for New Zealand aviation, and monitors adherence to those standards, while Avsec is the provider of aviation security services in New Zealand. Activities are focused on supporting the effectiveness of system oversight, improving safety and security performance and building organisational capabilities.

A major internal Change Programme is currently underway to foster ongoing risk-based regulation development, and re-align capability, culture and organisational design to support a clear strategic direction. In addition this programme will support the establishment of a more resilient funding model. The programme has already seen the amalgamation of Avsec and CAA into a single organisation, and a merging of the back-office teams.

Other major challenges and priorities discussed in this brief include the:

- appointment of a new Director of Civil Aviation;
- development of the National Airspace Policy and Air Navigation Plan;
- implementation of Safety Management Systems; and
- development of policy on the oversight of offshore operations.

Your term will see major changes occurring within the CAA and Avsec to improve aviation safety and security in New Zealand, and we look forward to engaging with you on these matters.

## 1. PURPOSE OF THE BRIEF

The purpose of this briefing is to provide an overview of the:

- (a) challenges and priorities facing the CAA and Avsec;
- (b) aviation sector in New Zealand;
- (c) Civil Aviation Authority (CAA); and
- (d) Aviation Security Service (Avsec).

This brief does not cover the broader economic issues affecting the aviation sector, nor its economic and consumer protection regulation.

Additional background information on the CAA and Avsec and many of the issues covered in this brief can be found in the CAA's *Annual Report for 2010/11*; and the *Statement of Intent 2011/14*.



## 2. CHALLENGES AND PRIORITIES

The CAA, Avsec and the aviation industry are facing a number of priorities and challenges. The priorities and challenges mentioned below are those which the organisation is currently focusing attention on. Not all will require direct involvement from you or your office. Please see page 14 for those priorities and challenges that the CAA and Avsec wishes to engage with you on.

### 2.1 ORGANISATIONAL CHANGE – CHANGE MANAGEMENT

There are compelling reasons for the organisational changes currently underway at the CAA and Avsec:

- the Authority (Board), government, industry and the public all expect that we strive to provide the most effective and efficient organisation possible;
- the CAA's 2010/11 Value for Money (VfM) review identified that a 'step change' in performance is required to ensure that the CAA's regulatory oversight remains efficient and effective and does not fall behind best practice;
- the CAA needs to build the capability needed to achieve the Authority's strategic priorities;
- there is a need to better equip the organisation to deal with future challenges and support changes in the industry; and
- in addition, the Change Programme supports recommendations identified by the Office of the Auditor-General as areas for development.

The recent co-location of both organisations into one building in central Wellington provided an opportunity for efficiency gains through the sharing of corporate support services.

#### 2.1.1 CHANGE PROGRAMME

The Change Programme is aimed at achieving management, policy, performance and culture changes across the CAA and Avsec. The programme will provide an overarching strategy and systematic pathway for:

- locking in improvements already made in core processes;
- bringing together development initiatives already in train in the CAA and Avsec;
- building the capability needed to achieve the Authority's strategic priorities; and

- better equipping the organisation to deal with future challenges, and support changes in the industry.

Key outcomes sought are:

- a change in culture and leadership style to provide a more flexible, responsive and outcome-focused organisation;
- a 'fit for purpose' organisation which operates as a single entity with shared support functions, performing two sets of legislative responsibilities; and
- a clear focus and strategy for improved efficiency and effectiveness, to achieve best practice operation as an aviation safety regulator and a security service provider.

These outcomes will improve the VfM proposition of both the CAA and Avsec without compromising the necessary operational separation.

The Change Management process began in May 2011. It is a major exercise in that it seeks to reposition the CAA as an effective regulator in a change environment.

The Organisational Change focus of the programme also consolidates funding, value for money and surveillance improvements that have been subject to review in the past year.

Phase 1 of the programme is substantially complete. This involves:

- the consolidation and strengthening of the CAA's and Avsec's shared support functions; and
- proposals relating to the management structure for CAA's regulatory operations functions.

Phase 2, which deals with the operational structure to best support the CAA's regulatory operations, will be ongoing through to March 2012.

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### 2.1.2. CAA FUNDING

Funding for the CAA has not kept up with growth in the aviation sector and the expanding scope of regulatory requirements. A consultation paper discussing proposed changes to CAA fees, levies and charges was released for consultation in October 2010. Proposals arising from the consultation have been delayed to align funding changes with organisational change outcomes. In order for the CAA to continue with the change process before the funding review was completed the CAA received additional capital funds of \$7.5 million in June 2011, by way of capital transfer from Avsec resources.

The objectives of the funding review are to ensure the long term ability of the CAA to achieve safety objectives, apply good business practice and financial management and

address drivers for change by implementing a sustainable funding model that is 'fit for purpose'. It will also address the imbalance in user pays resulting from the lack of review in General Aviation Charges since 1994, and the need to enable investment in CAA capability to meet overdue sector requirements and expectations.

The CAA is in the process of finalising its funding proposals and will be submitting a proposal to government in the New Year, for implementation on 1 July 2012.

A VfM review of the CAA completed in mid 2011 identified areas where the effectiveness and efficiency of CAA operations could be improved, building on issues identified in the funding review consultation document. VfM outcomes have been incorporated into the Change Programme.

## 2.2. CAA SPECIFIC CHALLENGES AND PRIORITIES

### 2.2.1. DIRECTOR OF CIVIL AVIATION

In September 2011, the Director of Civil Aviation, Steve Douglas announced to staff that he would be resigning from his position in April 2012. The position was advertised on 22 October 2011. The Authority is currently recruiting a new Director. Mr Douglas was appointed Director in June 2007 having held senior management roles in the CAA. Mr Douglas will oversee the implementation of the change programme prior to his departure.

### 2.2.2. NATIONAL AIRSPACE POLICY AND AIR NAVIGATION PLAN

In line with global trends, airspace management and air navigation systems in New Zealand are undergoing significant change from equipment-based to performance-based systems. At the same time there is a strong international drive for the global harmonisation of aviation systems. A much greater degree of coordination will be required between government and industry in order to manage these changes to the airspace and air navigation system effectively, efficiently and safely.

In order to address these challenges, the government agreed in August 2011 to the development of a National Airspace Policy ('the Policy') and a National Airspace and Air Navigation Plan ('the Plan'). Preparation of the Policy and Plan was identified as one of the government's key actions for civil aviation in *Connecting New Zealand: A summary of the government's policy direction for transport*<sup>1</sup>.

