



# Civil Aviation Authority

Consultation on proposals  
regarding

Changes to the Funding  
Arrangements for the  
CAA's Regulatory  
Functions  
2016-19

**Phase Two  
Consultation**



**Civil Aviation Authority of New Zealand**  
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New Zealand

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## A Message from the Authority Chairman

This discussion document outlines the Civil Aviation Authority's proposed pricing approach for the next three years, and follows the earlier "who pays, and how" consultation phase in 2014. The focus now is on how much and whether they pay by way of a fee/charge or a levy or both.

In determining what should be paid, the Authority has continued to closely review operating costs which have in general terms matched the forecasts implicit within the 2011/12 funding review. Planned efficiencies in overhead reductions have been achieved, and considerable improvements in engagement capability implemented. In addition, as identified in the earlier review, initial steps have been taken to comprehensively improve the outdated internal systems within the Authority.

What was not foreseen was the need and opportunity to commence a broad review of flight management – a project now underway identified as New Southern Skies. This project has, and will continue to add for the period under review, an additional cost to the Authority.

Current intentions are that to some extent, these two significant additional investments may be funded from reserves.

Issues discussed during the 2014 initial consultation have largely been captured in these new proposed charges. Although there was discussion on the introduction of a fuel tax on similar lines to that operating in Australia, it was concluded by both the Authority and the Ministry of Transport that this would not add any improvement over the existing approach of fees, levies, and charges.

The proposed changes detailed in this consultation document encompass the main features: –

- the removal of hourly based charges for the Authority's surveillance and audit role;
- the introduction of a broader base of safety levies on commercial operations including adventure aviation, agricultural operations, and freight;
- the standardisation of passenger safety levies on international and domestic flights (with a deduced ANZA discount);
- a reduction in medical fees; and
- a retention of the current hourly rate on certification and associated activities.

The Authority acknowledges that these proposed changes will have differing impacts on sectors within the aviation community – and we have considered the impacts very carefully, particularly for small and medium size commercial operators. It believes that the intention behind these changes will achieve better equity between participants; introduce better alignment between the activity levels of commercial operations and the levies, fees and charges they pay; and will remove a perceived barrier to improving the interaction between CAA personnel and operators.

## Changes to the Funding Arrangements for the CAA's Regulatory Functions - 2016-19

The cost of undertaking these triennial funding reviews is itself significant, and accordingly the Authority will be considering how the process itself could be fundamentally improved.

We look forward to your evaluation of our proposals and your response. When consultation is completed and the Authority has finalised the proposed changes, recommendations will be made to the Minister for subsequent Cabinet consideration. Implementation of any changes is not expected until mid-2016.

A handwritten signature in black ink, appearing to read 'Nigel Gould', with a small dash at the end.

Nigel Gould  
Chairman  
Civil Aviation Authority

## Executive Summary

### Background

1. The Civil Aviation Authority (the CAA) last undertook a funding review in 2011 of its regulatory operations after an interval of nearly 15 years. As a result new charges came into effect in November 2012. At the time it was noted that a further review would be taken no later than June 2015, with the expectation that they would continue thereafter at three yearly intervals. While that 2012 review achieved its goal of returning financial sustainability to the Authority, it also led to consideration as to whether the funding framework it was based on was still fit for purpose after such a long period of elapsed time.
2. The previous review included an extensive examination of the value-for-money aspects of Authority's operations, and resulted in significant changes to the structure, expertise, and capability of the Authority's regulatory operations. In the intervening period the Authority's Board and management have gained high levels of confidence in the financial and operational process and improvements in our effectiveness and efficiency have continued.

### The Current Funding Review

3. This consultation document marks the next step in our funding review for the period from 2015. This funding review aims to ensure that our approach to recovering costs accurately reflects the regulatory activities we perform, and that levy and fee levels balance expected costs and revenues over the next three years.
4. The funding review process was divided into two phases. The first presented the overall framework for setting our levies and fees, and was directed at answering the questions of who should pay for our activities, and how should they pay (whether through an industry levy or a fee for service). The responses to the consultation in Phase One were generally supportive of the options presented. The second phase of the funding review (which is the focus of this consultation document) considers the appropriate level of regulatory levies and fees.
5. In determining the appropriateness of the various levies and charges we were guided by three questions:
  - A. Are the costs for the various regulatory activities being recovered from the most appropriate sources?
  - B. Is the funding sourced from levies appropriately balanced with funding sourced from fees and charges, and aligned to the logic of the regulatory interventions we apply?
  - C. Is the revenue generated matched to that required by the CAA to discharge its regulatory obligations, including meeting the Government's policy intentions on minimising the regulatory impost on participants in, and users of, the aviation system?

6. Having assessed the proportions of the our revenue from each of the major aviation sectors we developed a funding framework that enables us to generate the revenue we need to operate and to more appropriately balance the revenue sourced from the various sectors of the aviation system.

### Overview of proposals

7. Phase Two (this phase) has applied the approach developed as a result of Phase One to adjust fees, levies and charges for 2016-19, using the information gathered from the regional meetings, and from written and other feedback. Determining “who pays” and “how they pay” are prerequisites for the “how much is paid” questions which are addressed in Phase Two. Based on the funding framework adopted by the Authority, financial models have been developed that enable the actual levies, fees and charges for set levels of service delivery to be calculated and medium-term financial plans to be developed.
8. The proposals we discuss later in this document are based on the principle that the character of activities we undertake are, in a number of cases, either club or public goods; as opposed to their current classification as private goods. Reclassifying some activities as public or club goods means that the recovery of the costs of those activities has been re-considered. The consequence is that some activities that currently attract either fixed fees or hourly charges will need to be recovered, fully or partially, by means of a levy (or levies).
9. The CAA Board has endorsed the concept of introducing a range of new safety levies to address the reduced revenue from the hourly charges currently associated with surveillance, the loss of fixed fee revenues associated with medical certification, and the loss of some revenue from Participation levies.
10. Based on the framework we have developed, the Authority proposes:
  - § New rates for passenger levies (domestic, international and ANZA), equalising the domestic and international levy rates;
  - § The introduction of new Operator Safety Levies for Other Commercial operators;
  - § The introduction of new Operations Safety Levies for Other Commercial operators;
  - § That the Application fee for Medical Certification be reduced; and
  - § That all other fees and charges remain unchanged (noting that the Foreign Owner deregistration fee would be deleted and surveillance would no longer be charged for).



## Consultation

11. We have developed this consultation document to provide participants in, and users of, the aviation sector with the opportunity to provide feedback on our proposals. As previously, we will enable both written and direct feedback. We are planning a series of workshops for seven locations around New Zealand during late November and early December. Details are available at <http://www.caa.govt.nz/funding/index.html>.

## How this document is structured

12. This document is structured in the following way:
  - In Part One, we introduce Phase Two of the Triennial Funding Review and outline the Consultation process.
  - In Part Two, we set out the problems we are trying to resolve through responding to three policy questions.
  - In Part Three, we outline our proposals for changes to the levy, fees and charges framework.
  - In Part Four, we set out the proposed new and changed levies, fees and charges.
  - In Part Five, we show how the proposed changes respond to the three policy questions.
  - In Part Six, we set out the financial implications for the CAA of our proposed changes.
  - In Part Seven, we discuss how the funding framework might develop in the future.
  - In Part Eight, we discuss some of the implementation issues.
  - The Appendices provide supporting material including:
    - § Background on the CAA, safety improvements and efficiency improvements achieved;
    - § More financial detail;
    - § Summary of Proposals and Questions; and
    - § Glossary.

## Next Steps

13. Following receipt of the feedback from respondents, and analysis of the results, we will develop recommendations for the Minister of Transport on proposed changes to the regulations setting levies fees and charges.

## Part One: Introduction

### 2015 Funding Review

14. As we set out in the Phase One discussion document, this review is being carried out in two phases:
  - § Phase One - comprised a review of the basis upon which fees, levies and charges are struck. While this phase did not include consideration of the levels of those fees, levies and charges, it was a crucial step in the review process, as it focused on the framework for the recovery of costs of our regulatory oversight activities — in other words, the “who pays” and “how they pay” questions.
  - § Phase Two (this phase) - applied the approach developed as a result of Phase One to adjust fees, levies and charges for the 2015 to 2018 triennium, using the information gathered from the regional meetings, and from written and other feedback. Based on the funding framework adopted by the Authority, financial models have been developed that enable the actual levies, fees and charges for set levels of service delivery to be calculated and medium-term financial plans to be developed. Determining “who pays” and “how they pay” were prerequisites for the “how much is paid” questions which are addressed in Phase Two.

### Options Presented in the Phase One Discussion Document

15. The Phase One discussion document provided a description of a number of the options available to us. We sought feedback on:
  - § Our framework for making funding decisions, including our funding objectives, who should pay, and how should they pay; and
  - § Proposed changes to our funding mechanisms, which involved questions around better matching levies and fees to beneficiaries, achieving the right behavioural responses, and minimising transaction costs.
16. The CAA website contains links to:
  - § The initial [Phase One discussion document](#) which set out a number of options for change, and which included consultation questions; and
  - § A [full summary of feedback](#) received on those options, and other options proposed by respondents.
17. To understand the feedback, we reviewed documents and talked to people. We reflected on what we read and what people told us, and we concluded that:
  - § The current funding framework is substantially appropriate;
  - § Despite this, there are a number of areas where changes are required to better meet the requirements of the Central agencies (that is the Treasury and the Office of the

Auditor General) as set out in their guidance in relation to the difference between private, club and public goods;

- § The current funding of our surveillance activities is inappropriate; and
  - § The funding balance between passenger levies and revenue from other sectors in the aviation system is inappropriate and needs to be rebalanced.
18. While most of the views put forward by respondents are valid, not all comments were directly related to the options identified by CAA in the initial discussion document. In this category are the views on the objectives of the review, the scope of the review and on the definition of cost exacerbators. Many of the issues identified by respondents are common to all processes of setting fees and charges, and the proposals in this document seek to strike a reasonable balance between efficiency and practicality.
19. Some comments made by respondents sought the CAA's action to promote or encourage the General Aviation sector, and some of the economics-based feedback sought a more commercial approach to the setting of levies, fees and charges. It is important to be clear that the CAA is:
- § A safety regulator, **not** an economic regulator; and
  - § An agency of the state, **not** a commercial entity<sup>1</sup>.

### Process for consultation

20. The purpose of this consultation is to provide interested parties with the opportunity to comment on the proposals presented as a whole and an opportunity to comment on the new material that has arisen as a result of the first round of consultation (July/August 2014).
21. To help you to understand the options outlined in this consultation document, and to give you an opportunity to provide us with direct feedback we invite you to attend one of our consultation seminars being held during late-November and early-December 2015. At the seminars, we will explain the options and seek your views on them. The seminars are free of charge, and will be held in: Auckland, Hamilton, Palmerston North, Wellington, Nelson, Christchurch and Queenstown.
22. Further details of the seminars will be provided on the CAA website at <http://www.caa.govt.nz/funding/index.html> . We ask that you register your attendance via email at [consultation@caa.govt.nz](mailto:consultation@caa.govt.nz) a few days prior to the meeting.
23. Interested parties will be able to request additional information from the CAA, to help with their understanding of the underlying issues, and senior CAA managers will also be available to discuss or clarify the discussion document during the feedback period.

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<sup>1</sup> As such the CAA is required to operate under legislation, regulations, Government policy and guidance from Central Agencies.

## Changes to the Funding Arrangements for the CAA's Regulatory Functions - 2016-19

24. A template has been designed to help you formulate your feedback, and to help us analyse it. This template is available online at the CAA home page:  
<http://www.caa.govt.nz/funding/index.html>.
25. When completing the template, please give reasons for your responses, so we can clearly understand your viewpoint, and have suitable evidence in regard to any eventual decisions.
26. Written responses to this consultation document are sought by **5pm on 19 February 2016**.
27. Your response should be emailed to: [consultation@caa.govt.nz](mailto:consultation@caa.govt.nz) or by post to:

Project Manager – Funding Framework for Regulatory Services Review  
Civil Aviation Authority  
P O Box 2165  
**Wellington**

### Disclosure of Responses

28. Individual responses to this consultation document may be published or disclosed in accordance with the Official Information Act 1982 (OIA). Aggregate information from responses will be published.
29. Confidential information in your response should be clearly marked. Under the OIA this could be treated as grounds for withholding such information, so please explain in your response why any information should be regarded as confidential.
30. If we receive a request for disclosure of the information, we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances.

## Part Two: What are the problems we are trying to resolve?

31. The proposals discussed in detail later in this document are based on the principle that the character of activities undertaken by the CAA are, in a number of cases, either club or public goods; as opposed to their current classification as private goods<sup>2</sup>.
32. Reclassifying some activities as other than private goods means that the recovery of the costs of those activities needs to be re-considered. Some activities that currently attract either fixed fees or hourly charges will need to have their costs recovered, partially or fully, by means of a levy (or levies).
33. We outlined in the Phase One discussion document the issues we face in regard to our funding framework and how we might deal with them. There are three major policy questions that arise.

### The Policy Questions

34. When the CAA's funding regime is not meeting its objectives there will be distortions which will have negative effects on our ability to deliver our regulatory functions, and will have an impact on the aviation sector. Accordingly, the underlying policy questions to which this funding review is responding (i.e., the root causes of the problem regarding CAA funding) have been identified as:
  - A. Are the costs for the various regulatory activities being recovered from the most appropriate sources?
  - B. Is the funding sourced from levies appropriately balanced with funding sourced from fees and charges, and aligned to the logic of the regulatory interventions applied by the CAA?
  - C. Is the revenue generated matched to that required by the CAA to discharge its regulatory obligations, including meeting the Government's policy intentions on minimising the regulatory impost on participants in, and users of, the aviation system?
35. These questions will be addressed in turn below.

### Are the costs for the various regulatory activities being recovered from the most appropriate sources?

36. The CAA recovers its operating costs from a number of sources:
  - § Passenger Safety Levies
  - § Participation and Other Levies
  - § Fees and Charges

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<sup>2</sup> Described in paragraphs 377 to 380.

### § Vote and Contract Funding

### § Other Revenue

37. This review focuses on the balance between the first three of those revenue sources, as Vote and Contract Funding and Other Revenue have been excluded from consideration.

### *Who should contribute?*

38. Government guidance on fees and charges recommends that the contributing party should be some combination of beneficiaries and risk/cost exacerbators<sup>3</sup>. However, beneficiaries of regulatory activities are not always straightforward to identify. Refer to Appendix One for a brief summary of the guidance from Central Agencies, at paragraph 371 *ff*.
39. Beneficiaries could include a number of different groups or individuals or combinations of groups and individuals, depending on the activity. Regulatory activities often affect multiple beneficiaries, and in many cases the benefits will be diffuse. Those who exacerbate risk generally also cause more cost to be incurred by the consumer or the regulator (or both) as a consequence of their actions. As with beneficiaries, risk and cost exacerbators can be drawn from a range of groups that interact with the aviation system.
40. When determining beneficiaries, the Civil Aviation Rules are taken as given. For example, the rule requiring a particular participant to hold a document means that the participant will benefit from being able to undertake an activity that would not otherwise be legal. Although the rule may have been originally put in place to ensure the safety of users (rather than the document holder), once the rule is in place, issuing the document confers benefits on the document holder.
41. The costs and benefits of regulating the aviation sector will fall on one or more groups:
- i. Industry participant/subject of the intervention;
  - ii. The consumers of the services provided by the participant; including passengers of commercial airlines, freight customers, and purchasers of specialist aviation services;
  - iii. The Government/CAA itself; and
  - iv. The general public (when distinct from i-iii above).
42. Passengers and other end-users are the most significant beneficiaries of our core safety activities. Participants such as air transport operators and aviation service providers also receive significant benefits from a safe, commercially sustainable civil aviation sector.
43. There are a number of cost and risk exacerbators in the system including, for example, applicants for documents and participants who do not comply with safety regulations. Parties (e.g. participants) that exacerbate risk generally also cause more cost to be incurred

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<sup>3</sup> Beneficiaries are parties who benefit from the provision of the good or service, including those who would be adversely affected if the output were not provided, while risk or cost exacerbators are parties that cause the cost of providing the good or service to rise, or who, through their actions cause increased risk in the system.

by the consumer or regulator (or both) as a consequence of their actions. As with beneficiaries, risk and cost exacerbators can be drawn from a range of groups that interact with the aviation system. They could be:

- § Individuals seeking certification or assessment;
- § Participants who do not comply with rules;
- § The CAA itself through choosing to undertake activity; and/or
- § Users of the system including passengers.

