



MEETING OF THE CIVIL AVIATION AUTHORITY

(CAA Office, Grand Harbour Complex, Grand Cayman, 16 September 2010 at 1:00 PM)

Agenda item ____: IP/01 – Annual Report 2009/10

(Presented by DGCA)

SUMMARY

This information paper presents the CAACI's activities and financial performance for the financial year 2009/10.

1.0 Introduction

1.1 The Civil Aviation Authority of the Cayman Islands (CAACI) is a statutory authority governed by the Civil Aviation Authority Law (2005 Revision). The primary function of the Authority is to maintain effective regulatory oversight (both technical and economic) of all aviation activities within the Cayman Islands to ensure the safety of air navigation and aircraft in accordance with the standards and recommended practices of the International Civil Aviation Organisation. This includes registration of aircraft, the regulation of air traffic services, the certification of operators of aircraft and licensing of air crews, the licensing of air transport services, and the certification and licensing of airports.

1.2 The Authority is governed by a Board of Directors that is responsible for the policy and general administration of the affairs and business of the Authority. Regulatory oversight matters are carried out in accordance with the powers conferred on the Governor through the Air Navigation (Overseas Territories) Order and delegated to the Director-General.

1.3 The Authority is financed through fees charged for its regulatory activities in accordance with the Air Navigation (Fees) Regulations 2006. The main revenue streams are fees charged for the certification and licensing of aerodromes, aircraft registration and certification of air transport operators. The Authority is financially sustainable and is currently not dependent upon any Government subsidy. The healthy financial state of the Authority can be attributed to the stewardship of the Director-General, an effective senior management team, dedicated employees and a supportive Board of Directors.

2.0 Board of Directors

2.1 Appointees to the Board are:

Ms. Sheridan Brooks-Hurst	Chairman
Mr. Kirkland Nixon	Deputy Chairman
Mr. Christopher Bodden	Director
Mr. Morris Garcia	Director
Mr. William McTaggart	Director
Mr. P. H. Richard Smith	Ex-Officio

2.2 Meetings of the Board

The Board held regular meetings on the following dates:

- i) 7 September 2009
- ii) 5 November 2009
- iii) 14 January 2010
- iv) 11 February 2010
- v) 18 March 2010
- vi) 14 May 2010
- vii) 20 May 2010
- viii) 17 June 2010

2.3 Board Decisions and Policies

- 2.3.1 7 September 2009 - The Board agreed that the Authority should strive to retain a year's expenditure in a reserve fund
- 2.3.2 5 November 2009 - The Board authorised the DGAC to engage negotiations with The Professional Village (TPV) in regards to future office accommodations for the CAACI. Negotiations were conditional upon:
 - a) The CAACI being absolved, in writing, by Government from any obligation to occupy office space at the new Government Administration Building.
 - b) No financial or other commitment to be made to TPV without the Board's final approval.
- 2.3.4 14 January 2010 - The Board agreed that the CAACI should pursue negotiations with TPV for the purchase option for the entire top floor of the building consisting of approximately 7,500 sq. ft.
- 2.3.5 11 February 2010 – The Board endorsed the development and implementation of QMS for the Authority.
- 2.3.6 18 March 2010 –
 - a) The Board concluded its review of the DGCA's performance appraisal for the 2008/09 period.
 - b) The Board resolved to write off the CI\$1.1M bad debt of airport related accounts receivable inherited by the CAACI during the division of assets with the CIAA in May 2007.
 - c) The Board authorized dividend payment of CI\$2M to the Government.

- 2.3.7 20 May 2010 - The Board endorsed the Authority's initiatives to pursue revenue opportunities in emerging global aviation markets.

3.0 Personnel & Administrative Matters

3.1 Staffing – changes to the staff complement for the period of July 1, 2009 – June 30, 2010 as follows:

- The staff complement as of 30 June was 19 persons.
- During the year there were changes as follows:-
- The Director of Air Safety Regulation retired and a replacement was hired in September of 2009
- The Airworthiness Manager resigned and elected to join the contracted surveyors out of the London Office and a replacement was hired in September
- A replacement for the Director of Air Navigation Services was hired in September.

