Frequently Asked Questions

Why has CAA’s funding been reviewed?
New Zealand has a well-regarded civil aviation system and a good aviation safety record. However, both the government and a range of reviews (including a fourth critical report by the Office of the Auditor-General) identified the need for a ‘step change’ in the CAA’s performance as both a regulator and an organisation.

Key issues identified for the entity include a growing revenue shortfall and reducing cash reserves, ineffective leadership and management, safety system oversight and regulatory approaches falling behind modern practice, and difficulty keeping pace with growing sector demand and complexity.

Underlying funding arrangements and rates for fees, charges, and levies have not been reviewed substantively for 15 years and do not align with cost recovery principles, meaning the right people are not paying enough for related services.

On what basis have the new rates been calculated?
The methods used are in line with government guidance.

The new hourly rate is based on analysis of aggregate time recorded on chargeable services and fairly reflects the total costs. This includes all overheads except regulatory travel within New Zealand. The rate will be progressively increased from the current 33 per cent cost recovery to reach approximately 75 per cent of cost recovery by 2014/15.

Fixed fees have been similarly calculated but on the basis of immediately recovering the full cost of providing the service.

How do the new rates differ from what was consulted on in October 2010?
The following table outlines the difference between what was consulted in 2010 and the current proposal.

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<tbody>
<tr>
<td>Hourly charges</td>
<td>Phased from $118 to $206 (by 2013/2014) Further movement to $242 in 2014/15.</td>
<td>Phased annually from $118 to $247 by 2014/2015 to 75% of full cost recovery.</td>
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<tr>
<td>Fixed fees</td>
<td>Immediate move (from 2011/12) to full cost recovery based on $242 hourly rate.</td>
<td>Immediate move (from 2012/13) towards full cost recovery based on $242 hourly rate</td>
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New fixed fees
- Medical certification administration.
- Assessing appeals on medical certification.
- Cardiology assessments.
- Medical related fees at full cost recovery of $242 hourly rate.
- Deregistration of foreign-owned aircraft $383.
- Registration under the Cape Town Convention $484.

From 2012/13, a medical certification application fee of $272 (for each medical assessment) covering all Civil Aviation Authority medical certification processing and system management costs.

Medical fees at full cost-recovery of $213 hourly rate.
- Deregistration of foreign-owned aircraft $383.
- Registration under the Cape Town Convention $243 (lower rates reflect further analysis of costs).

Levy
- Equalise the domestic and international passenger safety levy rates ($1.56 in 2011/12 rising to $1.64 in 2013/14).
- Reduce Australia New Zealand Arrangement levy discount compared to domestic passenger levy (down to 6% by 2013/14).
- Remove Aeronautical Information Services levy.
- Cargo levy.
- Fuel levy.
- Increase participation levies (approximately 30%).

Move towards common rate for domestic and international passenger safety levies. International at a rate of 50% of the difference between the current international rate and the new equalised rate. (domestic $1.71, international $1.30).
- Reduce Australia New Zealand Arrangement levy discount (down to 10% from 2012/13) $1.55.
- Remove Aeronautical Information Services levy.
- No Cargo levy.
- No Fuel levy.
- Increase participation levies (approximately 19%).

The cargo levy option was not pursued because the revenue generated was not sufficient to warrant its introduction compared to the compliance costs involved.

Why has it taken so long since the October 2010 consultation to address the changes to fees, charges and levies?

During consultation, the civil aviation community said it wanted to see the CAA reduce its costs and introduce efficiencies into its operation prior to loading additional costs onto its clients.

The CAA delayed its funding proposal to government until it had addressed effectiveness and efficiency issues and started a process to improve its performance. A Value for Money (VfM) review was conducted in early 2011, and a change programme followed in June 2011. This has resulted in significant organisational changes.

The current proposals reflect a funding structure that is supportive of the CAA’s strategic direction and which enables an investment in capability and performance necessary for the CAA to operate effectively in a changing environment. The CAA has again consulted with the Sector Reference Group and spoken directly with many interested parties directly affected. A further round of departmental consultation has also taken place.