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<sup>1</sup> Ministry of Transport, 2011.



The Policy will outline the future direction of airspace design and designation, and the principles that will be followed in decision-making on airspace matters. The Plan will set out a framework for achieving greater levels of coordination and certainty regarding future airspace use and design, the introduction of new technologies to be employed in communications, navigation and surveillance/air traffic management (CNS/ATM), and any necessary regulatory changes.

The Ministry of Transport is leading the work on the Policy, with significant input from the CAA. The Policy is scheduled to be presented to Cabinet by the end of March 2012. The CAA is leading the development of the Plan, and work on it is expected to extend until late 2012.

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### 2.2.3. 2012 BILATERAL PARTNERS DIALOGUE MEETING (27-29 MARCH 2012)

The CAA, along with the United States Federal Aviation Administration, will be hosting the Asia-Pacific Bilateral Partners Dialogue meeting in Wellington. The meeting is an opportunity for aviation safety authorities with Bilateral Agreements with the United States, to meet for two days to exchange ideas, share information and address aviation safety issues that impact the Asia Pacific region.

It is a significant economic development opportunity for the country and for the New Zealand aircraft design and manufacturing community in particular.

In addition to providing an opportunity for the CAA to have further discussion with the FAA on the proposed expansion of New Zealand's Bilateral Aviation Safety Agreement, the conference will provide a forum for New Zealand industry to discuss, with the FAA in particular, the regulatory issues they face in selling services and conducting operations overseas.

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### 2.2.4. TRANSPORT RULES REDESIGN PROJECT

In early 2011 the CAA began engagement with the Ministry of Transport on the Transport Rules Redesign project. The purpose of the project is to improve regulatory and rule development processes across the transport sector, and to implement a re-designed unified process, including roles, responsibilities and accountabilities for the Ministry and the transport agencies. It is anticipated that this will have a direct impact on CAA rule development procedures and the structure of the rule development and policy structures within the CAA.

The draft version of the regulatory statement was largely completed in cooperation with the Ministry of Transport in August 2011 and work has begun on drafting a new Regulatory Policy Services Agreement. As a result of work on a common regulatory development guide, the CAA anticipates significant changes to its current rule development process to be incorporated in Q3 and Q4 of the 2011/12 year.

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### 2.2.5. SAFETY MANAGEMENT SYSTEMS IMPLEMENTATION

Safety Management Systems (SMS) is a formal and documented organisational system to manage safety, driven by the need for industry and the CAA to apply international best practice to address current and emerging risks.

The implementation of SMS in the aviation industry and within CAA will apply international best practice to address current and emerging risks. As such, it will help focus the organisation's resources on these areas and on operators that need attention. The move to SMS will underpin many of the initiatives in the CAA's Change Programme. It will play a key role in delivering better safety outcomes to the aviation sector while, at the same time, delivering VfM.

The CAA has been working with the aviation community for some time in order to prepare it for SMS introduction and to encourage early adoption of SMS principles into operations in advance of the rules process.

SMS implementation is at a stage where a Strategic Advisor has been appointed to work closely with the CAA rules team and the operational units in CAA to deliver an SMS implementation package. The initial priority is to draft an Advisory Circular for SMS rules and to review and adapt CAA policies and procedures for SMS. The draft Advisory Circular is expected to be available for industry comment by 20 December. The focus of the SMS work will then shift to other related SMS implementation issues, which have a longer time frame for delivery.

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### 2.2.6 REVIEW OF OUTPUT CLASS ONE

The CAA currently receives \$2.219 million annually for policy advice from the government. Last year the government undertook a review of expenditure on policy advice in order to determine the costs to government of that advice. The government has asked departments to clarify the cost of policy within existing appropriations. This is for the 2012 Budget. The Treasury has released a new definition of policy advice to government. The new definition is "provision of advice (including second opinion advice and contributions to policy advice led by other agencies) to support decision-making by Ministers on government policy matters". This excludes work done within an agency that is not completed for the purpose of providing advice to ministers. The principal aim of the re-organisation of policy advice appropriations is to clarify what is policy advice (in terms of the Treasury definition) and what are the other services provided for this funding.

The principal issue for the CAA is that only a limited number of 'policy advice' activities carried out by the CAA meet the new definition. Other activities, including the policy work done for the CAA's own regulatory purposes and the extensive work the CAA does in relation to New Zealand's international obligations fall outside the definition. Any reduction in the

amount of Crown funding the CAA receives in the future, or significant change in what that funding must cover and what it will not cover, will have potential implications for the funding review currently underway. If activities are to be maintained at their current level, there would need to be an increase in the amount of funding provided by industry to compensate for any reduction in Crown funding.

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### 2.2.7 OVERSIGHT OF OFFSHORE OPERATIONS

New Zealand General Aviation operators are increasingly seeking opportunities to conduct commercial operations offshore. The level of this activity is growing and diversifying. The aviation industry wants to be able to take advantage of opportunities to export its services overseas and the government and the CAA are keen to ensure that there are no unnecessary regulatory barriers put in their way.

There are particular risks associated with some of these operations and in some cases the CAA has had concerns about the basis on which these operations have been conducted in foreign states and the CAA's ability to exercise adequate safety oversight. The CAA recognises that there is a need for greater certainty and clarity around the conduct of these operations and what oversight arrangements will apply.

The CAA has developed a proposed regulatory policy that would allow for operations to be conducted offshore, while maintaining confidence in the level of safety oversight of the operations. The policy has legislative implications that are being examined by legal staff from the Ministry of Transport and the CAA. The aviation industry will be consulted on the proposals.

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## 2.2.8 CORONER'S INQUESTS

The Coroner is currently conducting two significant aviation-related inquests:

- ➔ The fatal midair collision near Paraparaumu Airport, which resulted in the deaths of two trainee pilots and one instructor; and
- ➔ The fatal accident involving a microlight breaking up midair in the Abel Tasman National Park, which resulted in the deaths of the pilot and a Dutch tourist.