3.1.1 Various training sessions for both technical and administrative staff were conducted during the course of the year to ensure that technical staff maintained competences and received regulatory training as required. Administrative staff training was also conducted to improve skill sets and increase productivity and efficiency including the following:

- IS-BAO Workshop which was attended by Senior Managers and ASR staff.
- Introduction to Quality Management System (QMS)
- Air Law training which was conducted by ASSI
- CAACI Aircraft Registry training for industry partners
- Air Carrier Licensing Officer successfully passed the IATA Introduction to Air Transportation Course in April 2010.
- Technical staff from the Air Safety Regulation and Air Navigation Services
- Regulation divisions attended an audit training workshop conducted by the ASSI.
- Various courses relating to interpersonal skills training and development was offered to staff throughout the organization.

3.2 IT matters – continuous refinement of Citrix platform, DR and Business Continuity agreement with Brac Informatics. Other major IT developments include:-

- 3.2.1 Minor workstation replacements for staff, (normal turnaround)
- 3.2.2 Email restructuring in preparation for major archiving operation (estimated 2/3-year retention left in place, everything older moved to personal archive for each user) – old mail will then be accessible via a local Web interface.
- 3.2.3 DR Testing complete in preparation for the Hurricane season (current).

4.0 Technical report

4.1 Air Safety Regulation Division

4.1.1 The Air Safety Regulation (ASR) Division is responsible for the technical/safety regulation of the local air operator certificate holders and all aircraft on the Cayman Islands

Aircraft Registry locally and internationally. Lead by the ASR team at head-office in Grand Cayman, there are also 3 contracted airworthiness surveyors located in the UK, 2 in Germany and 3 in the North American marketplace (including Canada) which support the required inspections and airworthiness surveys across the globe.

4.1.2 During the last quarter a revised 83 bis agreement was signed with Saudi Arabia and progress was made toward the signing of an agreement with Jordan.

4.1.3 – Specifics of aircraft registrants:-

→ Air Operator Certificate holders

- Cayman Airways Ltd.
- Cayman Airways Express
- Cayman Island Helicopters
- MRCU
- Royal Cayman Islands Police

→ Aircraft Register

- Aircraft Registered as of 30 June 2010: 179
- Aircraft deregistered during this quarter: 7

4.1.4 The ASR division also provides key resources for the aviation tradeshow with senior technical personnel from the head-office in Grand Cayman as well as the UK office and at times contracted surveyors in attendance to speak on aircraft registration and on-going airworthiness and flight operations issues.

4.2 Air Navigation Services Regulation Division

4.2.1 The majority of the latter part of 2009 was spent addressing issues that stemmed from the ASSI audit of the CAACI in September 2009 and its relation to aerodrome regulation.

4.2.2 Further work was conducted with Transport Canada on the IASD project, including attendance at ICAO meetings by the DGCA and the Aerodrome Inspector.

4.2.3 During the first few months of the year 2010 preparations were in progress to carry out the bi-annual audit of the CIAA facilities in accordance with the CAACI's Audit Procedures Manual. The audit took place during the last two weeks of March with the exit meeting being held on 1 April 2010. Two additional auditors were sub-contracted in to assist with the audits of ATC and CNS/ATM due to the size of the task and the Divisions limited resources.

4.2.4 Prepared and submitted the formal audit reports resulting from the bi-ennial audit of the CIAA carried out during March 2010.

4.2.5 Researched and produced a draft paper on the control of recreational flying activities as a discussion paper to assist government in the formulation of policy.

