F.7

Te Komihana Tirotiro Aitua Waka

Transport Accident Investigation Commission

Statement of Intent 2011 - 2014

April 2011

Prepared in accordance with section 139 of the Crown Entities Act 2004

Contents

Chief Executive's statement

The Commission's strategy for the coming three years is to undertake high-value inquiries at a minimum cost, and in a timely manner.

After a three-year capability-building programme, the Commission now has the resources it needs to perform at a high level. It has newly developed research services, a refined set of criteria for launching inquiries, and quality assurance and information management systems to streamline its report production processes. These developments will enable the Commission to improve the quality of its reports and findings, and thus improve its contribution to the safety and security of New Zealand's transport system.

The challenge for the Commission now is to maintain the quality of its reports and findings while decreasing the time it takes to complete them. Given the current economic pressures on government, this must be done within the Commission's existing budget.

To this end, the Commission has three projects planned for the next three years. These projects will focus on:

- improving productivity through the use of better project management tools and the introduction of an organisational performance management system;
- responding to trends in the Commission's operating environments through a suite of research activities, and policy and strategy developments; and
- improving the value gained from the Commission's inquiries by developing a communications strategy to more effectively promulgate the Commission's findings to the wider world.

The Commission has developed a set of measures to monitor its performance against its goals and to measure the success of its programmes. It aims to see improvement across a broad range of performance criteria.

Many of the Commission's measures are by necessity complex and often qualitative rather than quantitative. The Commission is beginning to incorporate lessons from its historical impact reviews and other self-assessment programmes into its strategic planning, and it intends to make the results of these activities a stronger part of its reporting in future accountability documents.

By enacting the strategic plan contained in this document the Commission will continue to deliver high-quality reports to the New Zealand public, while achieving the timely service and value for money that the public expects.

About the Commission

Our purpose

The Commission's vision is "safer transport through investigation, learning and influence".

The Commission is a standing Commission of Inquiry established under the Transport Accident Investigation Commission Act 1990 (the *Act*). It has three Commissioners appointed by the Governor-General in Council, supported by a chief executive and a team of investigators and corporate staff.

The Commission's purpose, as set out in its Act, is to determine the circumstances and causes of aviation, rail and maritime accidents and incidents with a view to avoiding similar occurrences in the future rather than to ascribe blame to any person. It does this by conducting inquiries, which inform members of the transport sector and the wider community about the lessons that have been learnt from transport occurrences. The knowledge gained from these inquiries helps transport sector participants to improve safety systems, and provides assurance to the public that their transport system is safe.

Our function

The Commission's main function is to inquire into aviation, rail, and maritime accidents and incidents within New Zealand and, if asked, to co-ordinate and co-operate with other accident investigation organisations overseas. Its day-to-day operations, therefore, focus almost exclusively on inquiring into accidents and incidents.

In conducting its inquiries, the Commission looks into the immediate circumstances around the event: the things that had direct bearing on the occurrence. These could include the failure of a particular part on a train or aircraft, the decision-making of a skipper or a pilot, or one of many other potential causes. The Commission also examines the broader system in which the event took place, looking at things like regulatory systems, workplace cultures, staff training, and the like. This ability to look at the broader context of transport accidents is one of the distinguishing characteristics of the Commission.

Our independence

It is important that the public has confidence in the Commission's inquiries. Public confidence can only be maintained if the Commission is seen to carry out its inquiries independently; free from actual or perceived bias, conflict of interest, or threat of sanction. New Zealand's international obligations also require that the Commission carries out its inquiries independently. For these reasons the Commission was established with the legal mandate of a Commission of Inquiry and as an independent Crown entity. This means that the Commission's inquiries cannot be influenced by Government or other third parties.

Our international obligations

New Zealand has international civil aviation and maritime obligations to meet. Some of these obligations are met through the Commission's work.