### *How should they contribute?*

44. There are three main ways that participants and users might pay for CAA functions and services. They are general taxation, levies and specific fees and charges.
45. Following the consultation on Phase One we concluded that the current framework continues to be appropriate for funding the regulatory oversight of the aviation system in New Zealand, after considering:
  - § The basis and coverage of each levy; and
  - § Whether a levy or a fee would be a better fit for a given regulatory function.
46. We have concluded that a regime of levies and specific fees and charges is the most appropriate method of funding the CAA.
47. The question of changing the level of direct Government funding of the Authority, whether through appropriation or contracts for service, was not canvassed in this funding review, as it was determined to be 'out of scope'. However, work carried out at our request by the Ministry of Transport indicates that the CAA's funding from the Ministry for policy advice<sup>4</sup> and the rules programme is comparable to that received by other transport agencies.

### *What are the most appropriate sources?*

48. Our experience over the last few years, and our analysis, suggest that there is an imbalance in the CAA's sources of funding from within the aviation sector. Examination of our regulatory activity shows, for example:
  - § Surveillance activity has more club/public good benefit than private and should be funded from levy revenue;
  - § Medical certification has mixed club/private good benefits and should be funded jointly from fees and charges and from levy revenue; and

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<sup>4</sup> Policy advice includes both **Output 1.2 - Ministerial servicing** (the effective delivery of support to executive government and parliamentary processes which provides the Government with support and confidence that the Authority is fulfilling its functions and meeting statutory obligations) and **Output 1.3 - Policy Advice** (advice to achieve a high level of safety and security standards within the New Zealand civil aviation system, providing a "safe airspace environment" in which "participants act safely and manage risks" as determined by robust analysis and decision making).

- § The participation levies currently paid by 'other commercial' operations make an insufficient contribution to the CAA's revenue relative to the costs they generate, and an increased contribution should be funded from additional levy revenue from 'other commercial' operations.

### Is the funding sourced from levies appropriately balanced with that sourced from fees and charges, and aligned to the logic of the regulatory interventions applied by the CAA?

49. There is no perfect user-charges regime that best satisfies all the criteria we discussed in Phase One, (and shown in paragraph 372, i to vi). If a purely user-pays approach was to be adopted for all transactions it would be onerous and economically inefficient. Therefore, the choice between the application of a levy or a specific fee or charge will depend on judgement as to how the criteria are applied.
  50. The Authority can use a variety of different types of regulatory and non-regulatory interventions to influence the behaviour of participants. These range from providing information or undertaking campaigns of persuasion that promote certain behaviour, to the application of Civil Aviation Rules and to the use of fees and charges.
  51. In general, the evidence regarding behaviour change supports the conclusion that non-regulatory or regulatory measures used in isolation are often not likely to be effective and that usually the most effective means of changing behaviour at a population level is to use a range of policy tools, both regulatory and non-regulatory.
  52. Ultimately we seek to enhance safety in aviation operations, and to ensure compliant behaviour. In doing so we:
    - § Encourage participants to at least meet and preferably exceed minimum standards specified in the Civil Aviation Rules; and
    - § Discourage non-compliant behaviour and avoidance (including possible application of penalties against those who do not meet the required safety standards and behaviours).
  53. Any options chosen have to incorporate trade-offs between competing objectives and principles. This does not mean that the choice of a level of cost recovery or a fee structure is an arbitrary one. Rather, it is a question of finding an appropriate balance between competing objectives and managing the risks arising from gaps in information. The practice of using pricing mechanisms as a regulatory tool is one well tested in New Zealand, and is already in place in the Authority's regulatory tool-kit as the Authority currently applies fees and charges to many products and services.
- Dealing with the notion of 'Cross Subsidy' in levies*
54. The Civil Aviation Act 1990 provides at section 42A that the Governor-General may impose levies, and further identifies the basis upon which those levies may be established and applied. Refer Appendix One, paragraphs 368 and 369.



55. One Phase One consultation respondent expressed concern based on their belief that there was a 'cross subsidy' between passenger safety levies and the oversight of Other Commercial and Private/ Recreational aviation operations.
56. Levies may be used for the purpose of enabling the Authority to carry out its functions under this Act and any other Act. They are not subject to the strictures applied in the guidance from the Treasury and Office of the Auditor General in regard to 'cross subsidy' as that guidance is provided specifically in regard to fees and charges, and not to levies. As such it is not necessary to strictly apply levy-sourced funding only to maintain oversight of, or intervene in, the sector from which a levy payment is sourced.
57. Nonetheless, we have considered the concern expressed by that respondent to the Phase One consultation regarding 'cross-subsidy' in the design of our proposals for change to the levies framework.

### *Enabling changes in the balance of the Funding Sources*

58. As a result of our analysis, we have identified an imbalance in funding sources, where operators in the 'Other Commercial' category are not meeting their share of the cost of regulatory oversight of the aviation system in New Zealand.
59. Accordingly we propose to
  - i. Establish a funding framework that enables medium to long-term rebalancing; and
  - ii. Moderate initial re-balancing of how different participant groups in the aviation sector contribute to funding for the regulatory functions performed by the CAA.
60. The framework will enable, through time, rebalancing of our revenue sources and thus address the concerns expressed regarding 'cross-subsidy' in favour of Other Commercial operators.

### **Is the revenue generated matched to that required by the CAA to discharge its regulatory obligations, including meeting the Government's policy intentions on minimising the regulatory impost on participants in, and users of, the aviation system?**

61. At the time of the Phase One consultation we indicated that no significant increase in revenue generated from levies, fees and charges was intended, with the caveat given that our Regulatory Craft Programme (RCP), the Aeronautical Information Service (AIS) or other external shock(s) may cause us to rethink that position.
62. We are confronted by some stark realities in regard to expected changes to the aviation system in New Zealand. We are acutely aware of the need for efficiency in the delivery of our regulatory services. As the scope of those services covers a wide range of disciplines, the fees and charges also take into account the varying nature, size and complexity of regulatory activities including surveillance, (audit and inspection) and certification.

63. Since the 2012 review of levies fees and charges we have absorbed the cost of a number of initiatives. The capacity for us to absorb further cost increases and carry out additional functions and activities is severely constrained. Examples include:

§ **Aeronautical Information Service (AIS):** While we have absorbed the increased cost of providing the AIS since the 2012 funding review, the escalation of the cost of this service, and the need for further capital investment in the AIS, has reached the stage where additional funding from levy sources is necessary. We currently have a contract for the Supply of Services with the Airways Corporation of New Zealand Limited (Airways) for the provision of **Aeronautical Information Services (AIS)**, including the provision of the Aeronautical Information Publication New Zealand (AIPNZ), the provision of Notices to Airmen (NOTAM) and pre-flight information services, and management of the aeronautical database.

§ **New Southern Sky (NSS):** In April 2012 the New Zealand Government published its National Airspace Policy which gave regulators and the aviation community a set of overarching principles to guide the modernisation of New Zealand's aviation system, in line with ICAO's global plan. New Southern Sky is the plan to implement this policy. The cost of developing the National Airspace Policy and the plan arising from the policy was funded predominantly by the Ministry of Transport through its direct funding of our policy activities, and partially absorbed by us. The implementation phase has now commenced.

There will be additional workload that will come from industry as a result of the changes in requirements brought about by the implementation of the National Airspace Policy and the NSS plan (the New Southern Sky programme) arising from the policy. For example, the introduction of ADS-B may require avionics modifications to the majority of aircraft in New Zealand, and we may need additional staff to handle the modification approval process.

§ **Safety Management Systems:** A Safety Management System (SMS) is a formal risk management framework to improve aviation safety. Under a SMS, organisations would have systems for hazard identification and risk management, safety targets and reporting processes, procedures for audit, investigations, remedial actions, and safety education. We are encouraging organisations to proactively adopt a SMS and we are actively providing support and guidance to those organisations.

64. The implementation of our **Regulatory Craft Programme (RCP)** involves organisational change surrounding the replacement of the legacy Aviation Safety Management System (ASMS), the core business information technology system that supports our regulatory functions, and our Document Management System (DMS). In doing so we seek to:

§ improve safety and security performance by the consistent application of our regulatory operating model;

§ improve interaction between the Authority and participants (including enabling electronic filing of applications and returns, and other documents by participants);

- § optimise use of Authority resources; and
- § improve the effectiveness of the platform to meet current and future needs.

### The Funding Framework adopted.

65. The Authority has developed an updated funding framework which would result in a change in the mix of funding sources to include increased levy funding from the Other Commercial sector.
66. The funding framework proposed:
  - § Is consistent with the principles established as the basis for the review, the guidance from Central Agencies, and generally consistent with the feedback received from the first round of consultation;
  - § Enables cost recovery from the aviation sector to fund aviation safety regulatory activity;
  - § Improves equity in terms of activity, risk and cost of oversight and the revenue generated from those within the aviation system;
  - § Rebalances revenues between public good activities and both club and private good activities;
  - § Introduces of a range of new safety levies that better match revenue from participants to the activity of the participant and the risk created to the aviation system as a whole;
  - § Enables participants to have predictability in levies, fees and charges;
  - § Addresses the revenue forgone from the hourly charges currently associated with surveillance, the loss of fixed fee revenues associated with medical certification, and the loss of some revenue from Participation Levies;
  - § Reduces revenue from hourly rate charging thus increasing pressure on the CAA to fund such activity from fixed levy revenue, focusing the CAA on increased efficiency in its operations;
  - § Enables, over time, movement in levy rates to ensure that revenue from specific aviation sectors better matches the cost of oversight of those sectors; and
  - § Facilitates, over time, movement to more risk-based levy funding mechanisms.
67. The next part of this document outlines the new framework and the changes it entails.

## Part Three: Proposed changes to the levy, fees and charges framework

68. This section discusses proposals for new and changed levies, fees and charges in the funding framework.
69. The key assumptions made in regard to new and changed levies, fees and charges are:
- § Overall revenue required by the CAA is about \$39.874 million p.a. in 2016/17<sup>5</sup>:
    - Excluding any fiscal needs relating to the implementation of new information systems; and
    - Including business at current activity levels for New Southern Sky and Safety Management Systems;
  - § That surveillance activity is predominantly a mix of club and public goods;
  - § That a medical certificate is about as much a private good, as it is a public good and club good;
  - § The cost of supporting the Aeronautical Information Service (AIS) contract increases to approximately \$2.2 million p.a. from 2015/16 onwards which is an increase of approximately \$0.5 million p.a. (plus annual CPI adjustments from 1 July 2015 onwards);
  - § Remuneration increases/adjustments will occur as tentatively planned to restore alignment with generally accepted market benchmarks; and
  - § No revenue will be recovered from levies or excise on fuel.
70. The funding proposals are intended, to a large extent, to deal with the issues that arose in responding to the three policy questions raised at paragraph 34. They:
- § Identify and improve the match between beneficiary groups and charging mechanisms;
  - § Seek improvement in the behavioural responses of participants and users to specific levies or fees and charges; and
  - § Seek to be efficient in the collection of levies, fees and charges, while being consistent with the regulatory oversight and interventions we undertake to improve safety outcomes.

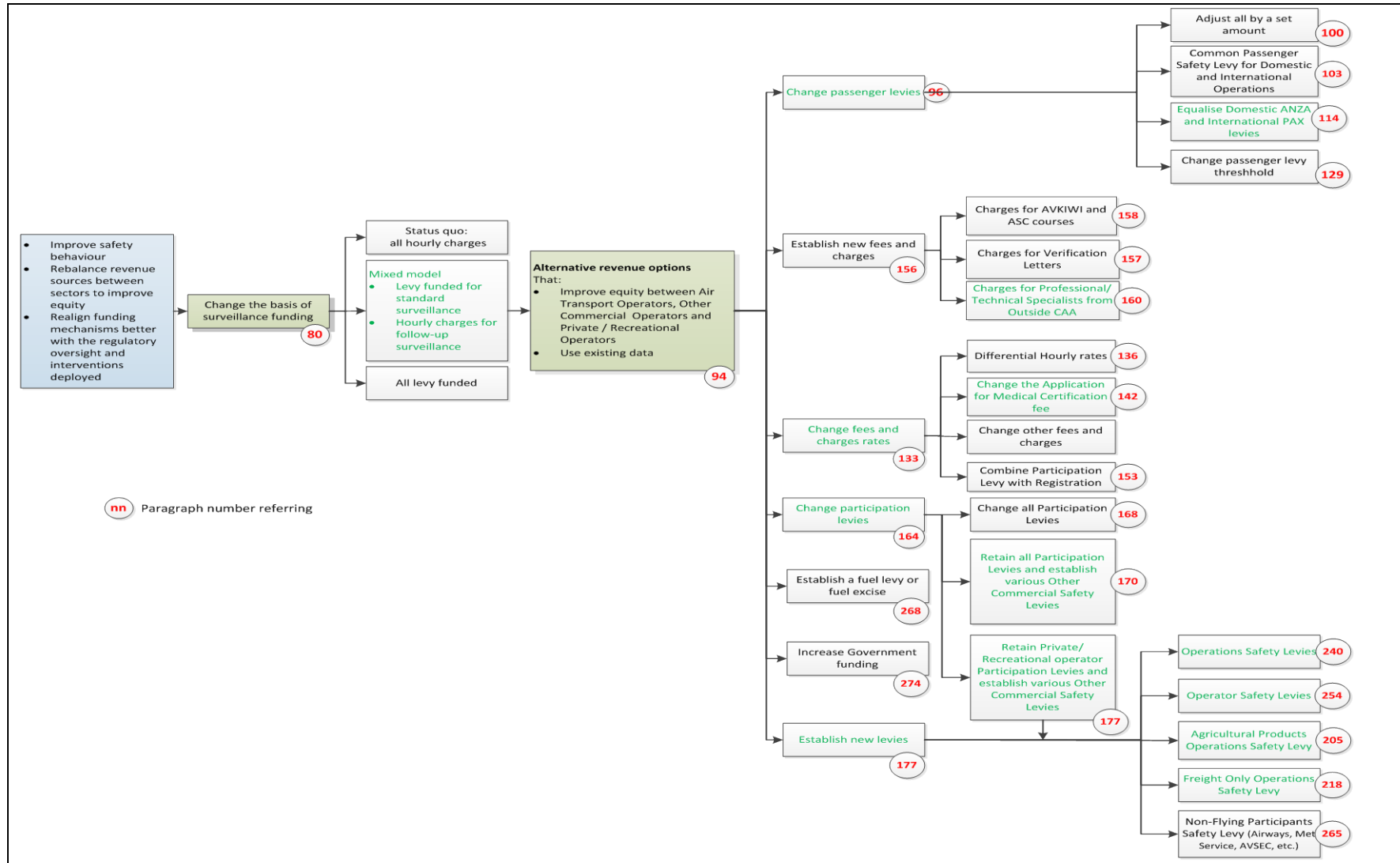
### Our approach to determining what to propose

71. The sections that follow outline the options considered for change and the rationale behind the proposals made. The flow chart on the next page as Fig 1 sets out the decision flow involved in determining our proposals.

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<sup>5</sup> This assumes a contribution to expenses from reserves of approximately \$2.4M.

Fig 1: Decision flow involved in determining our proposals



## Overview of the proposals for change

72. The proposals discussed in detail later in this document are based on our assessment that the character of activities undertaken by the CAA are, in a number of cases, either club or public goods; as opposed to their current classification as private goods<sup>6</sup>.
73. Reclassifying some activities as 'other than private goods' means that the recovery of the costs of those activities needs to be re-considered. The costs of some activities that currently attract either fixed fees or hourly charges will need to be recovered by means of a levy (or levies); these are predominantly surveillance charges and participation levies on Other Commercial aircraft.
74. To address the revenue forgone from the hourly charges currently associated with surveillance, the loss of fixed fee revenues associated with medical certification, and the loss of some revenue from Participation levies, the Board has endorsed the concept of introducing a range of new operator and operations safety levies.
75. The analysis and development of proposals are guided by the principles that a levy is for the performance of Authority functions in general and a fee or charge is for a specific function (refer section 42 of the Civil Aviation Act 1990).
76. Table 1, below, summarises the activities for which revenue is forgone, and from where that forgone revenue would be sourced; and gives a brief rationale for the proposed change.