4.2.6 Discussions with MRCU and CUC concerning the lighting of obstacles to ensure that the MRCU can operate safely whilst reducing the level of light pollution across the islands. The intention is to recommend an update of the legislation

contained in Aerial Spraying Law (last revised in 1977) to take into account new technology and the higher minimum flying limits required by the spray pilots.

4.2.7 In consultation with the relevant stakeholders, developed operating information and procedures for the use of Little Cayman. This was subsequently published in an Aeronautical Information Circular (AIC). As part of the process of improving the operating environment at Little Cayman and in liaison with the local authorities, arranged for limited runway and apron markings to be applied.

4.2.8 Provided regulatory oversight of the Cayman Brac bi-annual Airport exercise.

4.2.9 Provided regulatory oversight for the major repairs to the GA apron at ORIA.

4.2.10 Provided audit training for RFFS inspectors.

4.2.11 Reviewed the CIAA draft version of the Airport Emergency Plan (AEP) – not yet approved, awaiting further input.

4.2.12 Reviewed the CIAA wildlife plan – not yet approved, awaiting further input.

4.2.13 Reviewed the CIAA Apron Safety Plan – not yet approved, awaiting further input.

4.2.14 Assisted RFFS in developing procedures for the testing of foam ratios.

5.0 Economic Regulatory Report

This section of the report will deal with the commercial issues and economic regulatory issues relating to the licensing of air transport services, government relations and bilateral agreements; aerodrome and airline economic regulation, tariff monitoring and approvals, etc.

5.1 Continued discussions with Cayman Airways on the filing of tariffs, taxes and applicable fees and reporting of such to the CAACI.

5.2 Two 3-month operating permits were renewed for Air Ambulance Professionals (May 2010) and Fairwinds Air Charter (June 2010) – non-scheduled/charter operators.

5.3 Continued the monitoring of fares and tariffs filed by the scheduled carriers.

5.4 Number of operating permits issued in the reporting period:
Operating Permits - The months of April – June follow the traditional high tourism season for the application of ad hoc non-scheduled/charter air service operating permits by foreign carriers operating into the territory; however, it was observed that

there were higher than the same period for the previous year, and maybe indicative of a recovering tourism industry for this segment of the market.

Months	Non-Scheduled 2009	Non-Scheduled 2010
April	31	41
May	14	36
June	20	22

Non-scheduled Permits Issued for 2009/2010	Scheduled Permits Issued for 2009/2010
414	15

5.5 During the last quarter (April – June) eight (8) Airlines were granted scheduled air service permits of these seven (7) Airlines were granted renewals for 2010 summer season (Air Jamaica, American Airlines, Continental Airlines, Delta Airlines, and US Airways) and one (1) new permit was issued to WestJet for the 2010 summer season .

5.6 During the last quarter the Director of Commercial Affairs Regulation and the Air Carrier Licensing Officer both prepared for and attended the ICAO International Conference on Air-service Negotiations (ICAN) along with the UK Department for Transport representatives. ICAN was held in Montego Bay, Jamaica at the end of June. This was significant and beneficial as the Cayman Islands had never before attended. It afforded both officers the opportunity to meet with their counter-parts and foreign officials from over 38 different countries. In particular the Cayman Islands participated in direct meetings with the US and Jamaica to review the existing air service agreement and discuss conceptual progression towards more liberal open skies agreements.

5.7 There have been ongoing meetings with local legal/financial industry representatives regarding issues with the AN(OT)O, mortgage fees and aircraft mortgage regulations and Cape Town Convention.

5.8 In April Cabinet also re-appointed the members of the Air Transport Licensing Authority (with one member change) including the re-appointment of the Director of Commercial Affairs Regulation & Admin as the Secretary and a non-voting member of the ATLA.

5.9 The DCAR&A assisted in the preparation of CAACI presentation to the CIAA Board of Directors and attended meeting with the DGCA.