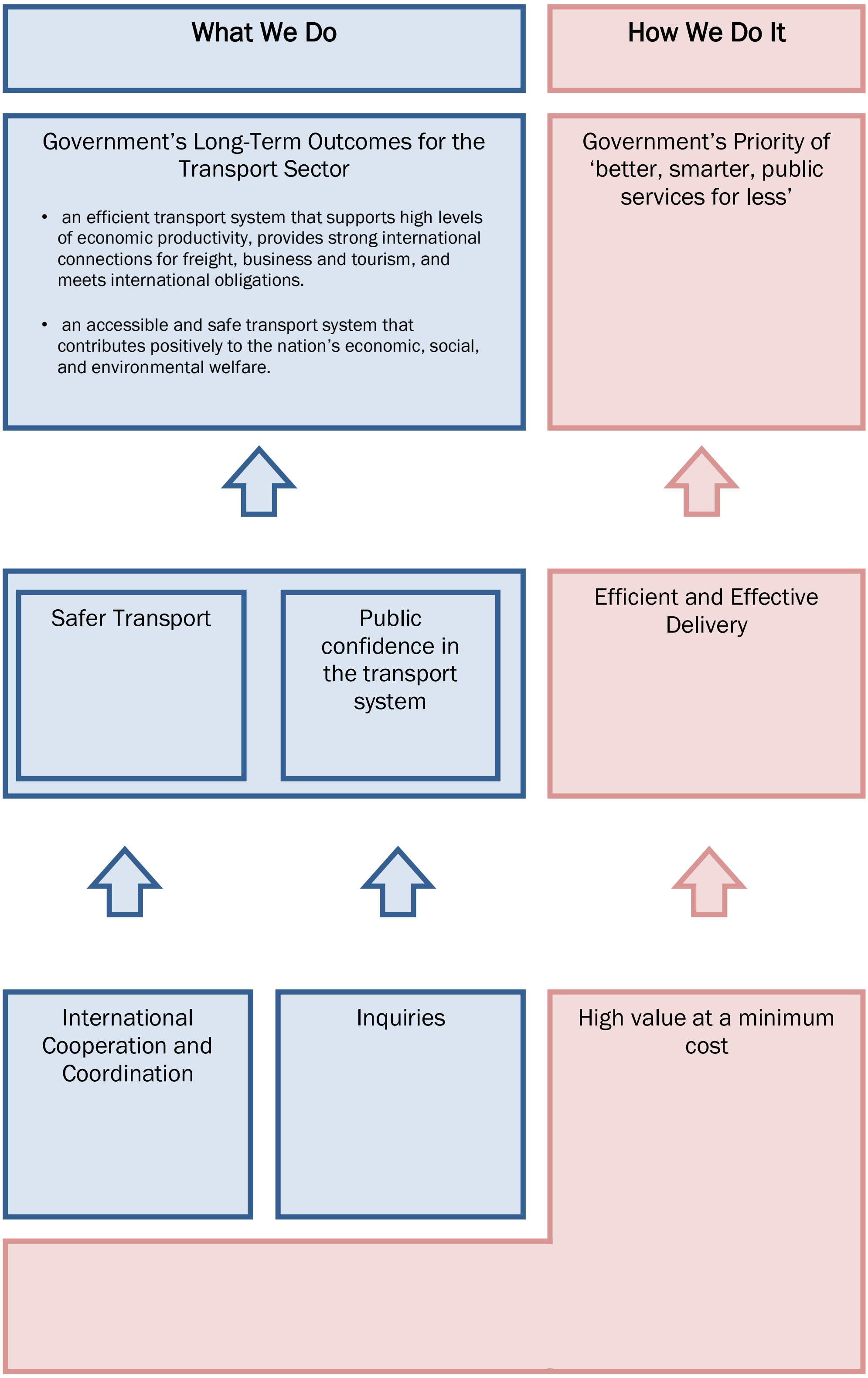
New Zealand is a signatory to the Convention on International Civil Aviation (the *Chicago Convention*). Article 26 of the Chicago Convention requires signatory States to investigate accidents and serious incidents in New Zealand that involve foreign state aircraft.

Similarly, New Zealand is a signatory to the Convention on the International Maritime Organization (IMO) and the many supporting maritime conventions such as the International Convention for the Safety of Life at Sea (SOLAS), and the Code of International Standards and Recommended Practices for a Safety Investigation into a Marine Casualty or a Marine Incident (Casualty Investigation Code).

As a party to these conventions, New Zealand contributes to international transport safety, and supports the international transport systems New Zealand relies upon. The Chicago Convention and the Casualty Investigation Code require that signatories undertake independent accident and incident investigations. The Commission undertakes this role in New Zealand and conducts its investigations in accordance with the Conventions' standards and operating procedures.

Outcomes and objectives

The following diagram shows how the Commission contributes to the government's desired outcomes:



There are two Government long-term outcomes for the transport sector that the Commission directly contributes to:

- an efficient transport system that supports high levels of economic productivity, provides strong international connections for freight, business and tourism, and meets international obligations; and
- an accessible and safe transport system that contributes positively to the nation's economic, social, and environmental welfare.

To help the Government in achieving its outcomes the Commission has identified two outcomes of its own: a safer transport system through inquiries, influence and learning, and a high level of public confidence in the transport system.

The Commission also contributes to the Government's priority of delivering 'better, smarter public services through efficient and effective delivery of the Commission's own services.

The Commission's intervention logic for achieving these outcomes is laid out below.

Learning from experience

The Commission is a knowledge service. It conducts inquiries into transport accidents and incidents, and promulgates the lessons learned from these occurrences. The Commission's main output is completed inquiries. The lessons learnt from these inquiries give the transport sector knowledge to help prevent similar occurrences. This knowledge leads to smarter regulation, better safety systems, and therefore safer transport.

The Commission's inquiries also give the public confidence that safety issues in the transport sector are identified and addressed, and that an independent and impartial body is monitoring the health of the transport system and publishing important information. This contributes to public confidence in the transport system.

These outcomes support the government's long-term outcomes for the transport sector.

International contribution

Because transport crosses international boundaries, conventions exist to achieve uniform standards, including standards for accident investigation. The Commission develops strong relationships with overseas investigation agencies to help cooperate and coordinate with them when international accidents occur that involve New Zealand interests.

The Commission's output in this role is international co-operation and co-ordination. An outcome of this is safer transport through the early identification and sharing of safety lessons that are applicable to the New Zealand and international transport systems, which contributes to the government's long-term outcomes for the transport sector.

Efficient and effective delivery

As an independent Crown entity, the Commission must meet the public demand for high-quality spending from the public sector.

To achieve this, the Commission is focused on improving its internal processes and efficiently directing its resources. The output is high-value inquiries at a minimum cost. By achieving in this area, the Commission will improve its efficiency and effectiveness and thereby contribute to the government goal of providing better public services.

The Commission's operating environment

This section describes the internal and external changes and challenges which inform the Commission's operating intentions.

Developing Capability

The Commission has reached the end of a three-year programme of capability building and restructuring intended to improve the Commission's ability to deliver on its core functions, and realign the Commission with the intent of its Act. Key achievements of this programme were:

- establishing a research capability to give greater context and relevance to the Commission's inquiries;
- refining the Commission's launch criteria to focus the Commission on more high-value inquiries and to better align the workings of the Commission with its Act;
- creating a people strategy to help the Commission recruit the right staff to create a broader skill base thereby giving the Commission greater flexibility and a more secure workforce;
- designing and developing an investigation and information management system to help improve workflows and provide more reliable retention of and access to information;
- introducing a quality assurance system to streamline the Commission's internal processes and to improve its outputs.