**Table 1: Summary of Indicative Proposed Changes**

Revenue Forgone Current Source	Replaced (fully or partially) by Proposed Source	Why
Surveillance	<ul style="list-style-type: none"> <li>• Levy Funding</li> <li>• Follow-up Surveillance (hourly charges)</li> </ul>	<ul style="list-style-type: none"> <li>• Surveillance is more of a club good than a private good.</li> <li>• Improved balance between Air Transport Operators and other commercial operators</li> </ul>
Medical Certification Application Fee (Partial)	<ul style="list-style-type: none"> <li>• Levy Funding (partial)</li> </ul>	<ul style="list-style-type: none"> <li>• Medical certification is as much a club good as a private good</li> </ul>
Participation Levies on Other Commercial Aircraft	<ul style="list-style-type: none"> <li>• Operator Safety Levy</li> <li>• Operations Safety Levies</li> <li>• Agriculture Operations Safety Levy</li> <li>• Freight Operations Safety Levy</li> </ul>	<ul style="list-style-type: none"> <li>• Rebalance the revenue source more to the cost of the regulatory oversight impost</li> </ul>

77. The underlying principle for the new operator and operations safety levy framework is that a grouping (e.g., the agricultural aviation sector, or the commercial adventure aviation sector, etc.) within the civil aviation system should contribute more appropriately to the

<sup>6</sup> Described in paragraph 377

cost of the oversight the CAA exercises over that sector. In turn, some of the cost that that grouping generates for oversight should be fairly recovered from the participants within that grouping. In addition, consideration has been given to the practical means of calculating/applying such a levy or levies.

78. The proposed new safety levy framework focuses on commercial aviation operations other than those conducted by airlines carrying over 20,000 passengers per annum under Rule Part 121, *Air Operations – Large Aeroplanes* or Part 125, *Air Operations – Medium Aeroplanes* (including ANZA operations). For those Rule Part 121 and 125 operators (including ANZA operators) the existing passenger levy structure would be retained (albeit with different rates). Participation levies for private recreational operators will remain unchanged.
79. Key considerations have been the:
  - § Complexity of different types of operation — the variables that could be utilised to reflect complexity such as flight hours, number of aircraft operated, etc.;
  - § Quantity of our resources that are required to carry out effective oversight of those parts of the aviation system;
  - § Means by which a levy can be calculated (that is, the measure that can be used to calculate the amount of revenue collected from each source); and
  - § The extent to which a particular aviation sector can contribute additional levy funding without serious impact on that sector.

## Change the basis of Surveillance funding

### Changes to Surveillance Charges

80. During Phase One consultation we presented the option of recovering the cost of routine surveillance from levy funding. This option was well supported by respondents, with general acceptance that routine surveillance activities predominantly benefit the users of aviation services (i.e. club good).
81. Surveillance is the term used to describe the CAA's monitoring of adherence to safety and security standards by participants in the aviation system. The purpose of surveillance is to give assurance that participants are meeting their obligations under Civil Aviation Rules. The amount of surveillance activity is determined by a number of factors including the assessed risk level and the safety performance of document holders both collectively and individually.
82. The CAA has the power to check that participants in the civil aviation system are meeting their regulatory responsibilities<sup>7</sup>. It does this predominantly by surveillance (compliance monitoring and inspection).

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<sup>7</sup> [Civil Aviation Act 1990, s15](#)

83. We have identified the three groups of beneficiaries<sup>8</sup> of the surveillance system:
- § The primary beneficiaries are **Users** of the system - including passengers and other users – who are provided with a safe aviation system. Operators and other participants who comply with the rules and meet required standards are not risk exacerbators. Those who do not comply or meet safety standards are risk and/or cost exacerbators as they necessitate subsequent activity to either become “safe” operators or to exit the civil aviation system.
  - § **Public Good:** For example - the benefit that arises from the assurance that the Director receives that the aviation system is operating properly and meeting the standards laid down in legislation. This enables NZ registered aircraft to fly in overseas jurisdictions. The public also can be assured that an aircraft is unlikely to suffer an incident or accident because of systemic failure;
  - § **Private Good:** For example - the benefit that an operator receives from oversight of their ongoing ability to fly their aircraft as a Commercial Operation (including passenger transport, and other hire and reward operations).
84. Routine surveillance activity is part of ensuring the system is safe for all users. Previous analysis has focused on the benefits participants gain from surveillance. Subsequently, we have re-examined the benefits of surveillance to both the aviation system and participants. Although the 2012 fee review was moving towards full cost recovery focusing on operators and other document holders, this approach did not recognise the club good benefit to the primary beneficiaries (i.e. the users) of the system.
85. Accordingly, as surveillance is predominantly a club good, we propose to recover the cost of routine surveillance from levy funding, and to continue to recover the cost of **follow-up** surveillance through the application of a direct hourly charge (as at present).

### *Options*

86. The extent of the revenue forgone from not charging for surveillance on an hourly basis would have to be balanced by revenue from other levy changes and the introduction of new Safety Levies.
87. This has required us to examine where to recover the revenue forgone by not charging for surveillance, other than follow up surveillance. The three options that presented were:
- § Status Quo – all hourly charges;
  - § Mixed Model – with levy funding for routine surveillance and hourly charges for additional oversight; or
  - § All levy funded.

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<sup>8</sup> A more complete discussion of public, club and private goods can be found in the Office of the Auditor-General (OAG) [Good practice guide: Charging fees for public sector goods and services June 2008](#); and the Treasury [Guidelines for Setting Charges in the Public Sector Dec 2002](#).



*Status Quo – all hourly charges*

88. Retention of the status-quo would not support the identification of aviation services users as the primary beneficiaries of the surveillance system and would not incentivise participants sufficiently to change non-compliant behaviour. Given that surveillance is predominantly a club good, and this option does not offer the behavioural incentives we seek, we have therefore not adopted this option.

*Mixed Model: with levy funding for routine surveillance and hourly charges for additional oversight*

89. Not charging for surveillance on an hourly basis would remove from the participant's consideration the size of the bill they would have received for the time involved in an audit or inspection. This would encourage greater engagement with the audit or inspection and extend the possibility of our staff being able to both educate, and learn from, the participant. Similarly, the auditor would not be constrained by their perceptions about the participant's ability to pay.
90. CAA auditors and inspectors will be able to more appropriately assure public and user safety, promote improvement in aviation safety, and influence the attitude and behaviour of persons whose actions may have adverse impacts on safety without worry as to the cost on the participant of the audit or inspection.
91. In those circumstances where an operator is not compliant and remedial action is required, we would recover cost of any necessary follow-up surveillance and/or oversight and advice from the application of a direct hourly charge (as at present). The total estimated time for follow-up surveillance is estimated to be approximately 200 hours per annum across all sectors. Charging for additional work for non-compliant participants encourages them to achieve, or return to, compliance, and reduces the levy burden on compliant participants.

*All levy funded*

92. If participants are not charged for follow-up surveillance, there is no incentive for them to achieve improved compliance, with the potential safety consequences that arise. Compliant participants would incur no additional oversight fees while those who are non-compliant would not incur additional oversight fees either, placing a drain on oversight funding. We therefore decided to propose the mixed-model.

*Revenue Implication*

93. The total revenue forgone through not charging for surveillance (other than follow-up surveillance) is about \$2.24M in total.

**CAA Proposal 1**

- We propose to recover the cost of routine surveillance from levy funding, rather than from hourly charges; and
- We propose to continue to recover the cost of follow-up surveillance through the application of a direct hourly charge (as at present).

## Alternative revenue options

94. The proposal to fund routine surveillance from levy funding requires the CAA to identify alternative revenue sources to meet the revenue forgone from surveillance charges.
95. We have identified six possibilities:
  - § Change passenger levies
  - § Change current fixed fees and charges rates
  - § Establish new fees and charges
  - § Change Participation Levies
  - § Establish new safety levies
  - § Establish a fuel levy and/or a fuel excise

## Change passenger levies

96. There are currently three passenger safety levies: the Domestic Passenger Safety Levy, the departing International Passenger Safety Levy, and the ANZA Passenger Safety Levy. These are levied at different rates, and on different parties, with domestic levies higher than international levies, and ANZA Levies currently about 90% of the Domestic Passenger Safety Levy rate.
97. The first round of consultation canvassed four ideas which are discussed below:
  - § Increase all passenger safety levies by a set amount or percentage;
  - § Equalising domestic and international passenger levies at a new common rate;
  - § Equalising the ANZA levy with the existing domestic passenger levy (and/or, as emerged through consultation, with the international passenger levy); and
  - § Changing the passenger levy threshold.
98. Generally, these ideas were well supported during the first round of consultation; although neither Jetstar nor the Board of Airline Representatives in New Zealand (BARNZ) was supportive of the proposals. They had slightly different arguments, but each referred to the notion that the level of oversight exercised by the CAA is not the same for domestic, international or ANZA operations, and thus there ought to be a difference in the three associated levies. BARNZ also argued that the passenger levies are being used to 'cross-subsidise' other sectors and other activities. The Authority does not agree with argument made by BARNZ. As discussed at paragraph 75, levies provide for the general functions of the Authority.
99. ANZA operators have an impact on the New Zealand civil aviation system because, despite being subject to regulatory oversight from the Civil Aviation Safety Authority in Australia, they are operating in New Zealand. Consequently, ANZA operators generate costs for the CAA with respect understanding an identifying the impacts their operations have on the New Zealand civil aviation system. The question that arises is whether the work generated

for the CAA is in some way different in quantum simply because it is different in nature. This is discussed further in paragraphs 114 and following.

*Adjust all passenger safety levies by a set \$ amount*

- 100. Passengers, as a group, are the primary beneficiaries of a safe aviation system. Passenger levies fund a wide range of our safety activity. It is not possible to identify specifically which passengers benefit (domestic or international), nor is it possible to exclude a passenger from benefiting from a safe aviation system. It is appropriate that passenger levies fund a significant portion of our activity and this is supported by the various passenger levies being the primary funding mechanism provided for in the Act.
- 101. We do not, however, consider that there is a material difference in benefit (or cost exacerbation) between international and domestic passenger groups. We perform safety oversight activities on behalf of passengers, without regard to their destination.
- 102. Accordingly, we prefer to equalise international and domestic passenger safety levies, rather than increase levies at differing rates by a set amount or percentage.

*A Common Passenger Safety Levy for Domestic and International Operations*

- 103. All passengers benefit from a safe aviation system in New Zealand, whether they are travelling domestically or internationally (for example: Auckland to Palmerston North or Auckland to Sydney). Equally, an aircraft operator receives the same level of benefit from our oversight of the system whether on a domestic sector or an international sector.<sup>9</sup>
- 104. The passenger levy on a domestic flight covers the flight sector from take-off to landing. It follows from this and the other points above, that the international passenger levy should also be based on the combination of landing in New Zealand and taking off again from New Zealand. In short, maintaining a difference between the domestic passenger levy and the international departing passenger levy has no analytical or policy basis.
- 105. Table 2, below shows the current Passenger Safety Levy rates.

**Table 2: Current Passenger Safety Levy rates**

Passenger Safety Levy	Rate at 30 June 2015 (GST incl.)	Rate at 30 June 2015 (GST excl.)
Domestic passenger levy	\$ 1.97	\$1.713
International passenger levy	\$ 1.50	\$1.304
ANZA domestic passenger levy	\$ 1.78	\$1.548

- 106. The actual levy rate per passenger for both domestic and international flights is a small proportion of the total costs a passenger faces in air travel. Adoption of a common Passenger Safety Levy rate would mean that the levy rate for domestic passengers would decrease while for international passengers it would increase. Overall, the international passenger levy is a very small proportion of the cost of an international fare.

<sup>9</sup> There are also benefits received by flights which transit New Zealand airspace but which do not land in New Zealand. We propose to examine the potential for imposing some form of charge or levy on such flights.

- 107. We have concluded that there does not appear to be a clear justification for the current difference in levy rates, as there appears to be little difference in the activity undertaken by the CAA with regard to total oversight of these types of operation (that is domestic and international).
- 108. There is no robust justification for different passenger safety levy rates between domestic and international operations. The option of equalising passenger safety levy rates would improve efficiency and reduce administrative complexity. For the reasons outlined above, we consider that the domestic and international passenger levies should be equalised.
- 109. It is important to note that, while the passenger levy may move a little, the (non-ANZA) Air Transport Operators would no longer be paying for surveillance of their operations.
- 110. Non-ANZA passenger numbers are projected to move as shown in Table 3 below:

**Table 3: Domestic and International Passenger Number Projections (non-ANZA)**

	2014/15	2015/16	2016/17	2017/18	2018/19
Pax Levy - Domestic (Non ANZA)	8,921,354	9,422,860	9,739,940	10,074,277	10,427,404
Passenger Levy - International	5,110,333	5,388,599	5,621,638	5,879,051	6,166,208

- 111. Larger operators, such as Air New Zealand, would have some change in the amount they pay under these proposals in comparison to the amount they pay under the current framework.
- 112. These changes are not expected to be as significant as they are for some of the smaller commercial general aviation operators and are highly dependent on the rates set for the passenger levies.
- 113. The passenger levies would continue to be collected on the same basis as it is now thereby avoiding any new or increased compliance and administration costs<sup>10</sup>.

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<sup>10</sup> Both the Domestic Passenger and International Departing Passenger levies are currently collected by the airlines on the basis of flight sectors for domestic departures and outbound flight sectors for international departures.

### CAA Proposal 2

- We propose to set international and domestic passenger safety levy base rates at:
  - Domestic Passenger Safety Levy                   \$ 1.92 incl. GST (\$1.67 excl. GST)
  - International Passenger Safety Levy           \$ 1.92 incl. GST (\$1.67 excl. GST)

### Equalise ANZA levies with domestic and international levies

114. Under the Australia New Zealand Agreement (ANZA) which is a subset of the Trans-Tasman Mutual Recognition Agreement (a non-treaty arrangement between the New Zealand and Australian governments), the safety oversight of operators is the responsibility of the country in which they are certificated rather than the country in which they operate. The ANZA agreement took effect on 1 May 1998.
115. Some operators fly in New Zealand on an Australian Air Operator's Certificate (AOC), issued by the Australian Civil Aviation Safety Authority (CASA), with an ANZA privilege<sup>11</sup>. Australian airline operators within New Zealand operating under their own certificates pay a specific ANZA Passenger Safety Levy. At present the holder of Australian AOC with ANZA privileges must pay the ANZA Passenger Safety Levy:
- § If the operator holds an Australian AOC with ANZA privileges; and
  - § Conducts or intends to conduct a regular air transport passenger service under the Australian AOC with ANZA privileges; and
  - § Has complied with section 11B of the Civil Aviation Act 1990; and
  - § Either has carried more than 20,000 passengers in the previous 12 months; or
  - § If the operator is a new operator, and intends to carry more than 20 000 passengers in the next 12 months.

### *Background to the ANZA Levy*

116. Following the entry of Jetstar into the New Zealand domestic market in June 2009 it was realised that the New Zealand Civil Aviation Safety Levies Order 2002 did not apply to Australian ANZA operators, i.e. Jetstar was exempt from paying the domestic passenger safety levy. An anomaly therefore existed whereby Jetstar was receiving the benefits of operating in the New Zealand regulatory/aviation system without, in any way, contributing to the cost of managing that system.
117. In June 2009 an amendment to the Civil Aviation (Safety) Levies Order 2002 was made to create an ANZA levy and provide for a levy payment of \$1.48 (excluding GST) per domestic passenger sector by Australian airlines operating in New Zealand under their Australian

<sup>11</sup> Refer to the Civil Aviation Act 1990, Part 1A: ANZA Mutual Recognition

certificates. The rate of the proposed ANZA passenger safety levies was calculated as a percentage of the full levy rates.

118. Since the arrangement came into force, a number of airlines have sought certification as ANZA operators. We have certified Airwork, Pacific Blue and Air New Zealand as New Zealand operators with ANZA privileges. CASA has certified Qantas Airways, Jetstar and Pionair as Australian operators with ANZA privileges.
119. ANZA airline based passenger numbers are projected to move as shown in Table 4 below:

**Table 4: ANZA Passenger Number Projections**

	2014/15	2015/16	2016/17	2017/18	2018/19
Pax Levy - Domestic (ANZA)	1,762,379	1,929,983	1,994,927	2,063,406	2,135,733

*Why was a Separate ANZA Levy Created?*

120. In 2009 the new levy was set at a rate that took account of the fact that Australia's Civil Aviation Safety Authority is responsible for the direct regulatory oversight of Australian ANZA operators. The size of the discount (then, 17%) was said to be the amount of the passenger safety levy that subsidised our under-recovery, from fees and charges, of the cost of its direct safety oversight of the New Zealand airline sector. The remaining amount (83%) was what we needed to accomplish all the other tasks necessary to achieve a safe civil aviation regulatory environment in New Zealand.
121. The introduction of the ANZA levy on the basis outlined above followed extensive consultation with all interested parties. While the consultation associated with the 2012 Funding Review proposed a change in the amount of the ANZA levy, it did not propose its removal at that phase.
122. In the 2012 funding review we proposed retention of the ANZA Passenger Safety Levy for the next three years on the proviso that the ANZA Passenger Safety Levy arrangement be reviewed as part of the next Civil Aviation Authority Funding Review with the intention of removing it or at least narrowing the gap between it and the domestic passenger levy. It also set the levy at rate equivalent to 90.35% of domestic passenger safety levy rate (at GST incl. rate)(i.e., a 9.65% discount)
123. However, that review did note that, as the CAA moves toward full recovery of costs for its functions funded by fees and charges, the subsidy from levy funds will decrease and the ANZA levy will move toward parity with the domestic passenger levy. As part of the Phase One consultation we asked whether we should seek a change setting the level of the ANZA Passenger Safety Levy at a prescribed percentage of the prevailing Domestic Passenger Safety Levy, although no specific percentage was referred to. Of the responses received, 75% favoured a change, with most proposing the ANZA Passenger Safety Levy be the same as the Domestic Passenger Levy. Those in favour of the proposal argued that all domestic passengers benefit from flight operations in the New Zealand civil aviation system and should therefore contribute equitably. The ANZA levy was seen as inequitable with a

number of respondents observing that New Zealand carriers do not have a similar discount in Australia<sup>12</sup>. Jetstar, an ANZA operator in New Zealand, was not in favour of the proposal.