6.0 Business Development

6.1 Marketing/promotional activities report or preparation therefore:-

6.1.1 During the year the CAACI attended the Monaco Yacht Show as a joint promotion with the Cayman Islands Shipping Registry (September 2009) to capitalize on the synergy between the target audiences of the yacht and aircraft registries. The CAACI also attended the National Business Aviation Association (NBAA) 62nd show in Orlando, Florida (October 2009) – which was highly successful with over 22,920 attendees and 1,075 exhibitors. Following on in the spring of 2010 the CAACI attended and exhibited at the 10th annual European Business Aviation Conference & Exhibition (EBACE) tradeshow in Geneva, Switzerland in May to promote the CI Aircraft Registry and related services available in the jurisdiction. Attending with the CAACI was legal partner Maples and Calder, with representation materials provided by the CI Department of Tourism, Cayman Islands Shipping Registry and Island Air (local FBO). The show attracted a record 11, 174 attendees and boasted a sold out static display.

6.1.2 Arrangements for NBAA 2010 are currently underway. This tradeshow is planned for October 2010, the largest in North America attracting upwards of 35,000 attendees annually.

6.1.3 Newsletter finalized: a quarterly newsletter that will be distributed to various audiences of the CAACI. This will feature interesting tid bits about the CAACI, developments, announcement newsworthy happenings, staff development and drive persons needing technical information to the appropriate sections of the website. The first edition to be launched in July 2010.

6.1.4 OTAR Roadshow: preparations are underway for the Director of Air Safety Regulation and the Senior Surveyor (UK) to conduct OTAR transition training in strategic locations globally, i.e., Basel, Farnborough, and Dubai during September 2010, in order to duly educate and assist our client base with the incoming regulations.

7.0 Financial report

7.1 The year ending June 30, 2010 yielded an unaudited net income of CI\$1,585,000 which is \$796,000 (or 101%) over the budgeted period to date net income of \$789,000. This overage in net income is mainly due to the savings in expenses occurring in different areas, the largest portion being in personnel costs, which show a savings of 19% over budget. A Cabinet Directive on March 30, 2010 indicated that a savings of at least 8% on the original budget should be achieved for personnel costs for the year ending June 30, 2010. The CAACI has more than doubled this requirement. The Cabinet also directed that SAGC's should also try to achieve an overall 10% reduction in expenses to original budget this has also been doubled with an achievement of 24% savings in controllable, recurrent expenses over the original budget (Budgeted \$3,981, expensed \$3,036).

7.2 Savings in marketing supplies and costs and related marketing travel also make up a significant part of the savings in expenses. A portion of this resulted from cancellation of the CAACI's planned exhibition at the Dubai AirShow in November 2009 due to a change in strategic marketing plans. In most other expense areas savings were realised to the end of the fiscal year. These include UK office costs, technical contracted services, utilities and office supplies. Work permit fees were 24% over the budgeted amount due to the work permit fees being increased by significant amounts in January 2010. Insurance expense had been over-accrued in the two previous years as the CAA was not aware that the indemnity premium covered two years and the invoices from Risk Management were being received a year after they were due. This resulted in an adjustment showing as a credit in insurance expense during the year 2010.

7.3 Revenues are \$56,000 (4%) under budgeted amount for the year ending June, 2010. This decrease is mainly due to the fall off in new aircraft registrations compared to last year. There were 19 new registrations during the year accompanied by 25 de-registrations of aircraft which yielded a net loss of 6 aircraft on the Register between July 1, 2009 and June 30, 2010. There was also a significant increase in aircraft changing ownership on the register during the year with 13 aircraft already on the register being issued new Certificates of Registration for new owners.

Revenue from operating permits is 12% above what was budgeted. Explanation of the revenue billed during this period is given in the report from the Commercial Affairs regulation section of this report.

7.4 Capital Expenditure

Capital Expenditure was also \$9,000 (31%) below what was budgeted. There was a nominal amount of capital expenditure purchased to accommodate new staff during the quarter ending December 31, 2009. There was also \$1,400 spent on rewiring faulty electrical outlets and light fixtures as part of leasehold improvements and \$16,200 that was spent on a new copier which replaced a 5.5 year old, completely depreciated machine.