As a result of this capability-building programme, the Commission is now well placed to deliver on its statutory mandate.

Changing approach to accident investigation

The Commission has changed its approach to accident investigation. Historically, the Commission conducted a high number of inquiries, in some years opening 50 or more. This rate was a legacy of the Commission's history as the Office of Air Accidents, where the focus was on determining the causes of accidents without analysis of the wider context in which the accident occurred.

In the last three years, the Commission has moved towards broader, higher-quality and more systemic inquiries. This move is supported by the Commission's first historical impact review of its reports and recommendations, which showed that there is less to be gained from narrow inquiries that only look into the immediate or proximate causes of accidents and incidents.

Productivity Challenges

A consequence of the Commission's changing approach to accident investigation is that the volume of its reports has dropped and the time taken for completion has increased. The Commission is not producing reports and completing inquiries in a timeframe that is compatible with what is considered international best-practice. A major challenge for the Commission in coming years is to improve productivity and publish reports in a more timely manner.

Funding Pressures

Like other government departments, in the current economic climate the Commission must operate within its existing funding. This puts pressure on the Commission to maintain a high-quality workforce in the face of a restricted budget. This pressure is also felt internationally as the Commission's international peers are similarly faced with budget constraints, making their assistance to other countries increasingly difficult to maintain.

The Commission's operating intentions

The Commission has one output class, which remains unchanged – inquiries. Performance targets for these are contained in the Commission's Statement of Forecast Service Performance.

<table>
<tr><th colspan="2">Inquiries</th></tr>
<tr><td>What we are doing:</td><td>Inquiries are the Commission's major output. As part of an inquiry, the Commission generates findings and recommendations. These are usually communicated in the form of inquiry reports and recommendations.

The Commission now believes that it delivers the best value to New Zealand when it focuses on quality investigations into high-level safety issues. To this end, the Commission has adjusted its output targets for the coming three years to more accurately reflect what the Commission is capable of achieving and what will deliver the best value to New Zealand.

The Commission's output targets for inquiries are contained in its Statement of Forecast Service Performance.</td></tr>
<tr><td>What we aim to achieve:</td><td>The lessons the Commission generates are communicated to the transport sector, giving them knowledge that they can use to create smarter regulation and better safety systems. These lead to safer behaviours and hence <u>safer transport</u>.

The Commission's findings are also communicated to the wider public, informing them of the causes of occurrences and of actions being taking to improve safety. This contributes to <u>public confidence in the transport system</u>.</td></tr>
<tr><td>How we will measure that:</td><td>The Commission is a knowledge service, and its role in the transport sector is one of influence and recommendation rather than direct control. This makes measuring the impact of the Commission's inquiries challenging.

The Commission has developed two main measures, and is developing a third, for gauging its impact. Both of the currently implemented measures are qualitative, designed to accommodate the complexity of the transport sector, and the needs of the Commission as an independent Commission of inquiry:

1) Historical Impact reviews: The Commission conducts historical impact reviews, which are case studies of the Commission's contribution to a particular area or kind of occurrence. The Commission expects to find that it has made a positive contribution to safety in the area reviewed, and that it has generated useful recommendations that have been implemented to good effect and have resulted in smarter regulation, better safety systems and reduced the likelihood of similar occurrences.

2) Stakeholder surveys: In 2011/12 the Commission is implementing for the first time a stakeholder survey intended to gauge the usefulness of the Commission's work. The survey will focus on understanding the ways that stakeholders are using the information in the Commission's reports, and what actions they are taking on the basis of the Commission's influence. The Commission expects to find that its reports and recommendations are a catalyst for concrete, beneficial changes in the transport sector.

3) Acceptance of Recommendations: The Commission is considering appropriate benchmarks and targets for reporting the acceptance rate of the recommendations it makes, which would include the number of safety actions taken by a stakeholder at the suggestion of the Commission; safety actions that if not taken, would have resulted in the Commission making a recommendation.</td></tr>
</table>

Continuous improvement

To support its output of inquiries, the Commission has a work programme focused on continuous improvement, which it has divided into three broad areas - productivity, responding to trends, and communication.

Productivity	
What we are doing:	The Commission will improve its productivity through the propagation and use of three new tools expected to be implemented by the start of the 2011/12 financial year: • an investigation information management system; • organisation-wide key performance indicators; and • staff-specific key performance indicators
What we aim to achieve:	The Commission aims to improve productivity across all modes, producing higher-quality and more timely reports through improved internal project management. The Commission expects this to increase the effectiveness of its inquiries and to improve value for money.
How we will measure this:	The Commission measures the time taken to publish its reports. In previous years, only around 10% of the Commission's inquiries were completed within the industry standard of 220 working days, and in some years more than half the Commission's inquiries took more than the industry maximum of two years. The Commission intends to improve on these figures with a goal of eventually achieving 40% of its inquiries completed within 220 days, and none taking more than two years. The Commission also intends to maintain its output of reports at 30, which reflects what the Commission believes is the maximum output it can sustain with current staff levels and still maintain quality standards. These targets are detailed further in the *Non-Financial Measures* section of this document.