*Recent Experience*

124. We now have three years more experience with ANZA operations giving us a better understanding of the costs imposed by ANZA certificated operators on the New Zealand aviation system. It is important to note that the ANZA levy does not currently pay for surveillance, as surveillance is charged for as a separate activity. However, ANZA operators do require us to deal with CASA in regard to ANZA certificated operators in New Zealand and we are consulted by CASA in regard to applications by ANZA operators for changes to their operating modes.
125. In practice, these operators are predominantly regulated by CASA. Consequently we are only concerned with being able to:
  - § Establish any matters of safety in the context of ANZA operators impacts on the New Zealand civil aviation system that we need to raise with CASA, such that CASA can take the necessary corrective action to ensure aviation safety in New Zealand; and
  - § Respond to issues that CASA may raise with CAA about the operations of ANZA certificated operator's activities within New Zealand airspace.
126. Under these proposals, the only levy supported functions that we undertake that ANZA operators would not receive is surveillance. Accordingly, the question becomes whether the amount of activity associated with surveillance is sufficiently material to warrant a discounted levy.
127. Based on analysis of the inspection and monitoring costs as a proportion of the total domestic passenger levy paid by New Zealand air transport operators, we estimate that the probable discount is in the order of 2%. The next question is whether this marginal difference is sufficiently material to warrant a discounted rate.
128. In our view, to remain consistent with the intent of the ANZA agreement, a discount is appropriate. However, that discount should be no larger than the proportion of surveillance cost to passenger levy for other New Zealand certificated airlines. Accordingly, we propose to retain a discount that is no greater than 2%.

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<sup>12</sup> The Civil Aviation Safety Authority (CASA) in Australia is funded through different mechanisms (predominantly fuel excise and Government funding) from those of the CAA. There is no scope for discounting from an excise tax on fuel.

### CAA Proposal 3

- We propose to set the ANZA passenger safety levy base at:
  - ANZA Passenger Safety Levy                      \$ 1.87 incl. GST (\$1.63 excl. GST)

### Change the Passenger Levy Threshold

129. A domestic air passenger operator must pay to the Authority a levy per passenger carried by the operator on each domestic sector of a regular air transport passenger service flight. But, there is no passenger levy payable on passenger flights if the number of passengers actually carried by that domestic air passenger operator in the immediately preceding 12 month period of operation is smaller than 15,000 on regular air transport passenger service flights<sup>13</sup>.
130. At present, all the passenger levy revenue is provided from passengers of the airline sector, while the regulatory oversight workload between the airlines and the commercial general aviation sector is more evenly balanced.
131. We considered whether to lower the threshold at which operators become liable for the payment of passenger safety levies from 20,000 and 15,000, to 15,000 and 12,000 passengers per annum (or some other threshold)<sup>14</sup>. There was limited support for the proposal to lower the threshold at which operators become liable for the payment of passenger safety levies, on the basis of the efficiency of the change.
132. On current data, lowering the threshold at which operators become liable for the payment of passenger safety levies would recover costs from one more operator in the short-term, and possibly others as passenger numbers grow in the medium term. This is more likely now that Air New Zealand (AirNZ) has announced changes to its domestic schedules for provincial centres from 2015. While AirNZ's decision may encourage more small operators into this operating space, it is unlikely that they would reach the threshold of 20,000 passengers in the medium term to require them to pay the domestic passenger levy.

<sup>13</sup> Civil Aviation (Safety) Levies Order 2002, s 5

<sup>14</sup> Refer section 10(2) of the Civil Aviation (Safety) Levies Order 2002



#### CAA Proposal 4

- We do not propose to make any change to the threshold levels at which passenger levies become payable.

### Change current fees and charges rates

133. We do not propose any change to the basis for charging for other certification and licensing activities that are currently funded through hourly charge-out rates.
134. We have established rates for Professional/Technical, and Administration staff charge-out, based on its cost allocation modelling. This would enable activities that are delivered predominantly through administrative staff (such as aircraft registration or licensing functions) to have a different base rate applied from those activities delivered predominantly through professional/technical staff.
135. As previously, no charge will be made for travel time or travel and accommodation costs within New Zealand. These expenses are funded from levy revenue to equalise the costs for participants where ever they are in New Zealand.

### Differential Hourly Rates

136. The CAA presented an option to introduce differential hourly rates for Professional/ Technical, and Administration staff contribution to activities for which fees and charges are made. There was strong support from the respondents.
137. This would enable activities that are delivered predominantly through administrative staff to have a different base rate applied from those activities delivered predominantly through professional/technical staff. These rates are used to calculate the rate at which fixed fee functions are charged for, and for those activities where hourly rates are charged.
138. Because of the changes to the charge-out rates for Professional/Technical, and Administration staff, the fixed-fee charges were re-assessed to reflect variations in the time taken to carry out the specific function charged for, and the charge-out rate for the staff member carrying out the function. The detailed proposals relating to fixed-fee charges, that are shown in Part Four of this document take into account the reduction in costs due to using the administrative staff charge rate and increases in costs due to unavoidable movements in direct and overhead costs in the period from 2012.
139. This has resulted in the proposal to hold all fixed fee charges at their 2012 levels.
140. The other occasion when administrative staff time has been charged to participants relates to surveillance and certification activity. We have proposed at paragraphs 80 to 85 that no charges are made for surveillance activity.

141. For certification activity, the charges made for administrative time averages about 15 minutes per job. We propose to cease charging for administrative time incurred on chargeable activities (such as certification).

### CAA Proposal 5

- We propose not to amend the current charge-out rate of for Professional / Technical staff, from the current rate of \$284.00 (GST incl.) or \$246.96 (GST excl.).
- We propose to hold all fixed fee rates at the current levels (except for the Application Fee for a Medical Certificate).
- We propose that administrative staff time, for which an hourly charge is currently made, is no longer charged for.

### Changes to Application Fee for a Medical Certificate

142. During Phase One we invited comment on potential changes to the Medical Certification Application Fee.
143. Respondents replied with heavy criticism of current fee accompanying an Application for a Medical Certificate (currently \$313.00 incl. GST or \$272.17 excl. GST.).
144. There are two identifiable groups of beneficiaries of the Medical Certification system:
- § **Club** (passengers): the benefit that arises from the assurance that the Director receives that the medical certification system is operating properly and meeting the standards laid down in the legislation, which enables passengers to be assured that an aircraft on which they are a passenger is unlikely to cause loss of life or property damage due to the medical incapacitation of the pilot(s). This is further extended to the requirement for air traffic controllers to hold a medical certificate;
  - § **Private** (pilots and air traffic controllers): the benefit that a pilot or air traffic controller receives from medical certification in that they are able to fly an aircraft either as a pilot in a Commercial Operation (including passenger transport, and other hire and reward operations) or as a non-commercial (private) operator, or work as an air traffic controller. Holding the medical certificate enables the holder (pilot or air traffic controller) to earn a living or to follow a recreational pursuit (pilot).
145. There is a very small amount of Public Good in this activity which has to do with New Zealand maintaining an internationally recognised medical certification system, and both public and international confidence in that system.
146. We recognise that the Medical Unit provides both Club and Private Good benefits, and thus there is merit in looking to recover the costs of the unit's activities differently from the current approach. For example, for those Club Good activities (e.g. standards, policy, oversight, etc.) the use of levy funding is probably more appropriate. Specific certification

activities (e.g. medical assessment) are more appropriately cost-recovered through a direct fee or charge to reflect the Private Good benefits.

147. We consider that the medical certificate application fee should target cost-recovery of only those functions of the medical unit that are related to, or support, the application process (with the balance funded by levies). This means that some regulatory activities such as suspension, revocation and cancellations, medical convenor activities, and general administrative functions such as the maintenance of manuals and systems and records maintenance would be funded by levy revenue as a Club Good.

148. Exactly where the balance lies between Club Good and Private Good is difficult to establish. However, based upon our analysis of the workload of the Medical Unit, our estimate is that the benefits derived from Medical Certification are distributed approximately as below:

§ **Club** (passengers)<sup>15</sup>: 48%

§ **Private** (pilots and air traffic controllers): 52%

149. We have also considered the question of a two-stage fee, for which there was some support during the Phase One consultation. Upon further consideration and analysis of this proposal, we propose to retain current single-stage medical certification charging mechanism due to:

§ The significant burden potentially applied to a few individuals seeking medical certification;

§ The administrative inefficiencies associated with the introduction of a two-stage structure, such as:

- the small numbers of applications requiring second stage consideration;
- the potentially open-ended nature of second stage consideration; and
- The cost of reconfiguring the medical certificate billing systems to cater for charging for second stage consideration for a relatively small number of transactions.

150. Accordingly we propose that 48% of the Medical Unit's costs for the Public and Club Good activity are funded through levy sources, and the balance is recovered through a single fixed fee based on application volumes of 6,500 certificates per annum. In addition, the hourly rate used to calculate the levy is based predominantly on that for administrative staff rather than that for technical/professional staff. This means that the time spent administering Medical Certification is accounted for at a lower rate than the published hourly charge-out rate.

### *Revenue implication*

151. The revenue foregone from the proposed reduction in the fee for an Application for a Medical Certificate is \$1.64M per annum, which will be recovered from levy revenue.

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<sup>15</sup> Includes an allowance of about 2½ % for public good activities

### CAA Proposal 6

- We propose that the Application Fee for a Medical Certificate be set at the rate of \$210.45 incl. GST (\$183.00 excl. GST).

152. We also considered the potential for contracting out the medical certification activity. This is discussed further at paragraph 277.

### Combine participation levy and annual register maintenance fee

153. As part of the Phase One consultation we asked whether the CAA should charge a single registration levy that incorporates the current participation levy and the aircraft registration fee. We also asked whether we should provide a mechanism to pay the registration levy, reserving the mark, but which does not incur a participation levy for aircraft that are under maintenance or being rebuilt over more than one year.

154. There was broad agreement among submitters that anything that reduced administration and complexity should be actively considered. Many submitters expressed a desire for any cost savings from fee and levy merges to be passed on to end-users. Two submitters registered their objection to the first question, but supported the second.

155. There would be little administrative efficiency gain in combining the participation levy and the aircraft registration fee into one fee, given that for many operators, the participation levy would no longer apply.

### CAA Proposal 7

- We propose that for participants who must pay both the participation levy and the aircraft registration fee, the CAA would invoice those activities together.
- We propose, for aircraft that are under maintenance or being rebuilt for a period in excess of one year, to develop a mechanism to enable participants to pay the registration maintenance fee, thus reserving the mark, but not incurring a participation levy. However, when the aircraft again becomes operational, the participation levy would apply from that date, and be charged on a pro-rata basis.

### Establish new fees and charges

156. We have considered other options for introducing new fees and charges. Two examples are:

- § A fee for providing Verifications Letters;
- § Charges for AvKiwi and ASC seminars; and
- § Charges for professional and technical specialists sourced from outside the CAA

### A fee for providing Verifications Letters

157. We examined charging for providing Verifications Letters, which confirm that a participant holds (a) valid licence(s) to other authorities. Over 1,500 of these letters are provided annually, each of which consumes, on average, between 15 and 30 minutes. While there are a large number of these letters prepared annually, the revenue that would be generated is insufficient to make it an efficient charge.

### Charges for AvKiwi and ASC seminars

158. We also examined, again, whether we should charge for AvKiwi and ASC seminars. This type of safety promotion activity increases knowledge and/or appreciation by civil aviation participants of good practices with respect to flying or other related activities. They contribute to reduction in presence of risk exacerbators in the civil aviation system, leading to fewer incidents and accidents in both private and commercial operations.
159. The Authority has, within its functions, the requirement to promote civil aviation safety and security in New Zealand, and to provide information and advice with respect to civil aviation, and to foster appropriate information education programmes with respect to civil aviation, that promote its objective. As such, these activities fall within the category of club goods and should thus be levy funded.
160. We propose not to charge for these or similar activities.

#### CAA Proposal 8

- **We propose not to introduce any new fees and charges for verifications letters or for AvKiwi and ASC seminars.**

### Charges for professional and technical specialists sourced from outside the CAA

160. From time-to-time, we source professional and/or technical expertise from outside the CAA. This may occur when that professional and/or technical expertise is not available within the CAA, but is required for us to discharge our regulatory responsibilities.
161. At present we may recover the costs we incur in this regard only through the hourly rate we charge, which frequently is insufficient. In addition, we are unable to recover transport, accommodation and other incidental costs, which can be significant.
162. While the number of occasions when this is required is small currently, the cost can be large. It is most likely to occur when we are engaged in the certification and/or licensing of aircraft or aviation related systems, but also occurs when other highly technical regulatory activity is undertaken.
163. It is appropriate that we recover these costs from the exacerbator, and recovery is consistent with Central Agency guidance.

### CAA Proposal 9

- We propose to amend the Civil Aviation Charges Regulations (No 2) 1991 to enable us to recover our costs when we are obliged to seek professional and/or technical expertise from outside the CAA when that is required for us to discharge our regulatory responsibilities.

## Change Participation Levies

164. Participation levies currently apply to all aircraft operators, non-commercial and commercial, but do not apply to a domestic air passenger operator<sup>16</sup> in specified circumstances, or to the holder of an Australian AOC with ANZA privileges<sup>17</sup>. At present they are charged on all other aircraft. However, the revenue from participation levies for all Other Commercial aircraft is significantly less than the actual cost of providing oversight to operators in that category.
165. The notion of equity is an important factor in the Treasury guidance. We considered a simple increase in the level of participation levies for the 'Other Commercial' operators but this did not satisfy the equity test because the ranges of size, activity levels, complexity of operators, and of their operations, was such that the setting of a single levy based upon any one operator type or characteristic was not suitable.
166. We considered adjusting all participation levies upwards by varying rates but concluded that the use of MCTOW, alone, as a single levy base for commercial activity did not adequately recognise the difference between private / recreational use and commercial / 'for hire or reward' operations. Simply adjusting those rates would perpetuate the distortion because it would not take activity into account.
167. We therefore sought levy mechanisms that would account for both operator complexity and activity.

## Hold Participation Levies for Private/Recreational Aircraft and those not utilised in operations requiring payment of another Levy

168. Private recreational aircraft are not subject to the same surveillance regime as commercial aircraft. The degree of oversight required by the private/recreational sector would not change as a result of the proposed changes to surveillance funding.
169. Participation levies would still be paid by operators of aircraft used in hire or reward operations not paying another levy.

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<sup>17</sup> Civil Aviation (Safety) Levies Order 2002, S10 1A (b)

170. Accordingly, we concluded that, given the option of creating new levies for Other Commercial Operators, we would hold the Participation Levy for private and recreational, operators and those hire or reward operators not required to pay another levy.
171. Other Commercial operators would not pay the current Participation Levy, but will pay an Operator Safety Levy, described at paragraph 254.