Why has it taken 15 years for a review to be completed and implemented?

The CAA proposed new fees early in first term of the current government and has implemented them as quickly as possible based on industry feedback. A further review will occur before 2015-16 with the intent of ensuring fees reflect the true costs of services.
**Why can't the government provide the CAA with more funding?**

The government has already made a significant financial contribution by transferring unneeded Crown funding of $7.5 million from Avsec to the CAA. This transfer enabled the CAA to fund its underlying 2011/12 operating deficit and most of its Change Programme.

The civil aviation sector benefits from the CAA’s services. It is appropriate that the sector should meet the related costs – both under the CAA’s funding principles and also under the charging guidelines set by Treasury and the Office of the Auditor-General.

**In what areas will the additional revenue be spent?**

Expenditure over the next three years includes:

- Q completing the remaining elements of the Change Programme. These changes will embed within the organisation an improved regulatory approach and organisational functioning that the Change Programme has sought to bring about and which are aimed at making the Civil Aviation Authority a more effective and responsive regulator,

- Q establishing around 12 new positions ¹. These are aimed at strengthening the Civil Aviation Authority’s regulatory strategy and safety analysis capabilities. The additional capability will be applied to analysis of regulatory interventions and will strengthen capability in areas such as project management, quality assurance and risk, regulatory investigations and the development of operational regulatory strategy. These capabilities are a key part of becoming a risk-based and outcome-focused regulator,

- Q filling a small number of existing vacancies (around six positions) where, to date, the CAA has experienced difficulty in attracting and retaining technical and specialist expertise. It competes in an international labour market for these resources and, as a consequence, is subject to international movements in remuneration, and

- Q operating expenditure associated with funding the replacement of the organisation’s core safety information system². This includes work on data quality standards as well as work on developing options for a new system. The new system will enable more and better analysis of safety risk.

Common to all of these initiatives is the objective of strengthening the capabilities of the CAA (people, systems and processes) to deliver greater efficiency and effectiveness.

**What outcomes are expected by the CAA from the expenditure of this additional revenue?**

The outcomes are designed to promote a fit-for-purpose regulator that enables the aviation sector to deliver better safety and economic benefits for New Zealand.

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¹ Some positions have been disestablished.

² Decisions regarding the method of financing of capital expenditure associated with the replacement system have yet to be taken (eg some form of loan or equity injection) and will be the subject of a separate and later business case.
The outcomes are expected to be seen in three main ways:

- The effectiveness of the civil aviation system will be enhanced
- A sustained improvement in safety performance will be achieved
- Stakeholder, including public, trust and confidence in the regulatory system and the regulator will be enhanced.

**How will the CAA’s improved performance be demonstrated?**

The CAA is publicly accountable for the way it performs. As a Crown entity, it is publicly accountable through its annual Statement of Intent and the corresponding Annual Report.

The CAA’s performance is also overseen by the Minister of Transport and, on his behalf, by the Ministry of Transport.

The CAA will keep the Minister updated regularly on its performance and the Ministry will provide him with an independent view and advice on further action, if needed.

The CAA also publishes key information on its website, including its reports on progress in addressing the Office of the Auditor General’s recommendations.

**Has the review fully addressed cross-subsidisation?**

No. Moving to full cost recovery in one step would require an increase in the hourly rate beyond what is proposed. The CAA is conscious of the need to allow the general aviation sector time to adjust to the new levels and has therefore introduced a stepped approach to reducing the cross-subsidisation.

Before the changes were made to the funding regime, fees and charges recovered 33 per cent of the related costs. By 2014/15, they will recover around 75 per cent of those costs.

The CAA’s performance and funding will be formally reviewed again in three years at which time cross-subsidisation will be further addressed. The CAA will look to decrease costs in the period to 2015-18 so that fees and charges reflect full cost-recovery, and the need for any further increases is reduced or removed.