Responding to Trends	
What we are doing:	The Commission is revising its quality assurance system for the purpose of continuous improvement of its internal policies, procedures, and documentation. Specific projects intended for the coming three years are: • continued expansion of the Commission's research capabilities; • updating its major accident strategy; • revising and updating its investigation procedures documents; • developing an international strategy.
What we aim to achieve:	The Commission's quality assurance system is designed to respond to emerging trends and existing risks in the transport sector as well as in the wider government context. By continuously reviewing and updating its internal and external practices, the Commission will maintain currency in the context of an ever-changing environment.
How we will measure this:	This is a project with broad scope, which contributes to long-term goals. This makes measuring success in this project difficult. The Commission is in the process of determining timelines for the deliverables in this project, and will report against these in future accountability documents.

Communication	
What we are doing:	The Commission is developing a broad communications strategy to improve the way it communicates its findings, explore alternative publication methods, and to enhance the Commission's relationships with stakeholders.
What we aim to achieve:	Communicating the Commission's findings is key to its role in improving transport safety and increasing public confidence in the transport system. The communication project is intended to increase the value the Commission gets from its inquiries by ensuring that the findings and recommendations it generates are effectively promulgated.
How we will measure this:	The stakeholder survey that the Commission is developing to gauge its impact will also return information on how well the Commission communicates its findings. The Commission expects to receive positive feedback on its communications.

Assessing organisational health and capability

The Commission's organisational health and capability policies focus on ensuring the Commission has access to the right resources to meet its needs. This means making sure that the Commission has the right people, equipment, and facilities.

People

The Commission is a small organisation with a highly specialised workforce.

People with the investigative skills and expertise needed to perform the Commission's investigative role are difficult to find meaning that in most cases people recruited as investigators need to undergo extensive training during the first 18 to 24 months of joining the Commission. This training includes completing the accident investigation programme run by Cranfield University in the United Kingdom; a 2-stage programme designed to, in the first stage, teach the fundamentals of investigation techniques, and in the second stage teach advanced mode-specific training techniques. Other training programmes are offered in report writing, interview techniques, human factors and media training.

Given the limited pool of potential investigators and the long lead time before investigators become fully productive and the small size of each mode team, the Commission is vulnerable to retirements and resignations of investigators. To mitigate this risk, the Commission is:

- Recruiting staff with a wider range of experience levels
- Developing a number of multi-mode investigators, who are able to cover potential vacancies
- Exploring alternative staffing structures to enable better succession planning

The Commission will report on the success of these activities in future accountability documents.

As a small organisation, the Commission cannot cover all specialist skills so to manage this, the Commission has a practice of engaging contract workers to cover areas for which a full-time position is either not required or cannot be covered. This ensures that the Commission maintains a high level of contemporary expertise, while keeping a full workload for its permanent staff.

Equipment

From time to time, the Commission's work requires specialist equipment and machinery to retrieve and examine wreckage and other physical evidence. This is not the case with all inquiries – only some. And in most instances, the type of equipment and machinery concerned requires specialist people to operate them.

Purchasing and maintaining this type of equipment is not a viable option given the significant costs involved vis-a-vis the Commission's infrequent need for this equipment. However, to ensure that the Commission does have access to this type of equipment, it has partnered with other government organisations. For example, the Commission has a memorandum of understanding with the New Zealand Defence Force, the Police, and the 3 transport regulators regarding shared use of equipment.

Facilities

From time to time, the Commission needs to store and work on large items such as aircraft, ship or train wreckage for evidentiary purposes. For this reason, the Commission leases a warehouse and workshop in Wellington.

At times this space can be under-utilised. To manage this, the Commission allows other government organisations to share this storage facility. The Civil Aviation Authority routinely uses this facility and it is available to the other Regulators, Civil Defence and the New Zealand Fire Service.

Reporting to the Minister and other information

Reporting to the Minister

The Commission will continue to report quarterly to the Minister of Transport on the following matters:

- key achievements and events for the reporting period, and emerging issues;
- actual progress for the reporting period against the financial and non-financial output measures set out in the following section, including explanation of any significant variances from these measures and any impact on the expected delivery of the related outputs;
- actual financial performance for the reporting period against the forecast financial statements, including explanation of any significant variances from those forecasts and the impact on the expected year-end outturn;
- an explanation of the changes and the supporting rationale whenever financial and/or non-financial performance is reforecast substantively by the Commission during the reporting period (e.g. a revised budget is adopted), an explanation of the changes and the supporting rationale. Future reporting will then state the reforecast measures, reference the explanation, and report against the reforecast measure levels; and
- any significant issues or risks arising during the reporting period, or anticipated, the impacts of these issues or risks and the ways these are being managed by the Commission. This reporting will include consideration of issues or risks for organisational capability.

Other information required by the Act

The Transport Accident Investigation Commission Act 1990 requires the Commission to include in its statement of intent any new borrowings, financial leases or similar liabilities that it intends incurring during the year. The Commission does not intend incurring any such new borrowings, financial leases or similar liabilities during the year.

The Commission has an existing financial lease in respect of its printing equipment. This arrangement was not recognised in previous years, and is included for the first time in this Statement of Intent.

Statement of Forecast Service Performance

The following table summarises the measures the Commission will use to gauge its performance against output targets:

Measure	Projected 2010/11	2011/12	2012/13	2013/14
Cost				
Average lifetime cost of inquiries closed	$131	$129k	$129k	$129k
Quantity				
Inquiries opened	18	30	30	30
Inquiries closed	30	30	30	30
Reports published	30	30	30	30
Timeliness				
Average age of inquiries in progress (working days)	300	300	250	200
Percentage published under 220 days	15%	20%	30%	40%
Percentage published under 440 days	50%	80%	90%	100%
Quality				
Historical Impact Review (qualitative measure)	See below	See below	See below	See below
Stakeholder Survey (qualitative measure)	Not Available	See below	See below	See below

These measures are defined and the targets are explained below.