## 2.3 AVSEC SPECIFIC PRIORITIES

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### 2.3.1 CARGO SCREENING OF PASSENGER AIRCRAFT TO THE UNITED STATES

Avsec is currently contracted to Air New Zealand and to Menzies (for the other airlines) to screen a proportion of US-bound cargo to satisfy US government and Civil Aviation Rule Part 108, *Air Operator Security Programme* requirements. A system, as proposed by the US government, whereby Avsec conducts 100% cargo screening on US-bound flights would require legal and contractual consideration, and cause serious issues around the operational, human resource (including the hiring of new staff) and equipment costs involved. In some cases, airport infrastructure may also need to change.

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### 2.3.2 LIQUIDS, AEROSOLS AND GELS

In 2007, limits on the amounts of liquids, aerosols and gels (LAGs) on international flights were implemented. These limits prevent passengers from carrying containers of 100 mL or more containing any LAGS in their hand luggage. These measures were introduced pursuant to a direction from the Minister of Transport to the Aviation Security Service under Section 77 (A) of the Civil Aviation Act 1990. The LAGs regime can cause delays in the boarding process, as well as annoy passengers who are not aware of these limits.

The containers must fit comfortably in a single re-sealable transparent plastic bag of 1 litre volume (approximately 20cm by 20cm, or 25cm by 15 cm). The plastic bag has to be presented separately to Avsec officers for visual inspection at the time of screening.

The introduction of the LAGs regime resulted from the 9 August 2006 UK security services interruption of a terrorist operation involving planned attacks against international aviation targets. Intelligence indicated the group were planning to board an aircraft with concealed materials (liquid explosives) that could be used to construct an improvised explosive device.

Avsec is working closely with the Board of Airline Representatives of New Zealand (BARNZ) to improve the situation, particularly by utilising Avsec 'queue-groomers' to forewarn

passengers about the LAGs requirements prior to arrival at the Avsec international screening points. Ultimately, however, travel agents and airlines need to make their passengers aware prior to check-in that inappropriate LAGs cannot be carried in hand luggage.

Avsec has noticed with interest the recent LAGs equipment development in Australia. However such equipment is very expensive and careful thought would be needed before New Zealand would consider going in this direction. Avsec is currently focused on the \$28M investment required to replace its hold baggage screening equipment in 2013.

### 3. ANTICIPATED AREAS OF ENGAGEMENT

The CAA envisages engaging you in the following areas within the first few months following your appointment.

- The CAA will be developing the Funding Review proposal to a point where the Ministry of Transport is able to submit a paper for you to take to Cabinet for approval. We shall be working closely with the Ministry of Transport in the process and, anticipate engaging with you on the Funding Review before Christmas. We are aiming for a 1 July 2012 implementation date.
- During the implementation of the One Organisation programme the Steering Group and the Authority will keep you and your office briefed on the changes that are occurring.
- The Asia-Pacific Bilateral Partners Dialogue meeting in Wellington in March 2012 is an important avenue for aviation discussions and networking. We would value your involvement in this important meeting, perhaps by opening the meeting on 27 March. We shall contact your office to see if this is possible.
- We shall, of course, keep you informed of aviation safety and security issues that you need to be aware of, as they arise, and through regular reporting.

## APPENDIX A

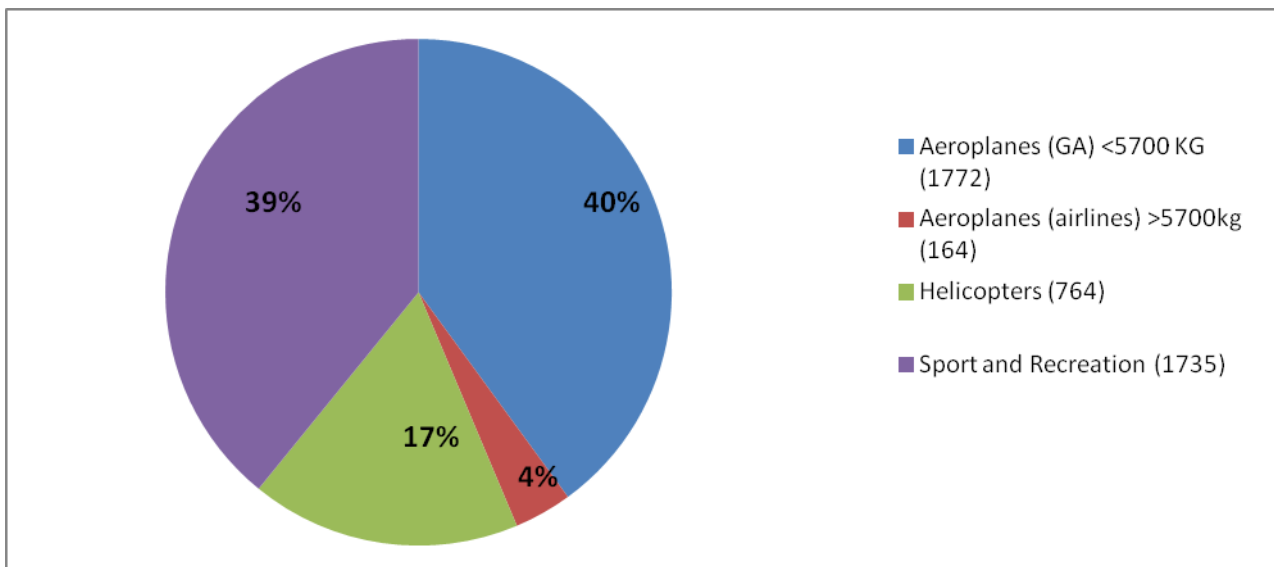
### 1. THE AVIATION SECTOR

#### 1.1. SIZE AND SHAPE

The New Zealand aviation sector makes a sizable contribution to the New Zealand economy through commerce, trade and tourism. In the 2010/2011 financial year 9.8 million passengers travelled on main domestic routes, 4.6 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.

The aviation community can be divided into an airline sector operating large aircraft, and a general aviation sector made up smaller aircraft (usually those below 5700 kg or nine passenger seats). The airline sector is focused on scheduled regular public transport operations both internationally and domestically. The general aviation sector is made up of the traditional freight and passenger carrying services, extensive helicopter operations agricultural operations and a growing sport and recreational community. A breakdown of the size of the New Zealand aviation sector can be seen in Figure 1 below.