**CAA Proposal 10**

- **We do not propose to make any change to Participation Levies upon aircraft used only for private or recreational operations, or for those hire or reward operators not required to pay another levy.**

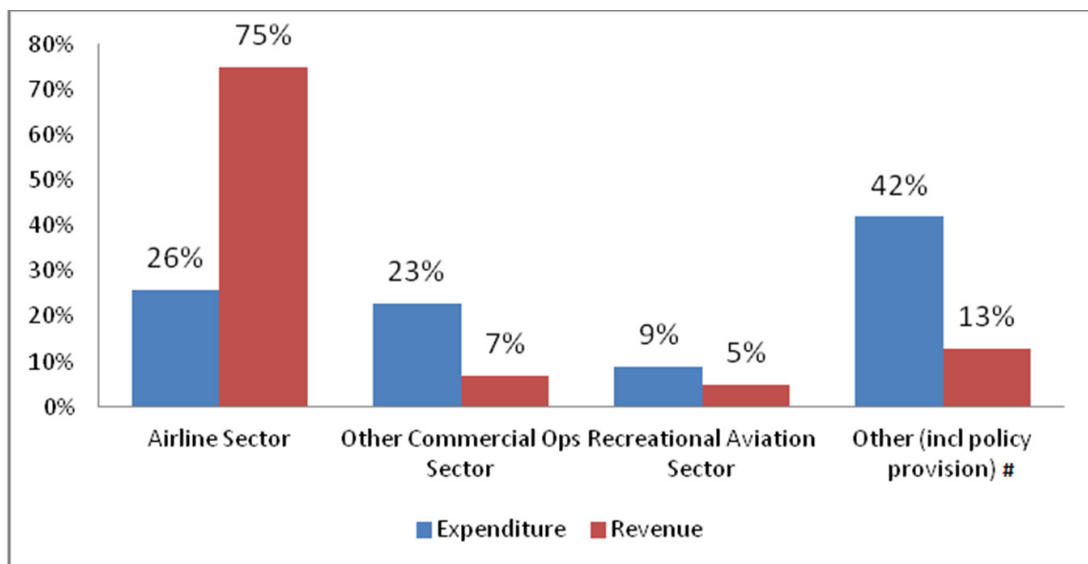
**Retain private/recreational participation levies but increase participation levies for Other Commercial, or increase all participation levies by varying rates**

172. We considered adjusting participation levies for Other Commercial operators based on various characteristics such as aircraft MCTOW<sup>18</sup>, activity (number of flights or ascents), hours flown, freight carried, agricultural product applied, parachute descents, and fleet size.
173. Our conclusion was that a simple increase in the rate of the current participation levies for Other Commercial aircraft would not be appropriate as that would:
- § Not enable scalability of the levy on the operator based on the complexity of the operation, or the exposure to the aviation system (and hence the risk); and
  - § Not meet the central agency guidance in respect of equity.
174. We have focused on the proposals outlined below because they:
- § Enable levies to be applied to the type of operation related to its complexity;
  - § Take into account the activity of the operator and hence the impost on the aviation system;
  - § Are more equitable between private and commercial operators, and between different categories of commercial operators; and
  - § Use (predominantly) data and data collection systems already in place.
175. We are acutely aware that the practicability of the means by which we collect new levies is critical, in terms of the effect upon operators and the efficiency of our own collection systems.
176. Completeness and accuracy of data collection is an issue, and this is discussed further at paragraph 293.

<sup>18</sup> MCTOW = Maximum certificated take-off weight

## Establish new Safety Levies for Other Commercial operations

177. The commercial general aviation sector (Other Commercial Activities<sup>19</sup>) carries passengers on both 'scheduled' and 'unscheduled' flights and carries out agricultural and freight-only operations. The passenger flights include charter, sightseeing, parachutist deployment, air transfer/shuttle, and include both point A to point A and point A to point B flights. The number of passenger sectors flown is estimated to be about 233,000 per annum.
178. While these participants currently pay annual aircraft participation levies, there are no passenger or other activity based levies applied for these commercial activities which are carried out under various Rule Parts (for example, the commercial activities undertaken under Rule Part 115 — Commercial Adventure Aviation; Rule Part 135 — Helicopters and Small Aircraft; and Rule Part 137 — Agricultural Aircraft Operations, etc.).
179. However, while Other Commercial participants do currently pay fees and charges for surveillance, and a number of other functions, the revenue sourced from this sector does not meet the costs of oversight of the sector, as can be seen from Fig.3 below<sup>20</sup>.



180. Accordingly it is necessary to rebalance the revenue sources to ensure that the Other Commercial operations meet a greater proportion of the total oversight costs.
181. During the Phase One consultation, we presented options to:
- § Introduce new levies for operations under Rule Part 115 - Commercial Adventure Aviation; Rule Part 125: Air Operations – Medium Aeroplanes; Rule Part 135 - Helicopters and Small Aircraft; and possibly other Rule Parts;
  - § Introduce a levy on unscheduled commercial general aviation flights;

<sup>19</sup> Note this is only for "hire or reward" operators.

<sup>20</sup> 'Other' category includes the following functions and activities: policy and regulatory strategy; international liaison; regulatory investigations; safety intelligence, investigation and promotion; security oversight; legal services; and corporate business services. These are funded by a mix of levy revenue, Crown funding (via Vote Transport), and Other revenue (e.g. interest).



- § Introduce a levy on domestic and international freight-only flights (departures); and
  - § Introduce a levy on Agricultural Aircraft Operations applying agricultural product from the air (predominantly Part 137 operations)
182. There was general support from industry for all of the options, other than freight-only operators, but with general agreement that commercial operations had an obligation to contribute appropriately to the regulatory oversight of the aviation system in New Zealand.
183. Accordingly, we have examined the introduction of new operations-based safety levies and operator-based safety levies, on the basis that those in the Other Commercial segment of the aviation sector should be levied in such a way that the large revenue differential between the passenger safety levy for *Air Transport* and the participation levy for *Other Commercial* operators is addressed, given their relative oversight and intervention impost on the aviation system.
184. This approach enables us to distinguish between the risks and oversight requirements of operators as distinct from the operations they undertake. The basis for these levies would be:
- § **Operations-based safety levies** – activity levels in various categories of operations; and
  - § **Operator-based safety levies** – fleet size and diversity (as determined by the number and MCTOW of the aircraft in an operator's fleet).
185. In doing so, we want to ensure equity (insofar as that is practicable) between activities and operators, and between freight and agriculture and other commercial operations, while holding the administrative and reporting burden to a minimum. We also want to develop a differential between Non-commercial (private and recreational) and Other Commercial operators.
186. These proposed new levies would enable the CAA to fund the Surveillance activity, the Participation Levy and Medical Certification revenue forgone from the new levies on Other Commercial operators (in conjunction with an adjustment in the contribution from levy revenue from passenger levies).

### Operations Safety Levies

187. We propose a range of new operations safety levies to address, in part, the revenue forgone from the hourly charges currently associated with routine surveillance, and the loss of fixed fee revenues associated with medical certification. These new levies would also present an opportunity to reduce the Other Commercial / Airline imbalance in revenue contribution to some degree, but to do this by any significant amount would increase Other Commercial costs and raise questions about the sector's ability to pay. Indeed, the degree to which the revenue/expenditure imbalance between the airline and Other Commercial sectors can be redressed without harming General Aviation is limited in the short term.
188. The underlying principle for the proposed safety levy framework is that a grouping (e.g., the agricultural aviation sector, or the commercial adventure aviation sector, etc.) should, as much as reasonably practicable, pay the cost of the oversight the CAA exercises over that

sector. In addition, consideration should be given to the administrative cost and burden of collection of both data regarding sectoral activity, and the revenue itself.

189. The proposed changes to the safety levy framework are focused on commercial aviation operations not subject to the domestic passenger safety levy<sup>21</sup>. For those commercial operations (including those conducted under the ANZA agreement), the existing passenger levy structures would be retained. In addition, as indicated in paragraphs 164 to 167, the current Participation Levy for private/recreational operators would remain unchanged.
190. Key considerations for the establishment of new operations safety levies have been the:
- § Complexity of different types of operations — the variables that could be utilised to reflect complexity such as flight hours, number of aircraft operated, etc. determining the quantity / cost of CAA resource required to undertake effective safety oversight;
  - § Means by which a levy can be calculated (that is, the measureable that can be used to calculate the amount of revenue collected from each source; and
  - § Degree to which the revenue/expenditure imbalance between the Airline and the Other Commercial sectors can be redressed without undue impost on those sectors in the short to medium-term through the use of a managed transition in levy rates.

### *Identify the categories of operations in Other Commercial*

191. In order to identify how the Other Commercial sector could be levied it was necessary to categorise all the different types of operations carried out in the sector. Essentially that came down to six categories:
- § **Part 115**, Any operator involved in adventure aviation flight operations using New Zealand registered aircraft
  - § **Part 115**, Any operator involved in adventure aviation descent operations using aircraft not required to be registered in New Zealand
  - § **Parts 121 & 125**, Any operator involved in the operation of medium or large aircraft for commercial operations — excluding freight-only operations and passenger transport operations >20,000 passengers p.a.
  - § **Part 135**, Any operator involved in the operation of small sized aircraft for commercial operations – excluding freight-only operations
  - § Agricultural operations applying product from the air (predominantly **Part 137** operations); and
  - § **Parts 121, 125, 129 and 135**: Freight Only operations

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<sup>21</sup> Refer sections 5 (1) & (2) of the Civil Aviation (Safety) Levies Order 2002

### CAA Proposal 11

- We propose that participation levies for Other Commercial operators be replaced by an Agricultural Operations Safety Levy, a Freight-only Operations Safety Levy, four specific Operations Safety Levies, and an Operator Safety Levy.

#### *Identify the activity base in each category*

192. We then examined the activity data available to us, both directly and indirectly. These data form the basis of the CAA's activity statistics returned by operators who are required, under Rule Part 12 and Rule Part 19, to submit operational statistics and returns on a regular basis.
193. Bearing in mind our preference to utilise readily available data, we considered other external data sources available to us, as well as the possibility of amending Rule Part 12 to require operators to submit additional operational statistics and information. For the purposes of these proposals, we have decided to utilise some data available to us from other government departments regarding the proposed freight-only levy. We would also require freight-only operators to provide total payload data in the statistical returns, thus requiring a change to Rule Part 12. There would therefore be some change to the format and fields in the forms used. We are also examining the possibility of introducing online activity returns.
194. In addition, we will review operator returns to improve the quality and completeness of reporting.

#### *Oversight demand*

195. In order to establish how much to levy each category we calculated the oversight demand for that category. The oversight demand includes the surveillance effort for that particular category of operations, a proportion of the oversight of Airways NZ, aerodromes, and maintenance facilities and engineers, and allows for a contribution to the cost of the AIS. It also allowed some movement to reduce the contribution made by the passenger levy to this sector.
196. Based on the oversight demand for a particular category we identified the total levy revenue required from activities carried out in that category of operations. That, when combined with the activity data, enable us to calculate an average levy/activity unit for that category.

#### *Distribute revenue demand over classes within categories*

197. In order to account for the varying degrees of activity in the categories we created a number of classes within each category. To keep the levy process as simple as possible we established a maximum of four classes in each category while recognizing that some categories may have fewer classes.
198. We then calculated levy rates in such a way as to ensure that larger operators were not unduly levied for their activity, while smaller operators were levied in such a way as to

ensure that they paid their way in terms of oversight costs. We have also phased the introduction of the levies over a three year period in order to reduce the impact of their introduction.

199. The effect of recovering more from the operations safety levies is:
- § While many participants will see similar or reduced costs in years one and two, higher costs are imposed on a few commercial general aviation operations ; roughly 60% of operators will face greater overall costs in Year Three;
  - § The Other Commercial sector picks up more of the cost of its oversight than it has traditionally done;
  - § More appropriate recovery of oversight costs from some sectors; and
  - § Concern from some that the Other Commercial sector will be bearing an unreasonable increase in 'government imposed' costs.
200. This approach would enable us to create regressive levy rates for some of the categories by class. We discuss this concept further in the section titled 'Further development of Operations Safety Levies' at paragraph 316.

### *Third Party Review of the approach used to establish levies for Other Commercial Operations*

201. We sought advice from Castalia Strategic Advisors on the optimal structure and rates for the proposed levies.
202. Castalia found that the proposals are a significant improvement on the current levy structure but could be improved further with some adjustments. They found that the proposed new levies are well matched against CAA's objectives, and are more risk- and cost-aligned relative to current levies, because:
- § The activity measures are good measures of activity-based risk
  - § The compliance costs are low in most cases
  - § The rates can be set to achieve the desired revenue from each sector
203. However, they also found that activity based risk is captured better than operator based risk, and that regressive rates can have unintended consequences. They therefore proposed that the levy structure could be improved further with some adjustments, and rates based on an evaluation of the risk alignment of the proposed levy structures.
204. We have accepted much of Castalia's advice in the proposals presented regarding Other Commercial levies. At this stage, however, we have decided to defer the introduction of risk-based levies until further implementation of Safety Management Systems in the industry, and we have better developed our risk profiling systems.

### Agricultural Products Operations Safety Levy

205. During Phase One consultation the CAA presented an option to introduce a levy on agricultural operators based on the weight of the material (both solid and liquid) applied during the conduct of an agricultural aircraft operation.
206. All agricultural aircraft operations applying product from the air are required to submit the hours flown under various categories. In addition, operators also submit returns on the total tonnage / litres of material, with returns submitted to the CAA each quarter<sup>22</sup>. For the purposes of the new levy this requirement would need to be formalised in regulation.
207. Consideration was given to whether loads, hectares or tonnes are used as the measure of aircraft activity. Using the number of **loads** would likely benefit larger aircraft and disadvantage smaller aircraft. Using **hectares covered** would be an unsuitable measure of aircraft activity as it does not provide an indication of the load carried or dispensed or the number of flights carried out, nor is it readily verifiable.
208. In the 2013 year 714,204 tonnes of agricultural product was applied, which included both liquids and solids, as set out in Table 5 below.

**Table 5: Agricultural product applied<sup>23</sup>**

	Litres applied	Tonnes applied	Levy Base Tonnes <sup>24</sup>
Liquids <sup>25</sup>	84,741,541		84,741
Solids <sup>26</sup>		629,462	629,462
		<b>TOTAL</b>	<b>714,203</b>

#### *Setting a Levy Rate*

209. The proposed rate for the levy is based upon our estimation of the oversight costs of this part of the Other Commercial sector and the activity for this category of levy.
210. The CAA proposes to introduce a levy on operators applying agricultural product based on the weight of the agricultural material applied (both solid and liquid) from the air during the conduct of an agricultural aircraft operation.
211. Where aircraft are used for applying agricultural product, they would be levied on the basis of the weight of product applied. Non-productive hours (such as positioning flights) would not be included for levy purposes.
212. A levy per tonne rate would be set at a rate that does not cause an undue burden on the agricultural operations applying product from the air. For example, if a levy rate of \$0.87 (nett of GST, or \$1.00, GST incl.) per tonne was used, that would generate revenue of

<sup>22</sup> Refer Rule Part 19-103

<sup>23</sup> Data sourced from operator statistical returns to the CAA.

<sup>24</sup> Assumes that each litre of agricultural liquid product weighs 1kg (conservative as most agricultural liquids will be heavier than water (i.e. Water plus dissolved, or suspended, substance)).

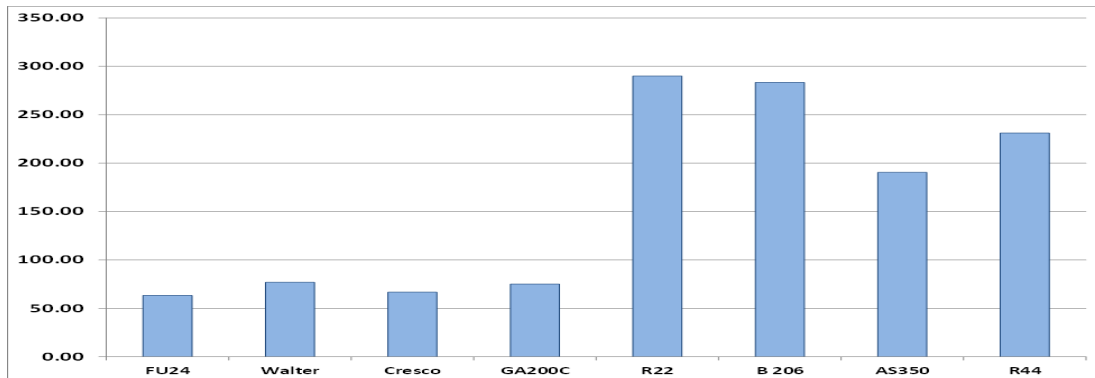
<sup>25</sup> Includes fertilisers, agricultural chemicals, and fine particle suspension.

<sup>26</sup> Includes phosphate, baits, lime, high analysis fertiliser, other – seed, other – sulphur.

\$621,356 based on current returns. This rate would be very small in comparison with the cost of a tonne of fertiliser (currently ranging from about \$316 per tonne for superphosphate to about \$1,460 per tonne for Low Biuret Urea<sup>27</sup> (about 0.27% to 0.06%).

213. Figure 4 below shows the estimated relative costs/tonne for the application of agricultural product from the air for various aircraft<sup>28</sup>.