Cost

"Average lifetime cost of inquiries closed" is a measure of the Commission's efficiency and value for money. For each of the inquiries closed in the period, the approximate cost of that inquiry over its lifetime is calculated. The Commission is developing tools to better measure the actual costs of inquiries, including hours spent on each inquiry. The average of this figure for all the inquiries closed in the period indicates the expense involved in producing that period's output.

The Commission aims to have the average lifetime cost of inquiries closed not exceed a proportional share of the Commission's total budget for a year. The figure of $129k represents the Commission's total funding divided across the number of inquiries the Commission aims to produce. As this is a new measure, the Commission is still developing its understanding of how this figure changes in response to the Commission's output, and what fluctuations in the figure may mean.

Quantity

"Inquiries opened" is the number of inquiries the Commission has opened in the period. The Commission's workload fluctuates depending on the number of occurrences in New Zealand that

have significant implications for transport safety. The Commission can control its launch rates, but only to a degree, as there will be cases that it will have little discretion on, major accidents being one example. However, the Commission can manage its workload and control its launch rate for those discretionary occurrences; those where it might make findings and safety recommendations, but the cost of the inquiry outweighs the value (increase in transport safety).

"*Inquiries closed*" and "*Reports Published*" are both measures of the Commission's output. "Inquiries closed" counts the number of investigations, foreign or domestic, that the Commission has conducted and closed to its satisfaction. Not all of the Commission's investigations result in a report being published, especially when the Commission is assisting an overseas investigation agency.

"Reports published" counts the number of reports on inquiries that the Commission has published in the period. Because the Commission sometimes publishes an interim or preliminary report prior to a final report, this figure does not correspond exactly to the number of inquiries closed.

The Commission's production figures are somewhat dependent on random variation in occurrence rates. Major occurrences, which require special attention and extra resources, significantly disrupt the Commission's work flow. The figure of 30 inquiries closed and 30 reports published represents what the Commission believes it should achieve if it is applying its launch criteria consistently, if its staff are working to full capacity, and if there are no major occurrences during the period. Launching complex and demanding inquiries, or decreased staff capacity, may influence this figure downward.

Timeliness

"*Average age of inquiries in progress*" is the average number of working days that each of the Commission's currently-open inquiries has been open. It is calculated at the end of each period. This number gives an indication of the Commission's work flow. A high average age means that the Commission has not had sufficient turnover of inquiries, and a backlog or queue may be forming. The average age of inquiries is currently high, and the Commission aims to reduce this over time.

The time taken to complete an inquiry depends on several factors. Most notably it depends on the complexity and scope of the inquiry, and how effectively the Commission is working on the investigation. The industry standard, as defined by the International Civil Aviation Organisation, is that all inquiries should be completed within two years (440 working days). Many less complex inquiries should be possible to close within 220 working days.

"*Percentage published under 220 days*" calculates the number of reports published in the period that took fewer than 220 working days to complete, as a percentage of the total number of reports published in the period.

The Commission aims to improve in this measure. Currently very few of the Commission's inquiries are published in under 220 working days. The Commission intends to achieve a gradual improvement in this measure. The figure of 40% of inquiries published in less than 220 working days represents what the Commission believes is the average percentage of its inquiries that warrant no more than 220 days of work. If the Commission is completing fewer than 40% of its inquiries within 220 days, it may indicate that either the Commission is not working on its inquiries effectively, or that the percentage of complex cases is unusually high.

"*Percentage published under 440 days*" is calculated in the same way as the figure for 220 days. The Commission aims to eventually achieve the industry standard of no inquiries taking longer than 440 days. Internationally, many organisations do not meet this target. However, the Commission believes that it is possible.

Quality

Historical impact reviews are case studies of a specific area or occurrence type that the Commission has inquired into. The Commission conducts a review of a different area each year. As well as assessing the impact of the Commission's inquiries, they look at the quality of the inquiries by reviewing the Commission's findings and recommendations with the benefit of hindsight. In a previous review, the Commission found that some of its inquiries and recommendations in the reviewed area were of too narrow a scope to have a significant impact on transport safety. Future reviews will assess this aspect of quality, as well as others.

The Commission's *stakeholder surveys* are still in development, but these are intended to examine not just the influence of the Commission's inquiries, but also their quality in terms of communication, access, and fairness. The Commission will be designing the survey questions so as to enable a measure against what it is aiming to achieve in these areas. Targets for this quality measure are still under development.

The Commission continues to investigate other measures of quality.

Statement of accounting policies

Reporting entity

The Commission is an independent Crown entity established under the Transport Accident Investigation Commission Act 1990.The Commission is also a Public Benefit Entity (PBE) for the Purposes of NZIFRS.

The Commission investigates aviation, marine and rail accidents and incidents, the circumstances of which have, or are likely to have, significant implications for transport safety. The Commission publishes recommendations and reports on accidents and incidents in order to avoid similar occurrences in the future.

The Commission also represents New Zealand at accident investigations conducted by overseas authorities in which New Zealand has a specific interest, conducted by overseas authorities, and exchanges accident and incident information with overseas government accident investigation authorities.

The Commission's accident investigation capability is occasionally extended, on a cost recovery basis where possible, to Pacific Island states with no similar agency.

The Financial Forecasts of the Commission are for the years 2011-2014. The Financial Forecasts were authorised for issue by the Board on 20 April 2011.

Accounting policies and changes in accounting policies

Accounting policies

Overall considerations

The financial forecasts have been prepared in accordance with the Transport Accident Investigation Commission Act 1990 and the Crown Entities Act 2004, which includes the requirement to comply with New Zealand's generally accepted accounting practice ("NZ GAAP").