Figure 1 - Aircraft in New Zealand by Type



New Zealand's domestic aviation operates in a demanding environment characterised by rugged terrain and a maritime climate. These factors pose a challenge to New Zealand's aviation safety outcomes. There is also evidence of a tendency in New Zealand for operators

in the general aviation sector to use aircraft at the limits of their capability, particularly in the adventure aviation and agricultural sectors.

In New Zealand, the majority of flights are by large aeroplanes, (more than 30 passenger seats or a payload capacity of more than 3410 kgs), which account for around 96.5% of total seat hours in the airline sector as at 30 June 2011. However, the majority of accidents occur in the general and sport aviation sectors. In the five years from 1 April 2006 to 31 March 2011, these sectors generated 514 (97.9%) of the 525 accidents whereas only 11 involved medium and large aeroplanes. In the same period, during which there were 62 fatalities, none occurred on medium and large aeroplanes.

**Comment:**

The airline sector is most significant in terms of its contribution to the economy and it is important that the travelling public retains confidence in the safety and security of New Zealand's civil aviation. New Zealand's geographic isolation means that we are highly dependent on aviation for international travel and the economic benefits of tourism.

The general aviation and airline sectors are supported by robust infrastructure, made up of a network of international and domestic airports, Airways Corporation of New Zealand, the Meteorological Service, a secure air cargo supply chain, and Avsec – all of which are regulated by the Director of Civil Aviation and the CAA. In the case of Avsec, this is in its role as the holder of an aviation document issued by the Director of Civil Aviation and with respect to the security services it provides.

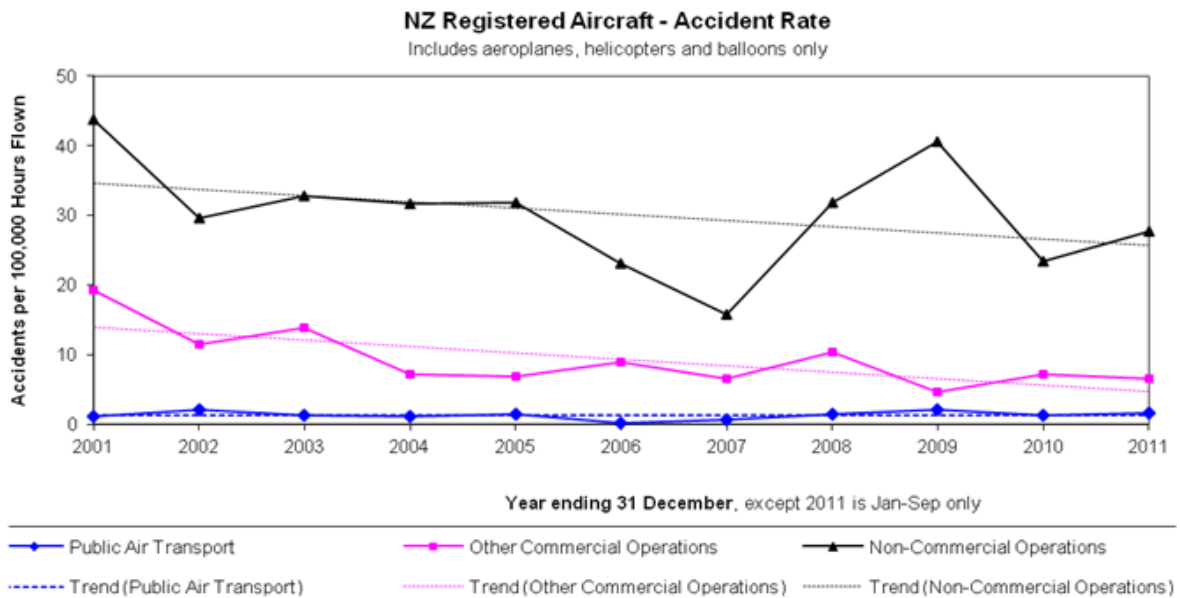
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## 1.2 SAFETY PERFORMANCE

There were 109 aircraft accidents in the year to 30 June 2011. There were 10 fatal accidents and 21 fatalities over the same period. The social cost for the year was calculated to be \$90.06 million. Figure 2 below shows that in the 10 years to 2011 flight accidents decreased. Non-Commercial Operations continues to have the highest accident rate, but this is also declining.



Figure 2 - NZ Registered Aircraft - Accident Rate



## 2. ORGANISATIONAL OVERVIEW

The Civil Aviation Authority is made up of two arms: the CAA is the regulatory agency under the Director of Civil Aviation (the Director); the Aviation Security Service (Avsec) provides aviation security services. These services are regulated by the Director.

The Authority (Board) is responsible for the governance of the CAA and Avsec. It does not exercise any statutory powers for regulation; these are vested in the Director of Civil Aviation.

The CAA regulates aviation safety and security providing assurance to the public and users of the civil aviation system through:

- certifying and licensing aviation participants;
- monitoring aviation participants' compliance with civil aviation safety and security legislation and rules (through surveillance);
- enforcing compliance with the civil aviation Act and rules; and
- taking action to remove unsafe products, organisations or individuals from the civil aviation system.

In addition to the core regulatory obligations, the CAA also provides:

- policy advice;

- civil aviation rules development (under contract to the Ministry of Transport);
- education and promotion of civil aviation rules, advisory circulars and other safety and security-related information;
- investigation of civil aviation accidents and incidents together with analysis of trends; and
- oversight administration of the *Health and Safety in Employment Act 1992* and the *Hazardous Substances and New Organisms Act 1996* on aircraft.

The CAA and the Director also exercise functions and powers delegated by the Minister of Transport, including in particular, undertaking the Crown's obligations as a Contracting State to the International Civil Aviation Organization (ICAO).

Avsec has five core responsibilities, as prescribed under Section 80 of the Civil Aviation Act 1990:

1. Screening passengers and their carry-on baggage

Avsec is responsible for pre-board screening for prohibited items such as knives, firearms, incendiary devices, weapons, dangerous goods, explosives, LAGs, or any other threat items are not carried onto the aircraft. All domestic passengers and their carry-on baggage are screened where the passenger is travelling on aircraft with seats for 90 or more regular air passengers, and *all* departing international passengers and their carry-on baggage are screened.

2. Screening checked baggage

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

3. Airport access controls

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

4. Screening of airport workers

Screening of airport workers with access to, and within security enhanced areas. This function commenced on 31 March 2008.