**Figure 4: Estimated aircraft operating costs/tonne for the application of agricultural product from the air**



214. The levy rate is small compared with the cost of applying the agricultural product. While rates per tonne vary with the aircraft used, the average rate for application is about \$85.00 per tonne. At a levy of \$0.87 per tonne (nett of GST, or \$1.00, GST incl.), this is about 1.00%.
215. We are conscious of the potential for changes in fertiliser volumes being applied. Factors that may affect volumes include:
- § Changes in the prices of various fertilisers and other agricultural products applied;
  - § Acreage shifts by crop farmers as they react to changing crop economics and planting conditions which will drive fertiliser demand;
  - § Changes in overseas market conditions affecting commodity prices for New Zealand agricultural exports; and
  - § Changes in New Zealand's role in global nutrient markets (e.g. moves into or out of dairy farming).
216. We will monitor volumes of fertiliser and other product applied from the air closely.
217. In order to mitigate the immediate impact of these new levies upon operators we propose to phase their implementation over the three years of the funding triennium. This will give operators in this sector time to adjust their business models to accommodate the new levies and the levy rates.

<sup>27</sup> <http://www.ravensdown.co.nz/nz/Documents/fertiliser-prices.pdf>, accessed 25 May 2015

<sup>28</sup> CAA data.

### CAA Proposal 12

- We propose to introduce an Agricultural Operations Safety Levy, with the base rate set at \$1.00 (GST incl.) or \$0.87 (GST excl.) per tonne of product applied.
- We propose to implement the Agricultural Operations Safety Levy at variable rates over the funding triennium, as below:

§ First year	20%	= \$0.17 per tonne (GST excl.)
§ Second year	45%	= \$0.39 per tonne (GST excl.)
§ Third Year	100%	= \$0.87 per tonne (GST excl.)

### Freight-only Operations Safety Levy

218. During Phase One consultation, the CAA presented an option to introduce a levy on both domestic and international (departing) freight-only operations.
219. There was almost unanimous support for the introduction of a freight-based levy for domestic and international cargo operations. One submitter said that 'these levies could be passed on to the end-user customer and would only have minimal effect on the aviation sector', and that 'freight is typically not carried by the smaller business owner and tends to be established larger operations which can absorb the extra costs of administration'. Most submitters agreed with the statements that 'all profit making commercial activities should contribute', and that 'it is imperative that all participants in the system are making a contribution to meeting the costs of that system'. Among the dissenting opinions, most were concerned that the addition of a new levy would add further cost burdens on industry.
220. In principle, there is a strong argument to include freight-only flights within the scope of aviation levies in the same way as passenger services are levied, as this would ensure consistent incentives and signals are put in place. There are also arguments around ensuring a level playing field, between passenger and freight-only services. To *not* include freight-only flights in the levy regime could be seen as giving a commercial advantage to operators of those flights.
221. Based on available returns, freight-only flying hours accounted for around 3% of all commercial hours in 2013 in New Zealand. Accordingly, it would be important to consider the economic impact of such a levy construct to ensure it would not lead to adverse economic impacts.

### Alternatives for a freight-only Levy

222. We examined two alternatives for the establishment of a freight only levy:
- § A levy based on the number of freight only flight departures, both domestic and international; and
  - § A levy based on the payload carried on freight only flight departures, both domestic and international, and the MCTOW of the aircraft.

*A levy based on the number of freight-only flights and the MCTOW of the aircraft*

223. Table 6 below indicates the number of freight only flights **within and departing from** New Zealand.

**Table 6: Freight-only flights within and departing from New Zealand**

	Total number of flights (2013)
Freight-only (NZ Register) <sup>29</sup>	10,448
Freight-only (Overseas Register) <sup>30</sup>	659
<b>Total</b>	<b>11,107</b>

224. Under this option, the levy could be based on the number of **'freight only'** departure flights returned in international, domestic -scheduled and domestic-unscheduled categories of the current CAA statistical returns and the MCTOW of the aircraft. For example, the proposed rate for the levy could be based upon our estimation of the oversight costs of this part of the Other Commercial sector and the number of freight-only flights in each of the classes proposed for this category of levy. We considered three classes within this category:

§ **Class I** — freight-only flights utilising aircraft not exceeding 5700kg MCTOW;

§ **Class II** — freight-only flights utilising aircraft exceeding 5700kg but not exceeding 100,000kg MCTOW; and

§ **Class III** — freight-only flights utilising aircraft (exceeding 100,000kg MCTOW).

225. This would require no additional reporting for domestic operators. A system for capturing data on international freight only operations by overseas registered aircraft would be established. The focus here would be on flights whose primary purpose is to carry freight.

226. Under this option, New Zealand certificated freight-only operators would, as currently, submit a return on the numbers of freight flights to the CAA. Currently, non NZ-certificated freight-only operators do not return statistics on freight carried, to the CAA. Accordingly we would rely upon data collected from New Zealand operators for domestic freight operations and for NZ-certificated international operations. We would use data from the New Zealand Customs Service for non-NZ-certificated operations or look to establish appropriate reporting requirements as a component of the Aviation Rules.

227. As in the case of passenger levies, aircraft/operators engaged in freight-only operations would not be charged a participation levy, but would be charged an Operator Safety Levy.

*A levy based on the payload carried on freight only flight departures*

228. We considered, as an alternative to a levy based on the number of freight-only flights, a levy based on the actual payload carried on freight-only flights by an operator, or a levy based on a set percentage of the total potential payload available to an operator.

<sup>29</sup> CAA data (includes NZ Registered international freight-only operations)

<sup>30</sup> NZ Customs data for AKL port



229. In order to assess the practicality of this option we examined the potential payload of domestic and international freight-only departures.
230. Table 7 below indicates the freight carriage potential of the freight only flights **within and departing from** New Zealand, allowing for a 75% load factor.

**Table 7: Payload potential of the freight only flights within and departing from New Zealand**

	Total number of flights (2013)	Estimated Potential Payload (metric tonne)
NZ registered freight only operations <sup>31</sup>	10,448	87,394
International Freight-only (Overseas Register) <sup>32</sup>	659	39,521
<b>Total</b>	<b>11,107</b>	<b>126,915</b>

231. This alternative levy base would require us to have access to more accurate and more complete data on payloads carried on freight-only flights. At present, this data is only partially available to us.
232. Because we do not currently have robust data on payloads, we considered the use of the number of flights as the base for the freight only levy (as above).
233. However despite the initial fiscal risk that might arise from a possible overestimation of the total freight payload, both domestic and international, our preference is to use the actual payload carried by operators on freight-only operations as the base for this levy. This places the freight-only levy on a similar basis as that for passenger operations.
234. In addition, the levy would not be applied to airline operations, i.e. those flights where there is a mixed passenger load and freight (i.e. normal passenger operations).
235. We also considered the possibility of striking different rates for domestic and international freight-only operations, but similar arguments as for passenger airline operations apply here.

**Other considerations**

236. In the case of a New Zealand certificated operator, carrying out freight-only operations overseas under an ANZA or other certification, freight carried returns would be required and levies would be payable as for a New Zealand domestic operator. An Australian ANZA certificated freight-only, operator conducting freight operations to, from, or within, New Zealand would not be levied, although we wish to examine this issue further in the future.

<sup>31</sup> CAA data (includes NZ Registered international freight-only operations)

<sup>32</sup> NZ Customs data for AKL port only.

*Setting a Levy Rate*

- 237. The proposed rate for the levy is based upon our estimation of the oversight costs of this part of the Other Commercial sector and the estimated payload carried domestically and internationally.
- 238. The rate has been set in a way that:
  - § Meets some of the estimated cost of oversight, including a contribution to the oversight of aerodromes, air traffic control, and meteorological services;
  - § Does not place an undue burden on the sector; and
  - § The rate per flight is comparable but less than the rate for a comparable air transport passenger flight.
- 239. In order to mitigate the immediate impact of these new levies upon operators we propose to phase their implementation over the three years of the funding triennium, and in order to give operators in this sector time to adjust their business models to the new levies and the levy rates.

**CAA Proposal 13**

- We propose to introduce an operations safety levy for *'freight only'* flights in international, domestic -scheduled and domestic-unscheduled operations, based on the payload carried on those flights.
- We propose that the base rate of the freight-only operations safety levy is \$3.45 per tonne (GST incl.) or \$3.00 (GST excl.).
- We propose to implement the freight-only operations safety levy at variable rates over the funding triennium as below:
 

<u>Freight-only operations levy</u>		
§ Year One	20%	= \$ 0.60 (GST excl.)
§ Year Two	45%	= \$ 1.35 (GST excl.)
§ Year Three	100%	= \$ 3.00 (GST excl.)

**Operations Safety Levy on Other Commercial operations**

- 240. We propose to establish an operations-based safety levy on Other Commercial operations to cover all such activity other than those that pay a Freight-only Levy or an Agricultural Operations Levy. We discussed the key considerations in this regard in paragraph 190.
- 241. The proposed operations safety levy would reflect the complexity of a given operation under specific rule parts. This levy would be based on a rationale that involves 'system impact' (for example, the larger an operator, the greater its likely impact on the aviation system) and 'vertical equity' (the notion that levies should reflect, as far as practicable, the discharge of the CAA's regulatory functions where there is no specific fee or charge).

242. The variables of complexity considered include passengers, flight hours, numbers of aircraft, organisation complexity, etc. Analysis has shown a close relationship between the hours flown and fleet size and therefore complexity of the operator's activities.
243. We examined the various operations carried out in the Other Commercial sector, other than Agricultural and Freight-only. We then segmented these into four categories depending on the nature of the operation.
244. The Operations Safety Levy would apply to all areas of commercial operation categorised in Table 8 below.

**Table 8: Proposed categories of Operations Safety Levy**

Category	Rule Part	Parameters
A	Part 115	Any operator involved in adventure aviation flight operations using New Zealand registered aircraft, other than those involved in parachute deployment operations.
B	Part 115	Any operator involved in adventure aviation launch or descent operations.
C	Parts 121 & 125	Any operator involved in the operation of medium or large aircraft for commercial operations - excluding freight-only operations and passenger transport operations carrying in excess of 20,000 passengers p.a.
D	Part 135	Any operator involved in the operation of small sized aircraft for commercial operations – excluding freight-only operations and passenger operations carrying in excess of 20,000 passengers p.a.

245. In terms of those aircraft which are mixed Other Commercial Activity and Non-commercial activity, the levy charged would be based on the Other Commercial Rate to reflect the commercial usage, rather than on the Non-commercial Participation Levy rate.
246. Passenger levy-paying operators are excluded from paying for any activity carried out in category C or D.

### *Setting Levy Rates*

247. The category allocation for each of the four operator safety categories (other than the freight and agriculture levies) considered variables which reflected the complexity of the category's operation and level of regulatory oversight required.
248. These levies have been set using the following logic:
- § The **time/effort** recorded by our staff on oversight of flight activities has been used to guide how we apportioned the effort the we expend on oversight activities (e.g., audit, inspection, analysis, etc.) by category;
  - § The revenue 'demand' has been distributed across the categories using the time/effort distribution;

- § To address the 'rebalancing' question in part, the revenue yield has been set slightly higher than the revenue demand; and
  - § Consideration as to whether the levies set are 'practicable' (equitable relationship between the levy costs per category, operators' ability to pay, and collection efficiency, etc.) in terms of rate has been undertaken, resulting in some adjustments to rates.
249. Accordingly, the proposed rates for Operations Safety Levies have been set in a way that:
- § Meets most of the estimated cost of oversight, including a contribution to the oversight of aerodromes, air traffic control, and meteorological services, etc.; and
  - § Does not place an undue burden on the sector.
250. Table 9 below illustrates the structure of the proposed Operations Safety Levies.

**Table 9: Structure of the proposed Operations Safety Levies**

Category	Rule Part(s)	Parameters	Basis of the Rate
<b>A</b>	115	Any adventure aviation flight operations using New Zealand registered aircraft, other than those flights involved in parachute deployment operations. <sup>33</sup>	<i>Hours flown pa</i>
<b>B</b>	115	Any launch or descent operation (including tandem parachute, paraglider or hang glider operations) <sup>34</sup>	<i>Number of launches or descents<sup>35</sup> pa</i>
<b>C</b>	121 & 125	Large- and medium-sized commercial aeroplane operations, excluding freight – only operations & passenger transport operation of > 20,000 passengers pa.	<i>Hours flown pa</i>
<b>D</b>	135	Small-sized commercial aeroplane or helicopter operations, excluding freight – only operations	<i>Hours flown pa</i>

**CAA Proposal 14**

- **We propose to establish an Operations Safety Levy on Other Commercial operations to cover all such activity other than commercial adventure aviation launch or descent operations.**

**Benefits of this approach to setting Operations Safety Levies**

251. As referred to in paragraph 187, the degree to which the revenue/expenditure imbalance between the airline and Other Commercial sectors can be redressed without harming the

<sup>33</sup> This levy would also apply to operations such as commercial warbird flights which charge typically in the order of c\$2,500 per hour

<sup>34</sup> This levy would apply to commercial parachute jumps which typically retail at about \$400 per jump.

<sup>35</sup> In this context *launches* refers to paraglider and hang-glider flights, while *descents* refers to parachute flights

Other Commercial sectors is limited. The pricing proposed will determine the amount by which the proposed Operations Safety Levy costs exceed the current costs recovered through hourly charges. It can be argued that the amount recovered in levies should exceed that currently recovered by hourly charges because the CAA does not currently recover the full costs of oversight from the commercial operators in the General Aviation sector. Under-recovery is due to a range of factors, including the fact the current hourly rate is set at a point that does not fully cover the costs associated with oversight (notionally, full cost recovery would require an hourly rate of about \$466 per hour).

252. The proposed framework for Operations Safety Levies has the effect of making the actual costs of oversight more transparent to an operator through the levy mechanism. The benefits of the approach outlined are that the proposed new levies:
- § Are better matched to the CAA's costs of oversight<sup>36</sup> for the sector to which the levy is applied (thus reflecting the re-balancing principle);
  - § Remove the ability for the CAA to generate additional revenue simply by performing more chargeable activity which may not be related to risk;
  - § Make more transparent the actual costs of oversight for individual sectors of the civil aviation system;
  - § Have the potential to be more predictable for participants in terms of forecasting likely impost and for the CAA in terms of forecasting revenue;
  - § Encourage the CAA to improve efficiency as revenue for core oversight will in effect be directly related to aviation activity (as opposed to hourly charges which are directly related to only the inspection and auditing activity the CAA initiates);
  - § Make more equitable the revenue contribution between those operators paying the domestic passenger safety levy and those commercial operators that do not operate under that regime. (For example, at present an operator carrying 20,000 passengers p.a., in two medium sized aircraft contributes \$39,598 in levy funding and fee for the maintenance of the register. Another operator with the same aircraft but only carrying 19,000 passengers p.a. contributes only \$2,598 in the form of annual aircraft participation levies) and fee for the maintenance of the register; and
  - § Make more equitable the revenue contribution between those carrying passengers and those carrying freight or applying agricultural chemicals.
253. In order to mitigate the immediate impact of these new levies upon operators we propose to phase their implementation over the three years of the funding triennium, and in order to give operators in this sector time to adjust their business models to the new levies and the levy rates.

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<sup>36</sup> 'Oversight' is used to describe all CAA activities, such as surveillance, safety analysis, safety investigation, safety promotion, etc., aside from certification of an operator or aviation technology or equipment.

**CAA Proposal 15**

- We propose to introduce Operations Safety Levies for the following flight operations,:

	Incl. GST	Excl. GST
<ul style="list-style-type: none"> <li>Any adventure aviation flight operations using New Zealand registered aircraft, other than those flights involved in parachute deployment operations<sup>37</sup>, per flight hour</li> </ul>	\$ 14.38	\$ 12.50
<ul style="list-style-type: none"> <li>Any launch or descent operation (including tandem parachute, paraglider or hang glider operations), per launch or descent.</li> </ul>	\$ 2.88	\$ 2.50
<ul style="list-style-type: none"> <li>Large- and medium-sized commercial aircraft operations, excluding freight-only operations &amp; passenger transport operation of &gt;20,000 passengers p.a., per flight hour</li> </ul>	\$ 6.33	\$ 5.50
<ul style="list-style-type: none"> <li>Small-sized commercial aircraft operations, excluding freight-only operations, per flight hour</li> </ul>	\$ 7.48	\$ 6.50

cont'd

<sup>37</sup> This levy would also apply to operations such as commercial warbird flights which charge typically in the order of c\$2,500 per hour

<p>We propose to implement the Operations Safety Levies at variable rates over the funding triennium as below:</p>		
<p>Any adventure aviation flight operation using New Zealand registered aircraft, other than those involved in parachute deployment operations, per flight hour</p>		
§ Year One	20%	= \$ 2.50 (GST excl.)
§ Year Two	45%	= \$ 5.63 (GST excl.)
§ Year Three	100%	= \$ 12.50 (GST excl.)
<p>Any launch or descent operation (including tandem parachute, paraglider or hang glider operations) using aircraft not required to be registered in New Zealand, per launch or descent</p>		
§ Year One	20%	= \$ 0.50 (GST excl.)
§ Year Two	45%	= \$ 1.13 (GST excl.)
§ Year Three	100%	= \$ 2.50 (GST excl.)
<p>Large- and medium-sized commercial aircraft operations, excluding freight-only operations &amp; passenger transport operation of &gt;20,000 passengers p.a., per flight hour</p>		
§ Year One	20%	= \$ 1.10 (GST excl.)
§ Year Two	45%	= \$ 2.48 (GST excl.)
§ Year Three	100%	= \$ 5.50 (GST excl.)
<p>Small-sized commercial aircraft operations, excluding freight-only operations</p>		
§ Year One	20%	= \$ 1.30 (GST excl.)
§ Year Two	45%	= \$ 2.93 (GST excl.)
§ Year Three	100%	= \$ 6.50 (GST excl.)