The Financial Forecasts have been prepared on a historical cost basis.

The Financial Forecast statements are presented in New Zealand dollars and all values are rounded to the nearest dollar.

Changes in accounting policies

The accounting policies are consistent with those used in previous forecasts except that the Commission has adopted the standards, amendments and interpretations as outlined below. The adoption of these standards, amendments and interpretations did not have any effect on the forecasted financial performance or position of the Commission.

(a) NZ IAS 1 - Presentation of Financial Statements

NZ IAS 1 Presentation of Financial statements (revised 2007) replaces NZ IAS 1 Presentation of Financial Statements (issued 2004) and is effective for reporting periods beginning on or after 1 January 2009. The revised standard required information in financial statements to be aggregated on the bases of shared characteristics and introduces a statement of comprehensive income. The statement of comprehensive income will enable readers to analyse changes in equity resulting from non-owner changes separately from transactions with the Crown in its capacity as "owner". The revised standard gives the Commission the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). The Commission has adopted a single statement of comprehensive income and there is no impact on the financial performance or position as the changes are of presentation nature.

(b) *NZ IAS 23 Borrowing Costs*

NZ IAS 23 Borrowing Costs (revised 2007) replaces NZ IAS 23 Borrowing Costs (issued 2004) and is effective for reporting periods commencing on or after 1 January 2009. The revised standard requires all borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset.

(c) *NZ IAS 24 Related Party Disclosures*

NZ IAS 24 Related Party Disclosures (revised 2009) replaces NZ IAS 24 Related Party Disclosures (issued 2004) and is effective for reporting periods beginning on or after 1 January 2011. The revised standard:

i) Removes the previous disclosure concessions applied by the Commission for arms-length transactions between the Commission 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 Commission and entities controlled or significantly influenced by the Crown.

ii) Provides clarity on the disclosure or related party transactions with Minsters of the Crown. Further, with the exception of the Minister of Transport, the Commission 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.

iii) Clarifies that related party transactions include commitments with related parties.

As early adoption has been permitted, the Commission has chosen to adopt this standard early as the changes do not have a significant impact on the forecasted financial statements. The revised standard simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition.

(d) *NZ IFRS 7 Financial Instruments: Disclosures*

Amendment to NZ IFRS 7 Financial Instruments: Disclosures. The amendments introduce a three-level fair value disclosure hierarchy that distinguishes fair value measurements by the significance of valuation inputs used. A maturity analysis of financial assets is also required to be prepared if this information is necessary to enable users of the financial statements to evaluate the nature and extent of liquidity risk. The transitional provisions of the amendment do not require disclosure of comparative information in the first year of application.

Particular accounting policies

The following particular accounting policies that materially affect the measurement of financial performance and financial position have been applied:

(a) *Budget figures*

The budget figures have been prepared in accordance with NZ IFRS, using accounting policies that are consistent with those adopted by the Commission for the preparation of the Financial Forecasts.

(b) *Revenue*

Revenue from Crown

The Commission derives revenue through the provision of outputs to the Crown, for services to third parties and income from its investments. Such revenue is recognised at fair value when earned and is reported in the financial period to which it relates.

Interest

Interest income is recognised as it accrues on bank account balances, on-call and short-term deposits.

(c) *Financial Instruments*

The Commission's financial instruments comprise cash and cash equivalents, trade and other receivables and creditors and other payables. A financial instrument is recognised when the Commission becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all the substantial risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial instruments are initially recognised at their fair value and classified into one of the following categories. Financial assets and financial liabilities are measured subsequently as described below.

Financial Assets

For the purpose of subsequent measurement, are classified into the following categories upon initial recognition:

- loans and receivables;
- financial assets at fair value through profit and loss;
- held to maturity investments; and
- available-for-sale financial assets

The category determines subsequent measurement and whether any resulting income and expense is recognised in profit or loss or in other comprehensive income.

All financial assets except those at fair value through the profit and loss are subject to review for impairment at least each reporting date. Financial assets are impaired when there is objective evidence that a financial asset or group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

The Commission's cash and cash equivalents and trade and other receivables fall into this category of financial instruments.

Loans and receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

A provision for impairment of receivables is established when there is objective evidence that the Commission will not be able to collect all amounts due according to the original terms of the receivables. The amount of provision is the difference between the asset's carrying value and the present value of estimated future cash flows, discounted using the effective interest rate method.

Financial Liabilities

The Commission's financial liabilities include trade and other payables.

Financial liabilities are measured subsequently at amortised cost using the effective interest rate method, except for financial liabilities, held for trading or designated at fair value through profit and loss, that are carried subsequently at fair value with gains or losses recognised in profit or loss. The Commission does not currently have any financial liabilities held for trading or designated at fair value through profit or loss.

(d) *Cash and cash equivalents*

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

(e) Trade and other receivables

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

A provision for impairment of receivables is established when there is objective evidence that the Commission will not be able to collect all amounts due according to the original terms of the receivables. The amount of provision is the difference between the asset's carrying value and the present value of estimated future cash flows, discounted using the effective interest rate method.

(f) Property, plant and equipment are shown at cost less accumulated depreciation and impairment losses

Additions

The cost of an item of property plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Commission and the cost of the item can be measured reliably.

Disposals

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

Depreciation

Depreciation is provided on a straight line basis at rates that will write the assets off over their estimated useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimates as follows:

Fixed Asset Type	Useful Life (Years)	Depreciation Rate %
Buildings (store)	33 - 50	2% to 8.4%
Computer equipment	2.1 – 10	10% to 48%
Furniture and equipment	2.1 – 20	5% to 48%
Software (AIIMS)	3---5	25% to 33%

(g) Intangible assets

Software acquisition

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

Costs associated with maintaining computer software are recognised as an expense when incurred.