5. Managing the Airport Identity Card system

Avsec manages and issues Airport Identity Cards, including, by delegation from the Director of Civil Aviation, the government security check process.

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## 2.1. FUNDING

Avsec is funded from four sources: international passenger security charge, domestic passenger security charge (on aircraft of 90+ seats), additional security services (third party funded), and Crown funding. Currently, Avsec is running operating deficits to reduce a significant accumulated surplus. A review of charges is proposed for 2013/14.

The CAA is funded from five sources: levies, set fees, hourly charges, contract revenue, and Crown funding. The bulk of the CAA's revenue comes from a levy on passengers. The CAA also receives revenue from fees and charges on aviation participants for licensing, certification, surveillance and monitoring activities. The CAA receives Crown funding for policy advice, ministerial servicing, international obligations, and administration of the Health and Safety in Employment Act for aircraft in operation. The CAA receives contract revenue from the Ministry of Transport for rules development.

Please see Appendix B (page 26) for Avsec and CAA's 2010/2011 Statement of Comprehensive Income for the Year Ended 30 June 2011.

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## 2.2 STAFF

The CAA has an established staff complement of 203 full time equivalents (FTEs), of which 171 positions are currently filled. Most staff are technical experts responsible for the certification and monitoring of aviation community participants and have generally come from careers in the aviation industry rather than the public sector. Staff recruitment and retention in CAA technical specialist areas is a major issue, which will be provided for in the Funding Review.

Avsec has a staff of 751 FTEs. The majority are front-line service delivery staff, based in airports around the country, with a small team based in Wellington.

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## 2.3. REGULATORY RESPONSIBILITIES

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### 2.3.1 METHOD OF REGULATION – THE LIFE-CYCLE APPROACH

The Civil Aviation Act can be summarised as providing a "life-cycle" approach to regulating civil aviation within a closed system, the boundaries of which are determined by the Civil Aviation Act and Rules. The "life-cycle" approach (see Figure 3 below) has three stages: entry, operation or participation, and exit. Under this approach participants are responsible

for the safety of their operations. This approach is explained fully in the CAA publication *Civil Aviation in New Zealand: Shared Responsibility for Safety*<sup>2</sup>.

Figure 2 – The New Zealand “Life Cycle” approach



This regulatory approach has been followed for 21 years and the associated rule system is well regarded internationally.

### 2.3.2 CIVIL AVIATION RULES

Civil Aviation Rules are made by the Minister of Transport on the basis of a programme approved by Cabinet. They are the means by which standards are promulgated for the civil aviation sector. The CAA is responsible for developing the rules for the Minister under a contract with the Secretary for Transport.

The Civil Aviation Act prescribes that rules must be consistent with ICAO standards to the extent that these have been adopted by New Zealand (see 2.2.3 below). The Minister, in making rules, must also take into account a broad range of considerations including the recommended practices of ICAO, the level of risk pertaining to a particular activity, and the cost of implementing proposed measures.

<sup>2</sup> Available from the CAA website [www.caa.govt.nz](http://www.caa.govt.nz)

The aviation industry provides input into the rule making process through various working groups. The CAA liaises with an industry consultative forum, the Aviation Community Advisory Group, on broader issues and priorities in the rule making programme.

A number of States have adopted the New Zealand rules as the basis of their own regulatory system. These include Samoa, Tonga, the Solomon Islands, Vanuatu, Niue and Mongolia. Signatories to the Pacific Civil Aviation Safety and Security Treaty, which establishes the Pacific Aviation Safety Office (see iv below) have undertaken to bring their civil aviation rules in line with New Zealand's rules.

**Comment:**

There is a growing list of regulatory issues going back over a number of years. As mentioned previously, there has been criticism from the aviation community about the time taken to develop and promulgate aviation rules. Paragraph 2.2.4 makes reference to the Ministry of Transport's Rules Redesign Project. In addition, the CAA is reviewing its own processes in order to identify a range of potential solutions to regulatory issues rather than focusing solely on rule changes. This will place emphasis on the development of rules only when it is the preferred option, and will potentially simplify industry participation in the civil aviation system

### 2.3.3 INTERNATIONAL REGULATORY FRAMEWORK

New Zealand is a signatory to the 1944 Convention on International Civil Aviation (Chicago Convention) which established the International Civil Aviation Organization (ICAO). ICAO, a United Nations specialised agency with 190 member States, plays a significant role in establishing standards and recommended practices (SARPs) for global aviation. The CAA regularly participates in ICAO meetings that develop ICAO SARPs and associated guidance material.

Through the Chicago Convention, New Zealand has an obligation to comply with ICAO's SARPs (unless it finds it impracticable to do so). New Zealand has the obligation to notify ICAO of any difference between New Zealand Rules and SARPs. New Zealand has adopted a position that it should adopt ICAO SARPs for both the international and domestic aviation sectors as major safety risks would be created if different procedures were to apply.

As a signatory to the Chicago Convention, the CAA makes a conscious effort to engage with the development of international aviation standards, and in many areas our contributions are highly regarded, including in relation to volcanic ash, security and the environment. The CAA will continue to work in these areas to promote the New Zealand perspective, often discussing our views with Australia to promote a united Asia-Pacific view.

New Zealand was audited under the ICAO Universal Safety Oversight Audit Programme in March 2006. Overall, New Zealand received a very good result and scored well on all eight elements that were evaluated. The CAA has made good progress in addressing the 61 findings of the audit and, by 30 September 2011, had closed 72% of the proposed 138 corrective actions to address these findings.

New Zealand was also audited under the ICAO Universal Security Audit Programme in September 2006, 2008 and again in May 2011. The 2011 audit confirmed the fundamental robustness of New Zealand's aviation security system, but did make 12 recommendations for New Zealand to better meet ICAO security standards.

In September 2011 ICAO moved away from using on-site audits to assess state safety and security oversight programmes, toward a Continuous Monitoring Approach (CMA). A key element of CMA will involve monitoring of state's compliance with SARPs using the recently introduced Electronic Filing of Differences System.

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#### 2.3.4 INTERNATIONAL SAFETY AGREEMENTS AND ARRANGEMENTS

The CAA, in consultation with the Ministry of Transport and the Ministry of Foreign Affairs and Trade (MFAT), promotes aviation safety agreements and arrangements with other countries. These reduce regulatory compliance costs for New Zealand operators that provide aviation goods or services overseas or on behalf of overseas organisations. The CAA has concluded agreements or arrangements with Australia (Civil Aviation Safety Authority), Canada (Transport Canada), the United States of America (Federal Aviation Administration) and the European Aviation Safety Agency.