**What is the reason behind revoking the Aeronautical Information Services Levies Order?**

The Aeronautical Information Services Levy was overly complex, out of date and charged the wrong people. An example of the complexity was that Airways Corporation Limited was a major levy payer but was then funded by that levy to provide aeronautical information. The funding review provided the opportunity to simplify the process by funding the related costs through the passenger safety levies, as passengers are the final beneficiary of aeronautical information.
**What are the reasons for introducing a new medical certification application fee?**

**What does the medical unit actually do?**

For the last 15 years, passenger levies have met the costs of the medical unit rather than those applying for medical certificates. The government and the CAA considers that people who choose to fly, or operate airlines and aircraft should meet the full wider cost of these operations. The new fee, payable before each medical assessment, reflects the full cost of operating the CAA’s medical unit.

The medical unit is responsible for managing the medical certificate process, including setting standards, appointing medical examiners, dealing with appeals, monitoring enforcement and maintaining records.

**When will the CAA next be reviewed?**

The CAA’s performance, capability, and funding will be formally reviewed in three years.

**Is it still safe to fly in New Zealand?**

Yes, it is definitely safe to fly in NZ. We have one of the best airline safety records in the world and the accident trend rate is down across the whole industry. But we can improve and some sectors need to work harder than others.

**Were other options considered to the new funding framework chosen, and why were they not selected?**

Yes, a range of scenarios and alternative charges were considered. The others could not, over the longer term, fund the services CAA considers are needed to address the issues and deliver the performance improvements that a number of reviews have sought. The cost of collection compared to revenue obtained was too high for some options. Reducing services was also considered, but this created undue risks to safety oversight and confidence in New Zealand’s aviation sector.

**How might operators be affected?**

 Operators will be paying more, as this is part of the strategy to make them pay a greater portion of the real cost of the services they receive, combined with it being the first major change to fees and charges in about 15 years.

- Aero clubs: Currently CAA charges amount to about $1.45 out of the typical $220 per hour hire charge. This would increase to about $3.10 in 2014/15. In comparison, airport landing fees might be $20 per flight.

- Agricultural aviation: Annual CAA charges average $3653 per operator or about $4.50 per hour. This would rise by an additional $3981 by 2014/15. Fuel costs are usually about $350 an hour and charge out rates about $1500 to $2000 an hour.

- Tourism: An operator currently paying $4000 in audit costs would pay an additional $4360 by 2014/15. In comparison, a 1% change in fuel prices could add $13,000 to their costs.
Pilots: will face increased charges for licences and the new fixed medical administration fee, but these will vary depending on their licence type and required frequency of medical checks. Some employers may choose to fund this cost. We expect some private pilot licence holders may opt for the new recreational pilot licence, which potentially has reduced medical requirements and costs.

If I’m a good safety performer, will I start seeing less of the CAA and will my costs reduce?
A significant part of the increases operators potentially face are for CAA’s new hourly auditing and inspection rates. CAA is moving to a more risk-based approach to its surveillance – the higher the risk the more hours required for audits and inspections. This means that operators have the ability to reduce audit and inspection costs by managing risk more effectively.

Why aren’t you gradually increasing all fees, given the big jump in all of them?
We have graduated what we believe is the change which will have the greatest financial impact – the hourly rates. We have tried to balance the CAA’s immediate need for funding with the impact on those paying fees. The new fees should not come as a surprise to the industry as we proposed very similar ones in 2010.

Would your fees have increased as much if you had stayed in your old offices?
No. However the CAA was facing increased costs in its Petone offices, as it was due to upgrade both space and fit out. The decision was made to move to a central Wellington location for a range of reasons including better access to stakeholders and to better attract potential employees.

The new charges are designed to reflect all our costs, including the additional cost of the new lease and include the cost savings we have recently made as a result of organisational changes and our value for money study. The CAA has also invested in improving its regulatory oversight capability as a risk-based regulator and this required a step-change approach to meet the increasing requirements of the global aviation safety environment.