Amortisation

Computer software licenses are amortised on a straight-line basis over their estimated useful life of 3 years. Amortisation begins when the asset is available for use and ceases at the date the asset is disposed of. The amortisation charge is recognised in the Forecasted Statement of Comprehensive Income.

Impairment of property, plant and equipment and intangible assets

Intangible assets that have an indefinite useful life, or are not yet available for use, are not subject to amortisation and are tested annually for impairment.

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

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

(h) GST

All items in the Financial Forecast are stated exclusive of GST except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the Forecasted Financial Position.

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

Commitments and contingencies are disclosed exclusive of GST.

(i) Forecast of cash flows

Cash comprises monies held in the Commission's bank accounts and short term deposits.

Financing activities comprise the change in equity and debt capital structure of the Commission.

Investing activities relate to the sale and purchase of fixed assets.

Operating activities include all transactions and other events that are not investing or financing activities. Interest received is included in operating activities.

(j) Employee entitlements

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

These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date, retiring and long service leave entitlements expected to be settled within the next 12 months, and sick leave.

The Commission recognises a liability for sick leave to the extent that compensated absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the sick leave entitlement that can be carried forward at balance date, to the extent the Commission anticipates it will be used by staff to cover those future absences.

(k) Superannuation scheme

Defined contribution scheme

Obligations for contributions to Kiwisaver are accounted for as a defined contribution superannuation scheme and is recognised as an expense in the statement of financial performance as incurred.

(l) Taxation

The Commission is a public authority in terms of the Income Tax Act 2004 and consequently is exempt from income tax.

(m) Operating leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as incurred over the lease term of the lease in the statement of comprehensive income.

Lease incentives received are recognised in the Forecast of Comprehensive Income over the lease term as an integral part of the total lease term.

The Commission has a lease for Level 11, Cigna House which is surplus to requirement. The Commission has a tenant signed until the expiry of the lease, in May 2015. As a result of the sub-lease the Commission will incur a loss. A provision of $216,000 has been provided for in the financial statement to cover the net present value of this loss. The provision is for the future discounted rental payments not of anticipated rental income.

(n) Financial instrument risks

The Commission has policies to manage the risks associated with financial instruments. The Commission is risk averse and seeks to minimise exposure from its treasury activities. These policies do not allow any transactions that are speculative in nature to be entered into.

Market risk

Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Commission's exposure to fair value interest rate risk is limited to its short-term bank deposits which are held at fixed rates of interest.

Cash flow interest rate risk

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates. Investments issued at variable interest rates expose the Commission to cash flow interest rate risk. The Commission has no variable interest rate investments.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Commission is not exposed to currency risk, as it does not enter into foreign currency transactions.

Credit risk

Credit risk is the risk that a third party will default on its obligation to the Commission, causing the Commission to incur a loss.

Due to the timing of its cash inflows and outflows, the Commission invests surplus cash with registered banks. The Commission's investment policy limits the amount of credit exposure to any one institution.

The Commission's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash equivalents, investments and trade and other receivables. There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired.

The Commission has no significant concentrations of credit risk as it does not have any credit customers and only invests funds with registered banks with specified credit ratings.

Liquidity risk

Liquidity risk is the risk that the Commission will encounter difficulty raising liquid funds to meet commitments as the fall due. Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through adequate amount of committed credit facilities and the ability to close out market positions. The Commission aims to maintain flexibility in funding by keeping committed credit lines available.

In meeting its liquidity requirements, the Commission maintains a target level of investments that must mature within specified timeframes.

The Commission holds cash with Kiwi Bank, National Bank and BNZ. These banks are part of the Crown Retail Deposit Scheme. Deposits up to $1million held with these banks are guaranteed by the Crown.

(o) Critical accounting estimates and assumptions

In preparing these Financial Forecasts the Commission has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectation or future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below:

Property, plant and equipment useful lives and residual values

At each balance date the Commission reviews the useful lives and residual values of its property, plant and equipment. Assessing the appropriateness of useful life and residual value estimates of property, plant and equipment requires the Commission to consider a number of factors such as the physical condition of the asset, expected period of use of the asset by the Commission, and expected disposal proceeds from the future sale of the asset.

The total cost of the sub-lease of Cigna House has been estimated and included in the current year's lease, rental and outgoings expense. This cost has been calculated by discounting the future net cash outflows of the sub-lease at a discount rate of 5%.

An incorrect estimate of the useful life or residual value will impact on the depreciable amount of an asset, therefore impacting on the depreciation expense recognised in the Forecast of Comprehensive Income, and carrying amount of the asset in the Forecast of Financial Position. The Commission minimises the risk of this estimation uncertainty by:

- physical inspection of assets;
- asset replacement programmes;
- analysis of prior asset sales.

The Commission has not made any significant changes to past assumptions concerning useful lives and residual values.

Critical judgements in applying the Commission's accounting policies

Management has exercised the following critical judgements in applying the Commission's accounting policies.

Lease classification

Determining whether a lease agreement is finance or an operating lease requires judgment as to whether the agreement transfers substantially all the risks and rewards of ownership to the Commission. Judgment 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 recognized in the statement of financial position as property, plant and equipment, whereas for an operating lease no such asset is recognized.

The Commission has exercised its judgment on the appropriate classification of equipment leases and, has determined that the lease arrangement with Fuji Xerox is a finance lease.