In addition, the CAA has agreements or arrangements to provide technical advice and assistance with: the Pacific Aviation Safety Office (PASO), Tonga, Cook Islands, Niue, and Samoa.

Both the CAA and Avsec have ties to the Pacific Island States. For both agencies, assistance to the Pacific is seen as an imperative due to the air links within the region and the number of New Zealanders who are travelling in the area. Avsec works in partnership with the Pacific region authorities and airlines in relation to the provision of aviation security training, equipment and strategic co-ordination. The CAA, along with being the New Zealand representative in PASO, provides policy and technical support and assistance to encourage safer practices in the Pacific.

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#### 2.3.5 ACCIDENT INVESTIGATION

In New Zealand, two organisations are responsible for the investigation of aviation accidents: the Transport Accident Investigation Commission (TAIC) and the CAA.

TAIC is responsible for the independent investigation of significant aviation accidents and incidents, and makes recommendations to improve safety. The CAA investigates a variety of accidents and occurrences in its capacity as the regulatory authority.

**Comment:**

The lines of responsibility delineating which accidents each organisation is responsible for are not clearly understood by the aviation community, other government agencies, or the general public. The difference in roles of each organisation is further confused because TAIC's limited resources mean that it cannot investigate every aviation accident. The CAA and TAIC have concluded a Memorandum of Understanding to help clarify the accident investigation responsibilities of each entity, the sharing of resources when required, and management protocols between the two organisations.

Accidents are sufficiently rare in the aviation sector now that more valuable information can be gained by identifying precursors to accidents. Therefore, this is where the CAA will be focusing its accident investigation capability. There is a possibility that in the future some serious or fatal accidents will not be investigated if TAIC declines to investigate them.

### 2.3.6 AVSEC'S INTERACTION WITH THE BORDER AGENCIES AND THE POLICE

Avsec works closely with the New Zealand Police and government border agencies such as Customs, Immigration, and the Ministry of Agriculture and Forestry (MAF) BioSecurity. However, while the government agency functions occur at the same time, Avsec focuses on departing passengers; whereas most other agencies at the airport are focused on incoming overseas passengers, luggage and freight.

At the international screening point Avsec staff are usually located adjacent to Customs personnel who are performing the immigration function as well as checking for Police and Customs alerts. Co-operation occurs across a wide range of areas including sharing of data on passenger numbers, intelligence sharing, passenger facilitation issues at both formal and informal levels, airport security issues, VIP facilitation and so forth.

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

Avsec is working with MAF and Customs on issues around airport restarts, passenger facilitation and a MAF trial x-ray image transfer (Australia to New Zealand).

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### 2.3.7 MARITIME SECURITY

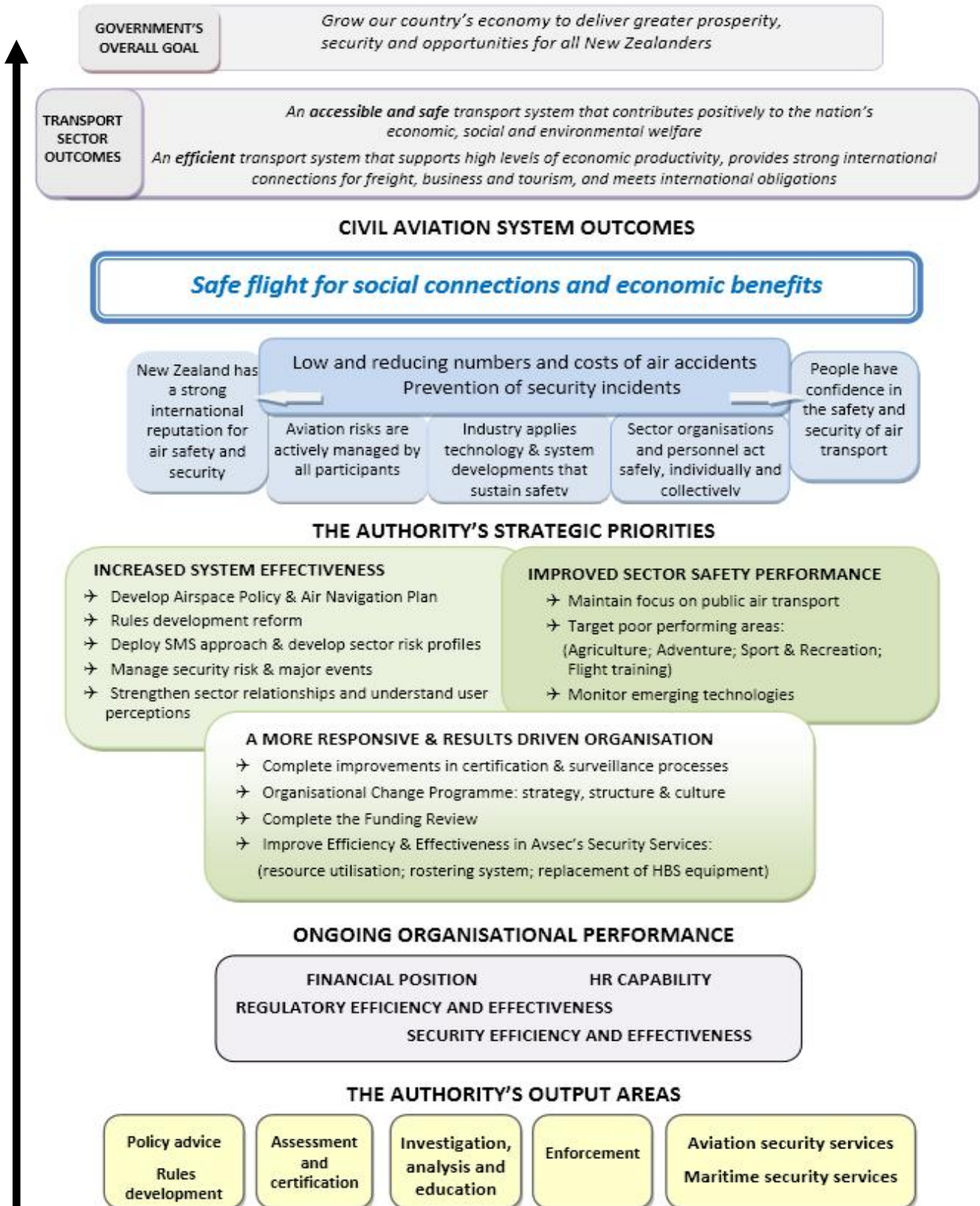
Where the Director of Maritime Safety believes that the threat level at a particular port justifies additional security measures, Avsec will provide maritime security services (i.e. passenger screening). Avsec's activity is focused on the Port of Auckland during the cruise ship season. To this end Avsec has trained 40-50 Aviation Security Officers as Maritime Security Officers, should the need arise.