### Operator Safety Levy

254. We propose a new **operator-based** safety levy to address, in part, the revenue forgone from the hourly charges currently associated with routine surveillance. This new levy presents an opportunity to reduce the Other Commercial / Airline imbalance in revenue contribution to some degree, but to do this by any significant amount would increase Other Commercial costs and raise questions about the sector's ability to pay.
255. We propose that commercial operators pay an Operator Safety Levy based on the size (MCTOW) of aircraft that are listed on their air operator's certificate (i.e. for each aircraft that is eligible for a given type of commercial operation (e.g. Other Commercial air transport operations)).
256. The Operator Safety Levy would apply to all operators engaged in the following sectors:
- § Any adventure aviation flight operation using New Zealand registered aircraft;

- § Large- and medium-sized commercial aircraft operations, excluding freight-only operations & passenger transport operation;
  - § Small-sized commercial aircraft operations, excluding freight-only operations & passenger transport operation;
  - § Operations applying agricultural product from the air; and
  - § Freight-only operations, by NZ registered aircraft.
257. Passenger levy-paying operators and operators solely operating adventure aviation launch or descent operations (category B) are excluded from paying an Operator Safety Levy.
258. There is a certain regulatory burden associated with aircraft being approved to conduct commercial operations, regardless of the hours flown. This includes maintaining the CAAs access to publication for its maintenance, operation and continuing airworthiness and ensuring CAA staff are able to (trained) to provide oversight. Generally the regulatory burdens increase with size and complexity of the aircraft; hence MCTOW is an appropriate measure.
259. The basis for such a levy is that there are operator-related safety oversight requirements that vary according to the operator's fleet size and diversity, irrespective of the activity undertaken by those aircraft. Accordingly, the base for the Operator Safety Levy would be the fleet size and diversity (as determined by the number and MCTOW of the aircraft in an operator's fleet).
260. The commercial aircraft levy incentivises operators to rationalise their fleet to a fewer, possibly, larger aircraft rather than pay the fixed costs of a multitude of smaller types. This increases safety, as in general larger aircraft are certified to higher standards (FAR 25 vs FAR 23) that provide more safety through increased system redundancy, as well as better aircraft and navigation performance generally.
261. The regulatory burden is related to the level of certitude (FAR 23/25, single/twin engine) so increases in discreet steps rather than a continuum. Hence the Commercial Aircraft Levy can be a series of flat rates for each MCTOW categories (which should align as far as possible with existing certification breaks).

### *Setting Levy Rates*

262. The rate set for this levy is based on the oversight requirements for an operator such that each operator will contribute to the cost of their operator oversight, as distinct from oversight of activity they undertake.
263. Based on the oversight costs for operators as distinct from their activities, the rates for Other Commercial operators would be set by the number of aircraft in the MCTOW categories multiplied by a rate per aircraft, for each year (as at 1 July). These levy rates may differ from those rates applied as Participation Levy for non-commercial sectors and should not be confused.



**Benefits of the Operator Safety Levy**

264. The proposed framework for Operator Safety Levies has the effect of making the actual costs of oversight more transparent to an operator through the levy mechanism. The benefits of the approach outlined are that the proposed new levies:
- § Are better matched to the CAA's costs of oversight<sup>38</sup> for the sector to which the levy is applied (thus reflecting the re-balancing principle);
  - § Make more transparent the actual costs of oversight for individual sectors of the civil aviation system;
  - § Have the potential to be more predictable for participants in terms of forecasting likely impost and for the CAA in terms of forecasting revenue; and
  - § Encourage the CAA to improve efficiency as revenue for core oversight will in effect be directly related to numbers of operators and their fleet size.

**CAA Proposal 16**

- We propose to introduce an Operator Safety Levy for Other Commercial operators based on the number and MCTOW of aircraft that are listed on their air operators certificate as at 1 July, per annum:

	Incl. GST	Excl. GST
• MCTOW Heavy—exceeding 100,000kg	\$ 13,685.00	\$ 11,900.00
• MCTOW Medium Heavy—exceeding 13,600kg but not exceeding 100,000kg	\$ 3,335.00	\$ 2,900.00
• MCTOW Medium—exceeding 5,700kgs but not exceeding 13,600kg	\$ 1,380.00	\$ 1,200.00
• MCTOW Medium Light—exceeding 2730kgs but not exceeding 5,700kgs	\$ 552.00	\$ 480.00
• MCTOW Light—exceeding 1,000kgs but not exceeding 1000kgs	\$ 115.00	\$ 100.00
• MCTOW Very Light—not exceeding 1000kgs	\$ 80.50	\$ 70.00

**Note.** The rates above have been set at the same quantum as the Participation Levies they replace. That was done at this review to manage the degree of change faced by the sector, but the introduction of the framework establishes the potential to achieve the advantages outlined in paragraph 264, above, at some time in the future

**Levies on non-flying participants**

265. One submitter used the consultation opportunity to suggest a new fee or levy for non-flying participants (for example, airports, the Airways Corporation, Metservice, Avsec and

<sup>38</sup> 'Oversight' is used to describe all CAA activities, such as surveillance, safety analysis, safety investigation, safety promotion, etc., aside from certification of an operator.

Aviation Services Ltd). The suggestion was made 'that they pay a percentage of their profit to the CAA'.

266. Although this approach was carefully considered, it was regarded as simply a pass-through of cost that would move through those organisations to operators and ultimately on to passengers and other end-users of aviation services. As such it would be economically inefficient. We therefore believe that oversight of these activities is best funded from levy revenue.

### CAA Proposal 17

- **We propose not to introduce a participation levy on non-flying participants (such as aerodromes, air navigation service providers, security service providers or maintenance organisations, etc.).**

## Remove the foreign owner deregistration fee

267. The Foreign Owner Deregistration fee was introduced during the last funding review and has never been applied. It is unlikely that it ever would be applied.

### CAA Proposal 18

- **We propose to delete the Foreign Owner Deregistration fee (currently set at \$440.00 (GST incl.), \$382.61 (GST excl.).**

## Establish a fuel levy or a fuel excise

268. During the Phase One consultation a proposal was detailed by the Aircraft Owners and Pilots Association (AOPA) in its submission. In short, AOPA's proposal was to:

*"Introduce a fuel levy covering all domestic (private and commercial) operators that replaces all routine CAA levies, fees and charges."*

269. There were many submissions in favour of the introduction of a fuel levy 'covering all domestic (private and commercial) operators that replaces all routine CAA levies, fees and charges' in the belief that a 'fuel levy would adequately capture all commercial operators covering the club and public good criteria. It would also fairly cover the private good factor relating to private operators. AOPA's proposal argued that, to be fair, the levy would need to replace **all of the CAA's fees, levies and charges**.

270. However, there were also numerous submissions against the introduction of a fuel levy. They were fewer in number, but often just as adamant in their position. All submissions were canvassed in the Summary of Issues Raised in Feedback Responses<sup>39</sup>.

### Ministry of Transport analysis of proposal

271. The Ministry considered whether an aviation fuel excise, or an aviation fuel levy<sup>40</sup> replacing all current fees and levies would improve the operation of the CAA's funding system. The approach considered was that Customs would collect the aviation fuel excise at the point of importation or manufacture as is done for the motor vehicle fuel excise tax. The Ministry used this approach because it was more workable than the unsuccessful aviation fuel levy used in 1993.

272. The Ministry's conclusion is that the introduction of neither an aviation fuel excise, nor an aviation fuel levy would improve the operation of the CAA's funding system. An aviation fuel levy would not provide revenue sustainability, and there would also be concerns about its equity and economic efficiency.

273. The Ministry accordingly recommended that an aviation fuel levy is **not** introduced. The Minister of Transport has accepted that recommendation.

#### CAA Proposal 19

- **We do not propose to recommend the application of a fuel levy or a fuel excise to partially or fully fund the Authority's regulatory functions.**

### Increase the Level of Government Funding

274. The question of changing the level of direct Government funding of the Authority, whether through appropriation or contracts for service, was not canvassed in this funding review as it was 'out of scope' in the review's Terms of Reference. However, work carried out by the Ministry of Transport<sup>41</sup> indicates that the CAA's funding from the Ministry for policy, health and safety activity, and the rules programme is comparable to that received by other transport agencies.

275. We have assumed that the level of funding from the Ministry for policy, health and safety activity, and the rules programme, will remain unchanged.

<sup>39</sup> [Summary of Issues Raised in Feedback Responses](http://www.caa.govt.nz/funding/2014_funding_feedback.pdf) on Phase One of the Funding Framework for Regulatory Services 2015-18 at [http://www.caa.govt.nz/funding/2014\\_funding\\_feedback.pdf](http://www.caa.govt.nz/funding/2014_funding_feedback.pdf)

<sup>40</sup> An aviation fuel excise would be paid at point of sale, while an aviation fuel levy would be paid on the basis of regular returns by operators to the CAA.

<sup>41</sup> Ministry of Transport briefing note

## Other efficiency gain proposals

276. During the Phase One consultation two other areas were suggested as appropriate for efficiency gain, delegation, or contracting out:

- § Further decentralisation of the Medical Certification function; and
- § Contracting out of the Aircraft Registration function.

## Further decentralisation of the Medical Certification function

277. In the New Zealand aviation medical system, the majority of medical certificates are issued by appropriately qualified medical professionals (Medical Examiners) who carry out the examination of an applicant. This system is quite decentralised compared to States such as Australia, where the Civil Aviation Safety Authority (CASA) reviews the results of all examinations carried out by Medical Examiners and centrally issues certificates in cases where all criteria are met.

278. The New Zealand regime is provided for in the Civil Aviation Act 1990 (the Act) which includes a mandatory requirement under section 270 for the Director to delegate the issuance of medical certificates, in all cases where criteria are met, to appropriately qualified medical professionals (Medical Examiners). Medical Examiners must also hold a medical examiner certificate issued by the Director under Civil Aviation Rule Part 67 and Section 9 of the Act. As such they are aviation document holders exercising privileges in the civil aviation system and delegates of the Director.

279. Within the New Zealand aviation system the role of the Central Medical Unit (CMU) includes:

### **Regulatory oversight of Medical Examiners;**

- (a) Preparation and delivery of regulatory training to intending and current Medical Examiners.
- (b) Assessment of applications for medical examiner certificates and the preparation of delegations from the Director.
- (c) Providing guidance and advice to Medical Examiners including via;
  - i. The development and maintenance of the CAA Medical Manuals
  - ii. The development and issuance of General Directions
- (b) Monitoring of the performance of Medical Examiners against the requirements of Part 67 and the conditions of delegations granted by the Director;
- (d) Consideration of cases involving the exercise of flexibility when medical standards have not been met but safety may not be compromised by the issuance of a medical certificate. Such processes are provided for in the Act and its Accredited Medical Conclusion (AMC) provisions and involve the exercise of discretion by the Director in the circumstances of individual cases. They may involve the imposition of conditions

- on a medical certificate to manage any safety concerns where standards are not fully met;
- (e) Suspension and revocation of medical certificates in cases where information is received indicating this is necessary in the interests of safety;
  - (f) Responding to the results of Medical Convenor reviews and referring cases to the Convenor by agreement;
  - (g) Maintaining a centralised register on medical certificate holders. This is a requirement on the Director under the Act.
280. The Act stipulates that specific powers and functions of the Director relating to the revocation of medical certificates, and some Medical Convenor matters, cannot be delegated to persons who are not employees of the CAA.
281. Notwithstanding this, it is in the public interest that core safety oversight, significant discretionary decision-making, and system administration functions carried out by the CMU remain within the CAA and that the Director's core functions, in what is, already, a de-centralised system are not inappropriately abrogated via further delegation.
282. Other questions arose during Phase One consultation relating to medical unit efficiencies resulting in a review of the unit to examine whether "in light of recent falling numbers of medical certifications sought, that the current resourcing is appropriately reduced to correspond with the reduction in medical certifications sought".
283. This review established:
- § The steps taken via a reduction in the number of establishment Senior Medical Officers (from 3 to 2 circa 2009 with the removal of the Registrar position) and a movement from 7 to 5.5 Medical Advisors over the period 2012 to 2014 result in appropriate staffing levels; and
  - § Potentially, that the costs of running the unit up until 2012, taking into account the volume of transactions processed until that time, did not provide a true picture of the level of resource required to maintain an effective system acknowledging its decentralised nature and heavy reliance on manual administration processes. The current resource and task balance reflects the necessary baseline state rather than one of surplus.
284. We have previously identified opportunities to enhance the effectiveness and efficiency of the aviation medical system, not only with respect to the activities of the CMU but also those of delegated Medical Examiners and holders of medical examiner certificates. Central to any such gains is the concept of an online Medical Certification System. This would need to be supported by an appropriate technology platform that integrates seamlessly with wider CAA business systems and that funding is available to support ongoing operational expenditure.
285. A decision was made to integrate this work with a concurrent work programme updating the Civil Aviation Authority's wider Information Technology systems including the intended

introduction of online portal capability. (This integration will improve the efficiency and quality of these systems, while reducing costs).

286. Communications with stakeholders in 2013 signalled the possibility of the integration of this project with the systems changes associated with the Regulatory Craft Programme (RCP). Some stakeholders may object to this on the basis that they have a singular focus on medical fees, and not overall system efficiencies. Some argue that the CAA should continue development of the Online Medical Certification System on a stand-alone basis. This may not be desirable as appropriate systems development, and funding, is necessary prior to the implementation of any online channel for medical certification.

### Contracting out of the Aircraft Registration function

287. During the Phase One consultation, the New Zealand Transport Agency (NZTA) was suggested as possibly being able to provide the aircraft register function.
288. The requirement to register an aircraft is set out in Part One of the Civil Aviation Act 1990. Section 6 requires every person lawfully entitled to the possession of an aircraft for a period of 28 days or longer which flies to, from, within, or over New Zealand territory to register that aircraft and hold a valid certificate of registration for that aircraft from the Director.
289. The systems used for aircraft registration are an integral part of the CAA's Aviation Safety Management System (ASMS) that links registration and certification, surveillance and other regulatory oversight activities together.
290. Contracting out of the registration function would require a significant re-engineering of our information systems so that they were able to interface with a third-party provider to maintain existing, or to enhance, existing functions. Because of the integration with other of our systems, we do not believe this to be appropriate.
291. As with the Medical Certification system, we believe there are opportunities to enhance the efficiency and effectiveness of the current approach to aircraft registration given its close relationship with aircraft certification. This would need to be supported by an appropriate technology platform that integrates seamlessly with wider CAA business systems. The question of wider CAA business system development is the subject of future decision making and funding decisions.

### Penalties for Late Payment of Levies

292. The Civil Aviation Charges Regulations (No 2) 1991 provide at section 30, that where any fee or charge has not been paid within the period prescribed or fixed in that behalf by or under those regulations, a penalty of 5% of the amount of that fee or charge shall be payable in respect of each period of 28 days after the close of that period during which the fee or charge remains unpaid. There is no similar provision in the Civil Aviation (Safety) Levies Order 2002.

### CAA Proposal 20

- We propose to introduce a penalty provision in regard to the payment of levies due, similar to that provided in respect of fees and charges in the Civil Aviation Charges Regulations (No 2) 1991, section 30.

### Requirement to Submit, and Audit of, Statistical Returns

293. The Civil Aviation Act 1990, and Civil Aviation Rules 12 and 19, contain provisions for the submission of statistical and other returns to the CAA. The Act also empowers us to access documents for the purpose of carrying out functions, duties, or powers under the Act or regulations or rules made under the Act<sup>42</sup>.
294. There was some concern during the Phase One consultation, about the potential for an increased administrative burden to be placed upon operators in the collection and return of activity information, and the administrative cost of reporting activity.
295. However we will need to collect verifiable activity data for billing purposes and, for that reason, we propose to amend the Civil Aviation (Safety) Levies Order 2002, to empower collection of the activity data for the calculation of safety levies owing. Most of this activity data is already collected under Civil Aviation Rules 12 and 19, and will continue to be required for statistical purposes. Other data, already collected under Civil Aviation Rules 12 and 19, will also continue to be required for statistical purposes.