2011 Forecasts and Projections to 2014

Cash flow projection

Figures exclude GST unless specified

2011 forecast and projection to 2014 Statement of comprehensive income					
	Actual	**Forecast**	**Forecast**	**Forecast**	**Forecast**
Year ending:	Jun-10	Jun-11	Jun-12	Jun-13	Jun-14
Revenue:	$000	$000	$000	$000	$000
Crown	3,938	3,938	3,865	3,865	3,865
Other/lease	193	126	126	126	126
Cost recoveries	0	0	0	0	0
Gifted Income	0	87	0	0	0
Profit on sale of fixed assets	0	0	0	0	0
Interest on deposits	30	30	11	11	11
Total revenue	4,161	4,181	4,002	4,002	4,002
Expenses:					
Audit NZ	12	16	17	17	17
Capital Charge	45	89	0	0	0
Commissioners' fees (excluding expenses)	147	147	136	137	139
Depreciation	63	80	233	196	165
Personnel costs	2,072	2,101	2,101	2,143	2,153
Lease, rentals and outgoings	836	894	853	840	824
Loss on sale of fixed assets					
Other operating costs	877	756	661	667	703
Total expenses	4,052	4,072	4,002	4,002	4,002
Surplus (deficit)	109	109	0	0	0
Other comprehensive income:					
Total other comprehensive income	0	0	0	0	0
Total Comprehensive Income	109	109	0	0	0
Surplus (deficit) attributable to:					
Commission	109	109	0	0	0
Minority Interest	0	0	0	0	0
Crown Revenue including GST	4,430	4,479	4,445	4,445	4,445

2011 forecast and projection to 2014 Statement of financial position					
Year ending: **Assets**	Actual Jun-10 $000	Forecast Jun-11 $000	Forecast Jun-12 $000	Forecast Jun-13 $000	Forecast Jun-14 $000
Cash and Cash Equivalent	1,359	627	727	795	860
Prepayments	8	15	20	20	20
Trade and other Receivables	12	10	10	10	10
Total Non-Current Assets	423	1,205	1,009	862	752
Total Assets	**1,802**	**1,857**	**1,766**	**1,687**	**1,642**
Liabilities					
Trade and other payables	141	140	118	110	110
Employee benefits	168	180	180	175	175
Finance Lease	89	58	31	6	0
Provision for rental loss	216	181	139	98	59
Total liabilities	614	559	468	389	344
Taxpayers' funds	1,189	1,298	1,298	1,298	1,298
Taxpayers funds as a percentage of total assets.	66%	66%	70%	73%	77%
Ratio of current assets to current liabilities	2	2	1.2	1.6	2.1
Ratio of fixed assets to total assets.	0.2	0.2	0.6	0.6	0.5
Taxpayers' funds:					
Taxpayers' funds at beginning of year	445	1,189	1,298	1,298	1,298
Surplus (deficit) for year	109	109	0	0	0
Capital injection	635	0	0	0	0
Taxpayers' funds at end of year	1,189	1,298	1,298	1,298	1,298

2011 forecast and projection to 2014 Cash flow statement					
Year ending: **Cash flows from operating activities:**	Actual Jun-10 $000	Forecast Jun-11 $000	Forecast Jun-12 $000	Forecast Jun-13 $000	Forecast Jun-14 $000
Cash provided from:					
Supply of outputs - to Crown	3,938	3,938	3,865	3,865	3,865
Other income	194	215	126	126	126
Interest	30	30	11	11	11
Cash disbursed to:					
Cost of producing outputs	-3,929	-4,320	-3,832	-3,864	-3,867
Payment of capital charge to Crown	-45	-45	-89	0	0
Net cash flows from operating activities	188	188	-226	170	138
Cash flows from investing activities:					
Cash provided from:					
Sale of investments	0	0	0	0	0
Cash disbursed to:					
Purchase of fixed assets	-160	-507	-70	-70	-70
Net cash flows from investing activities	-160	-160	-507	-70	-70
Cash flows from financing activities:					
Cash provided from:					
Capital contribution from Crown	635	0	0	0	0
Cash disbursed to:					
Payment of surplus to Crown	0	0	0	0	0
Net cash flows from financing activities	635	635	0	0	0
Net increase (decrease) in cash held -	663	663	-733	100	68
Cash at beginning of period	696	1,359	627	727	795
Gain (loss) effect of exchange rate changes	0	0	0	0	0
Cash at end of period	1,359	627	727	795	860

2011 forecast and projection to 2014 Capital expenditure					
Year ending: **Fixed asset programme**	Actual Jun-10 $000	Forecast Jun-11 $000	Forecast Jun-12 $000	Forecast Jun-13 $000	Forecast Jun-14 $000
Capital	635	0	0	0	0
Depreciation	40	80	233	196	165
AIMS Hardware and Software	300	422	0	0	0
Computer equipment	10	35	30	30	30
Investigation, Furniture & fittings, office equipment	30	50	40	40	40
Total acquisition cost	340	507	70	70	70
Average total acquisition cost over forecast 5 years					211
Capital expenditure as a percentage of fixed assets	80%	42%	7%	8%	9%
Average capital expenditure as a % of fixed assets over forecast 5 years					29%
Sale value of surplus capital items	0	0	0	0	0
Profit/(loss) on sale of surplus capital items	0	0	0	0	0
Average sale value over forecast 5 years					0
Avg net cost of fixed assets					211

John Marshall QC
Chief Commissioner

Pauline Winter QSO
Deputy Chief Commissioner

Transport Accident Investigation Commission
www.taic.org.nz | inquiries@taic.org.nz
Phone +64 4 473 3112 or 0800 188 926
Level 16 | AXA Centre | 80 The Terrace
PO Box 10 323 | Wellington 6143 | New Zealand