Avsec is also working closely with agencies to improve New Zealand's ability to act in the event of a maritime security crisis.



### 3. ORGANISATION FRAMEWORK

#### 3.1. STRATEGIC FRAMEWORK



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## APPENDIX B - STATEMENT OF CONSOLIDATED ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2011

The following financial information provides segmental reporting that discloses the two industry segments operated within the Authority in year ended 30 June 2011. These relate to the operations of the CAA and Avsec. The chart also provided forecasts till 2014. The CAA forecasts do not show any increases in the regulated charge or levy unless the change has already been approved by Parliament.

Allowances have been made in the 2013/14 fiscal year for the replacement of the HBS equipment (\$26m), funded by way of an External Finance Lease (Avsec has authority to fund up to \$30m by way of Finance Lease). The equipment is due for replacement in December 2013.

Table 1 - Consolidated Accounts – Civil Aviation Authority of New Zealand

Statement of Projected Comprehensive Income

For the Year ended 30 June 2011	Civil Aviation Authority					Aviation Security Service					Consolidated				
	2010/11 Actuals Actuals	2010/11 Budget \$000	2011/12 Budget \$000	2012/13 Forecast \$000	2013/14 Forecast \$000	2010/11 Actuals \$000	2010/11 Budget \$000	2011/12 Budget \$000	2012/13 Forecast \$000	2013/14 Forecast \$000	2010/11 Actuals \$000	2010/11 Budget \$000	2011/12 Budget \$000	2012/13 Forecast \$000	2013/14 Forecast \$000
<b>Income</b>															
Levies revenue	22,167	22,169	23,135	23,591	23,944	-	-	-	-	-	22,167	22,169	23,135	23,591	23,944
Revenue from passenger security charges and other services	4,106	3,925	4,192	4,261	4,486	65,266	65,623	56,308	57,643	58,963	69,355	69,533	60,485	61,889	63,434
Crown funding revenue	2,261	2,261	2,219	2,219	2,219	145	145	145	145	145	2,406	2,406	2,364	2,364	2,364
Ministry contract revenue	1,666	1,418	1,418	1,418	1,418	268	265	258	258	258	1,934	1,683	1,676	1,676	1,676
Interest and other income	313	416	438	239	101	3,153	3,104	1,564	1,023	918	3,466	3,520	2,002	1,262	1,019
<b>Total income</b>	<b>30,513</b>	<b>30,189</b>	<b>31,402</b>	<b>31,728</b>	<b>32,168</b>	<b>68,832</b>	<b>69,137</b>	<b>58,275</b>	<b>59,069</b>	<b>60,284</b>	<b>99,328</b>	<b>99,311</b>	<b>89,662</b>	<b>90,782</b>	<b>92,437</b>
<b>Expense</b>															
Personnel costs	20,554	20,593	20,858	20,821	21,239	57,294	60,237	59,350	59,697	61,087	77,848	80,830	80,208	80,518	82,326
Other costs of services	10,242	11,048	15,112	13,305	12,256	9,559	11,050	11,235	9,981	10,222	19,784	22,083	26,332	23,271	22,463
Audit fees for financial statements audit	50	50	50	50	50	50	50	50	50	50	100	100	100	100	100
Finance costs	185	-	-	-	-	502	288	198	109	581	687	288	198	109	581
Depreciation and amortisation expense	928	750	1,137	1,105	1,230	4,913	5,559	5,663	5,596	6,598	5,841	6,309	6,800	6,701	7,828
Capital charge	290	290	-	-	-	2,026	2,243	-	-	-	2,316	2,533	-	-	-
Authority member costs	136	104	98	98	98	47	54	50	50	50	183	158	148	148	148
<b>Total expenses</b>	<b>32,385</b>	<b>32,835</b>	<b>37,255</b>	<b>35,379</b>	<b>34,873</b>	<b>74,391</b>	<b>79,481</b>	<b>76,546</b>	<b>75,483</b>	<b>78,588</b>	<b>106,759</b>	<b>112,301</b>	<b>113,786</b>	<b>110,847</b>	<b>113,446</b>
<b>NET SURPLUS / (DEFICIT)</b>	<b>(1,872)</b>	<b>(2,646)</b>	<b>(5,853)</b>	<b>(3,651)</b>	<b>(2,705)</b>	<b>(5,559)</b>	<b>(10,344)</b>	<b>(18,271)</b>	<b>(16,414)</b>	<b>(18,304)</b>	<b>(7,431)</b>	<b>(12,990)</b>	<b>(24,124)</b>	<b>(20,065)</b>	<b>(21,009)</b>
<b>Other comprehensive income</b>															
Gain on revaluation of land and buildings	-	-	-	-	-	(44)	-	-	-	-	(44)	-	-	-	-
<b>Total other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(44)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(44)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>(1,872)</b>	<b>(2,646)</b>	<b>(5,853)</b>	<b>(3,651)</b>	<b>(2,705)</b>	<b>(5,603)</b>	<b>(10,344)</b>	<b>(18,271)</b>	<b>(16,414)</b>	<b>(18,304)</b>	<b>(7,475)</b>	<b>(12,990)</b>	<b>(24,124)</b>	<b>(20,065)</b>	<b>(21,009)</b>