See detailed financials in Appendix A.

Appendix A

Financials for year ending June 30, 2010

SUMMARY

Comparison of 2009/10 budget with actual results for year ending June 30, 2010

Year June 2010 Actual \$'000	Year June 2010 Budget \$'000	Over/ (under) CI\$000	CLASSIFICATION Revenue	Remarks
3,609	3,700	(91)	Aircraft certification, licensing and regulatory oversight	Decrease in aircraft registrations over same period for prior year therefore a decrease initial C of A fees and registration fees were realized.
145	130	15	Air operator permit approval	Increase over budget
1,000	1,000	0	Aerodrome certification and licensing	MoU between CAACI and CIAA re oversight charges.
35	15	20	Bank interest	Budgeted amount was very conservative given the economic climate
4,789	4,845	(56)	Total revenue	

Year June 2010 Actual \$'000	Year June 2010 Budget \$'000	Over/ (under)	CLASSIFICATION Recurrent/ Controllable Expenses	Remarks
2,033	2,521	(488)	Personnel costs	Salaries, bonus, pension, health, training
66	126	(60)	Travel costs-Admin & Training	Travel Costs for administration, training
49	131	(82)	Travel costs – Marketing only	Attending tradeshows in USA, Europe and Middle East.
34	112	(78)	Marketing & promotion supplies/materials	C.I. aircraft registry – registration costs, booths, brochures, promotional item: Most marketing costs incurred this period were reimbursed by marketing alliances
35	30	5	Hosting ICAO conference	Hosting annual conference for Central Caribbean DCA's
62	103	(41)	Contracted services	IT, Office Cleaning and (technical contracts: unused)
51	71	(20)	Utilities	Telephone, water & electricity
(4)	65	(69)	Insurance	Indemnity, property, liability & vehicle
4	8		Legal Fees	Legal fees, general consultancy, subscriptions, staff work permits
40	59	(4)	Professional Fees,	
5	6		Dues, subs	
47	38	(19)	Work permit fees	
		(1)		
		9		
134	141	(7)	Office rental, maintenance, etc	Grand Cayman Office rental & Maintenance
389	446	(57)	Overseas Contractors & UK office costs	Rent, full time and part time contract surveyors' salaries, office supplies and maintenance
19	26	(7)	Office supplies	Printing, stationery & consumables
36	35	1	Other general & admin costs	Advertising, computer and website costs and bank charges
12	18	(6)	Vehicle operation	Operation, maintenance & upkeep
19	30	(11)	Client and staff relations/goodwill expenses	DGCA entertainment, Christmas party, special meetings and staff events.
5	15	(10)	CAA Board	Payment, meeting supplies, travel, etc.

3,036	3,981	(945)	Total recurrent/controllable expenditure	Total expenditure under budget largely due to personnel costs budgeted not realised
1,753	864	889	Net Income before depreciation and bad debt provision	Net Income before depreciation and bad debt provision - over budget (Cash transactions)
Year June 2010 Actual \$'000	Year June 2010 Budget \$'000	Over/ (under)	CLASSIFICATION Non- controllable expenses	Remarks
109	0	109	Bad debt provision	Provision against uncollectible accounts for the year ending June 30, 2010 (not yet written off)
59	75	(16)	Depreciation	Depreciation on Furniture, Fixtures, Computers, Office equipment & Leasehold Improvements (Non Cash expense)
1,585	789	796	Net Income	Net Income over budgeted amount
			Capital Expenditure	
0	10	(7)	Furniture & Fixtures	Replacement furniture, filing cabinets
1	4	(3)	Leasehold improvements	Improvements/upgrades to Grand Harbour office
19	15	(8)	Computers, Equipment & software	Additional staff computers, replacement copier
20	29	(9)	Total capital expenditure	

END.