Table 2 - Consolidated Accounts of the Civil Aviation Authority

## Statement of Projected Financial Position

For the Year Ended 30 June 2011	Civil Aviation Authority					Aviation Security Service					Consolidated				
	2010/11 Actuals \$000	2010/11 Budget \$000	2011/12 Budget \$000	2012/13 Forecast \$000	2013/14 Forecast \$000	2010/11 Actuals \$000	2010/11 Budget \$000	2011/12 Budget \$000	2012/13 Forecast \$000	2013/14 Forecast \$000	2010/11 Actuals \$000	2010/11 Budget \$000	2011/12 Budget \$000	2012/13 Forecast \$000	2013/14 Forecast \$000
<b>CURRENT ASSETS</b>															
Cash and cash equivalents	12,791	4,418	7,380	3,132	(154)	24,384	61,175	4,400	1,227	1,328	37,175	65,593	11,780	4,359	1,174
Debtors and other receivables	2,741	1,753	2,748	2,861	2,968	6,645	6,567	5,627	5,752	5,837	9,386	8,320	8,375	8,613	8,805
Inventories including services work in progress	314	294	278	278	278	80	68	105	105	105	394	362	383	383	383
Investments - term deposits	-	-	-	-	-	29,000	-	33,250	23,250	7,000	29,000	-	33,250	23,250	7,000
Derivative financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL CURRENT ASSETS</b>	<b>15,846</b>	<b>6,465</b>	<b>10,406</b>	<b>6,271</b>	<b>3,092</b>	<b>60,109</b>	<b>67,810</b>	<b>43,382</b>	<b>30,334</b>	<b>14,270</b>	<b>75,955</b>	<b>74,275</b>	<b>53,788</b>	<b>36,605</b>	<b>17,362</b>
<b>NON-CURRENT ASSETS</b>															
Property, plant and equipment	6,007	2,215	5,290	4,567	3,879	14,038	15,499	13,510	11,274	33,673	20,045	17,714	18,800	15,841	37,552
Intangible assets	1,215	1,322	1,545	2,048	2,515	1,572	1,790	1,208	543	173	2,787	3,112	2,753	2,591	2,688
Investment - Property	-	-	-	-	-	310	-	-	-	-	310	-	-	-	-
<b>TOTAL NON-CURRENT ASSETS</b>	<b>7,222</b>	<b>3,537</b>	<b>6,835</b>	<b>6,615</b>	<b>6,394</b>	<b>15,920</b>	<b>17,289</b>	<b>14,718</b>	<b>11,817</b>	<b>33,846</b>	<b>23,142</b>	<b>20,826</b>	<b>21,553</b>	<b>18,432</b>	<b>40,240</b>
<b>TOTAL ASSETS</b>	<b>23,068</b>	<b>10,002</b>	<b>17,241</b>	<b>12,886</b>	<b>9,486</b>	<b>76,029</b>	<b>85,099</b>	<b>58,100</b>	<b>42,151</b>	<b>48,116</b>	<b>99,097</b>	<b>95,101</b>	<b>75,341</b>	<b>55,037</b>	<b>57,602</b>
<b>CURRENT LIABILITIES</b>															
Creditors and other payables	1,886	2,092	3,384	3,052	2,656	3,459	2,261	2,909	2,977	3,008	5,345	4,353	6,293	6,029	5,664
Employee entitlements	1,929	1,524	1,585	1,613	1,714	7,030	7,601	8,288	9,197	10,133	8,959	9,125	9,873	10,810	11,847
Provisions	83	-	-	-	-	-	-	-	-	-	83	-	-	-	-
Borrowings	401	-	-	-	-	2,301	1,535	1,585	946	4,157	2,702	1,535	1,585	946	4,157
Derivative financial instruments	-	-	-	-	-	23	-	-	-	-	23	-	-	-	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>4,299</b>	<b>3,616</b>	<b>4,969</b>	<b>4,665</b>	<b>4,370</b>	<b>12,813</b>	<b>11,397</b>	<b>12,782</b>	<b>13,120</b>	<b>17,298</b>	<b>17,112</b>	<b>15,013</b>	<b>17,751</b>	<b>17,785</b>	<b>21,668</b>
<b>NON-CURRENT LIABILITIES</b>															
Employee entitlements	424	430	476	476	476	3,761	3,884	4,069	4,306	4,543	4,185	4,314	4,545	4,782	5,019
Provisions	-	-	-	-	-	233	361	233	133	133	233	361	233	133	133
Borrowings	3,740	-	3,340	2,940	2,540	1,535	2,301	716	706	20,560	5,275	2,301	4,056	3,646	23,100
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>4,164</b>	<b>430</b>	<b>3,816</b>	<b>3,416</b>	<b>3,016</b>	<b>5,529</b>	<b>6,546</b>	<b>5,018</b>	<b>5,145</b>	<b>25,236</b>	<b>9,693</b>	<b>6,976</b>	<b>8,834</b>	<b>8,561</b>	<b>28,252</b>
<b>TOTAL LIABILITIES</b>	<b>8,463</b>	<b>4,046</b>	<b>8,785</b>	<b>8,081</b>	<b>7,386</b>	<b>18,342</b>	<b>17,943</b>	<b>17,800</b>	<b>18,265</b>	<b>42,534</b>	<b>26,805</b>	<b>21,989</b>	<b>26,585</b>	<b>26,346</b>	<b>49,920</b>
<b>NET ASSETS</b>	<b>14,605</b>	<b>5,956</b>	<b>8,456</b>	<b>4,805</b>	<b>2,100</b>	<b>57,687</b>	<b>67,156</b>	<b>40,300</b>	<b>23,886</b>	<b>5,582</b>	<b>72,292</b>	<b>73,112</b>	<b>48,756</b>	<b>28,691</b>	<b>7,682</b>
<b>EQUITY</b>															
General funds	14,605	5,956	8,456	4,805	2,100	12,986	30,744	14,100	14,100	14,100	27,591	34,444	22,556	18,905	16,200
Property, plant and equipment revaluation reserve	-	-	-	-	-	746	640	790	790	790	746	640	790	790	790
Passenger security charges and other fees and charges reserves <sup>1</sup>	-	-	-	-	-	43,955	35,772	25,410	8,996	(9,308)	43,955	38,028	25,410	8,996	(9,308)
<b>TOTAL EQUITY</b>	<b>14,605</b>	<b>5,956</b>	<b>8,456</b>	<b>4,805</b>	<b>2,100</b>	<b>57,687</b>	<b>67,156</b>	<b>40,300</b>	<b>23,886</b>	<b>5,582</b>	<b>72,292</b>	<b>73,112</b>	<b>48,756</b>	<b>28,691</b>	<b>7,682</b>