### Audit

296. We seek to improve the quality of data collected, particularly from the Other Commercial sector, to ensure that all activity is captured in operator returns on a regular basis, and that the data is verifiable and robust,
297. This will require vigilance on our part to monitor such activity. We propose that the quality of reporting is improved by introducing a power for the CAA to audit activity returns for completeness and accuracy.

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<sup>42</sup> Civil Aviation Act 1990, s 15 (1) and s 24 (1) refer

### CAA Proposal 21

- We propose to amend the Civil Aviation (Safety) Levies Order 2002 to enable the collection of activity data for the purpose of calculating operator and operations safety levies due.
- We propose to introduce a provision enabling authorised CAA staff to audit activity returns from participants.



## Part Four: New and changed levies, fees and charges

298. The following pages set out the proposed changes to the schedules forming part of the:

- § Civil Aviation (Safety) Levies Order 2002, and
- § Civil Aviation Charges Regulations (No 2) 1991.

### CAA Proposal 22

- We propose to make the following changes to the schedules forming part of the:
  - § Civil Aviation (Safety) Levies Order 2002; and
  - § Civil Aviation Charges Regulations (No 2) 1991;in order to give effect to the proposals for changes to levies fees and charges.

## Schedule of proposed changes to current levies and new levies

Table 10, below, sets out changes to the schedule attached to the Civil Aviation (Safety) Levies Order 2002.

Table 10: Proposed changes to the schedule attached to the Civil Aviation (Safety) Levies Order 2002

Changes are highlighted		Current Levy Rate		Proposed Levy Rate	
		GST Inclusive	GST Exclusive	GST Inclusive	GST Exclusive
<b>Schedule: Participation levies</b>					
Levy	Heavy (exceeding 100 000 kg)	\$13,685.00	\$ 11,900.00	\$13,685.00	\$ 11,900.00
Levy	Medium heavy (exceeding 13 600 kg but not exceeding 100 000 kg)	\$3,335.00	\$ 2,900.00	\$3,335.00	\$ 2,900.00
Levy	Medium (exceeding 5 700 kg but not exceeding 13 600 kg)	\$1,380.00	\$ 1,200.00	\$1,380.00	\$ 1,200.00
Levy	Medium light (exceeding 2 730 kg but not exceeding 5 700 kg)	\$552.00	\$ 480.00	\$552.00	\$ 480.00
Levy	Light (exceeding 1 000 kg but not exceeding 2 730 kg)	\$115.00	\$ 100.00	\$115.00	\$ 100.00
Levy	Very light (not exceeding 1 000 kg)	\$80.50	\$ 70.00	\$80.50	\$ 70.00
<b>Schedule: Passenger levies</b>					
Levy	Passenger Levy - Domestic	\$ 1.97	\$ 1.71	\$ 1.92	\$ 1.67
Levy	Passenger Levy - International	\$ 1.50	\$ 1.30	\$ 1.92	\$ 1.67
Levy	Passenger Levy - ANZA	\$ 1.78	\$ 1.55	\$1.87	\$ 1.63
<b>Schedule: Operations Safety levies</b>					
Levy	Category A – Operations Safety Levy – Part 115 – per hour			\$ 2.88	\$ 2.50
				\$ 6.47	\$ 5.63
				\$ 14.38	\$ 12.50
Levy	Category B – Operations Safety Levy – Part 115 – per launch or descent			\$ 0.58	\$ 0.50
				\$ 1.30	\$ 1.13
				\$ 2.88	\$ 2.50

Changes to the Funding Arrangements for the CAA's Regulatory Functions - 2016-19

Changes are highlighted			Current Levy Rate		Proposed Levy Rate	
			GST Inclusive	GST Exclusive	GST Inclusive	GST Exclusive
Levy	Category C – Operations Safety Levy – Parts 121 and 125 – per hour	First year			\$ 1.27	\$ 1.10
		Second year			\$ 2.85	\$ 2.48
		Third year			\$ 6.33	\$ 5.50
Levy	Category D – Operations Safety Levy – Part 135 – per hour	First year			\$ 1.50	\$ 1.30
		Second year			\$ 3.37	\$ 2.93
		Third year			\$ 7.48	\$ 6.50
Levy	Category E – Operations Safety Levy – Agricultural Operations – Part 137 – per tonne of product applied	First year			\$ 0.20	\$ 0.17
		Second year			\$ 0.67	\$ 0.39
		Third year			\$ 1.00	\$ 0.87
Levy	Category F – Operations Safety Levy – Freight Only Operations – NZ Registered aircraft – per tonne of payload	First year			\$ 0.69	\$ 0.60
		Second year			\$ 1.55	\$ 1.35
		Third year			\$ 3.45	\$ 3.00
Levy	Category F – Operations Safety Levy – Freight Only Operations – Overseas Registered aircraft (Outbound only) – per tonne of payload	First year			\$ 0.69	\$ 0.60
		Second year			\$ 1.55	\$ 1.35
		Third year			\$ 3.45	\$ 3.00
<b>Schedule: Operator Safety levies</b>						
Per aircraft/per annum						
Levy	Heavy (exceeding 100 000 kg)				\$13,685.00	\$ 11,900.00
Levy	Medium heavy (exceeding 13 600 kg but not exceeding 100 000 kg)				\$3,335.00	\$ 2,900.00
Levy	Medium (exceeding 5 700 kg but not exceeding 13 600 kg)				\$1,380.00	\$ 1,200.00
Levy	Medium light (exceeding 2 730 kg but not exceeding 5 700 kg)				\$552.00	\$ 480.00
Levy	Light (exceeding 1 000 kg but not exceeding 2 730 kg)				\$115.00	\$ 100.00
Levy	Very light (not exceeding 1 000 kg)				\$80.50	\$ 70.00

## Schedule of proposed changes to current fees and charges

Table 11, below, sets out proposed changes to the schedule attached to the Civil Aviation Charges Regulations (No 2) 1991.

Table 11: Proposed changes to the schedule attached to the Civil Aviation Charges Regulations (No 2) 1991.

Regulatory Deliverable Changes are highlighted		Current Fees & Charges		Proposed Fees & Charges	
		GST Inclusive	GST Exclusive	GST Inclusive	GST Exclusive
<b>Part 1: Fees for personnel licensing</b>					
<i>Training, examining, flight testing, and conducting organisation</i>					
Fee/Chg	Issue of certificate of approval	per hr	per hr	per hr	per hr
Fee/Chg	Renewal of, or amendment to, certificate of approval	per hr	per hr	per hr	per hr
Fee/Chg	Monitoring of, or carrying out checks in relation to, certificate of approval holder	per hr	per hr	per hr	per hr
<i>Air traffic service personnel licences and ratings (Part 65)</i>					
Fee/Chg	Air traffic trainee licence	\$ 197.00	\$ 171.31	\$ 197.00	\$ 171.31
Fee/Chg	Air traffic controller licence	\$ 197.00	\$ 171.31	\$ 197.00	\$ 171.31
Fee/Chg	Flight service trainee licence	\$ 197.00	\$ 171.31	\$ 197.00	\$ 171.31
Fee/Chg	Flight service operator licence	\$ 197.00	\$ 171.31	\$ 197.00	\$ 171.31
Fee/Chg	Air traffic service instructor rating	\$ 131.00	\$ 113.91	\$ 131.00	\$ 113.91
Fee/Chg	Air traffic service examiner rating	\$ 131.00	\$ 113.91	\$ 131.00	\$ 113.91
<i>Aircraft maintenance personnel licences and ratings (Part 66)</i>					
Fee/Chg	Aircraft maintenance engineer licence (includes issue plus 1 category)	\$ 299.00	\$ 260.00	\$ 299.00	\$ 260.00
Fee/Chg	Aircraft maintenance engineer licence—additional category	\$ 200.00	\$ 173.91	\$ 200.00	\$ 173.91
Fee/Chg	Aircraft maintenance engineer licence—rating	\$ 200.00	\$ 173.91	\$ 200.00	\$ 173.91
Fee/Chg	Aircraft maintenance engineer licence—maintenance approval	\$ 266.00	\$ 231.31	\$ 266.00	\$ 231.31
Fee/Chg	Aircraft maintenance engineer licence—certificate of inspection authorisation	\$ 266.00	\$ 231.31	\$ 266.00	\$ 231.31
Fee/Chg	Exchange aircraft maintenance engineer licence (old type to lifetime equivalent)	\$ 197.00	\$ 171.31	\$ 197.00	\$ 171.31
<i>Flight crew licensing (Part 61)</i>					
Fee/Chg	Recreational pilot licence	\$ 230.00	\$ 200.00	\$ 230.00	\$ 200.00
Fee/Chg	Private pilot licence	\$ 230.00	\$ 200.00	\$ 230.00	\$ 200.00
Fee/Chg	Commercial pilot licence	\$ 230.00	\$ 200.00	\$ 230.00	\$ 200.00
Fee/Chg	Airline transport pilot licence	\$ 230.00	\$ 200.00	\$ 230.00	\$ 200.00
Fee/Chg	Instrument rating	\$ 131.00	\$ 113.91	\$ 131.00	\$ 113.91
Fee/Chg	Flight instructor rating—A category	\$ 131.00	\$ 113.91	\$ 131.00	\$ 113.91

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Regulatory Deliverable		Current Fees & Charges		Proposed Fees & Charges	
		GST Inclusive	GST Exclusive	GST Inclusive	GST Exclusive
Changes are <b>highlighted</b>					
Fee/Chg	Flight instructor rating—B category	\$ 131.00	\$ 113.91	\$ 131.00	\$ 113.91
Fee/Chg	Flight instructor rating—C category	\$ 131.00	\$ 113.91	\$ 131.00	\$ 113.91
Fee/Chg	Flight instructor rating—D category	\$ 131.00	\$ 113.91	\$ 131.00	\$ 113.91
Fee/Chg	Flight instructor rating—E category	\$ 131.00	\$ 113.91	\$ 131.00	\$ 113.91
Fee/Chg	Flight examiner rating	\$ 197.00	\$ 171.31	\$ 197.00	\$ 171.31
Fee/Chg	Validation of foreign pilot licence	\$ 197.00	\$ 171.31	\$ 197.00	\$ 171.31
Fee/Chg	Replacement of licence, certificate, or rating	\$ 99.00	\$ 86.09	\$ 99.00	\$ 86.09
Fee/Chg	Amendment to face of document	\$ 131.00	\$ 113.91	\$ 131.00	\$ 113.91
<b><i>Flight testing</i></b>					
Fee/Chg	Airline transport pilot licence (aeroplane)—issue flight test	\$ 2,759.00	\$ 2,399.14	\$ 2,759.00	\$ 2,399.14
Fee/Chg	Airline transport pilot licence (helicopter)—issue flight test	\$ 2,759.00	\$ 2,399.14	\$ 2,759.00	\$ 2,399.14
Fee/Chg	Airline flight examiner rating—issue and renewal test	per hr	per hr	per hr	per hr
Fee/Chg	General aviation flight examiner rating				
Fee/Chg	– issue	per hr	per hr	per hr	per hr
Fee/Chg	– renewal				
Fee/Chg	Flight tests for which a fee is not otherwise prescribed	per hr	per hr	per hr	per hr
<b><i>Medical</i></b>					
Fee/Chg	Medical certificate application	\$ 313.00	\$ 272.18	\$ 210.45	\$ 183.00
Fee/Chg	<b><i>Trans-Tasman Mutual Recognition Agreement</i></b>				
Fee/Chg	Registration of licensees recognised under the Trans-Tasman Mutual Recognition Agreement	\$ 197.00	\$ 171.31	\$ 197.00	\$ 171.31
<b>Part 2: Aircraft-related fees and charges</b>					
Fee/Chg	Initial registration	\$ 296.00	\$ 257.39	\$ 296.00	\$ 257.39
Fee/Chg	Annual fee for maintenance of the Register	\$ 99.00	\$ 86.09	\$ 99.00	\$ 86.09
Fee/Chg	Change of registration	\$ 394.00	\$ 342.61	\$ 394.00	\$ 342.61
Fee/Chg	Change of ownership	\$ 263.00	\$ 228.70	\$ 263.00	\$ 228.70
Fee/Chg	Allocation of a particular registration mark	\$ 197.00	\$ 171.31	\$ 197.00	\$ 171.31
Fee/Chg	Reservation of a particular registration mark	\$ 197.00	\$ 171.31	\$ 197.00	\$ 171.31
Fee/Chg	Registration of irrevocable deregistration and export request authorisation (“Cape Town registration”)	\$ 279.00	\$ 242.61	\$ 279.00	\$ 242.61

## Changes to the Funding Arrangements for the CAA's Regulatory Functions - 2016-19

Regulatory Deliverable		Current Fees & Charges		Proposed Fees & Charges	
		GST Inclusive	GST Exclusive	GST Inclusive	GST Exclusive
Changes are <b>highlighted</b>					
Fee/Chg	Foreign owner deregistration	\$ 440.00	\$ 382.61	<b>Delete</b>	<b>Delete</b>
Fee/Chg	a) the assessment of an application for the grant or renewal of, or any amendment to, a type certificate issued under rules made under the Act:	per hr	per hr	per hr	per hr
Fee/Chg	b) the assessment of an application for the grant of a type acceptance certificate issued under rules made under the Act	per hr	per hr	per hr	per hr
Fee/Chg	c) the assessment of an application for the grant or renewal of, or any amendment to, a design certification of aircraft parts or equipment:	per hr	per hr	per hr	per hr
Fee/Chg	d) the assessment of an application for the grant of an airworthiness certificate issued under rules made under the Act,	per hr	per hr	per hr	per hr
Fee/Chg	e) the assessment of an application for the renewal of, or any amendment to, an airworthiness certificate issued under rules made under the Act:	per hr	per hr	per hr	per hr
Fee/Chg	f) the assessment of an application for the grant or renewal of, or any amendment to, an approval of a minimum equipment list:	per hr	per hr	per hr	per hr
Fee/Chg	g) the assessment of an application for the grant or renewal of, or any amendment to, an approval of aircraft modifications:	per hr	per hr	per hr	per hr
Fee/Chg	h) the assessment of an application for the grant or renewal of, or any amendment to, an approval of a flight manual or any amendment to a flight manual:	per hr	per hr	per hr	per hr
Fee/Chg	i) the assessment of an application for the grant or renewal of, or any amendment to, an approval of an aircraft radio station:	per hr	per hr	per hr	per hr
Fee/Chg	j) the assessment of an application for the grant or renewal of, or any amendment to, a special flight permit.	per hr	per hr	per hr	per hr
Fee/Chg	<b>Part 3: Air service charges</b>				
Fee/Chg	a) the assessment of an application for the grant of an air operator certificate	per hr	per hr	per hr	per hr
Fee/Chg	b) the assessment of an application for the renewal of, or any amendment to, an air operator certificate:	per hr	per hr	per hr	per hr
Fee/Chg	c) the monitoring of the holder of an air operator certificate:	per hr	per hr	<b>No charge</b>	<b>No charge</b>

## Changes to the Funding Arrangements for the CAA's Regulatory Functions - 2016-19

Regulatory Deliverable		Current Fees & Charges		Proposed Fees & Charges	
		GST Inclusive	GST Exclusive	GST Inclusive	GST Exclusive
Changes are <b>highlighted</b>					
Fee/Chg	d) the assessment of manuals, programmes, or approvals to ensure continued compliance with the conditions of an air operator certificate.	per hr	per hr	per hr	per hr
<b>Part 4: Aerodrome charges</b>					
Fee/Chg	a) the assessment of an application for the grant or renewal of, or any amendment to, an aerodrome operating certificate issued under rules made under the Act:	per hr	per hr	per hr	per hr
Fee/Chg	b) the monitoring of an aerodrome-operating certificate holder.	per hr	per hr	No charge	No charge
<b>Part 5: Other aviation-related charges</b>					
Fee/Chg	a) the assessment of an application for the grant of a certificate approving or authorising the construction, design, processing, or supply of aircraft or aircraft components	per hr	per hr	per hr	per hr
Fee/Chg	b) the assessment of an application for the renewal of, or any amendment to, a certificate approving or authorising the construction, design, processing, or supply of aircraft or aircraft components:	per hr	per hr	per hr	per hr
Fee/Chg	c) the monitoring of a firm or person approved or authorised in respect of the construction, design, processing, or supply of aircraft or aircraft components:	per hr	per hr	No charge	No charge
Fee/Chg	d) the assessment or approval of any amendment to a manual, programme, or approval to ensure the continued compliance with the conditions of a certificate of approval or authorisation held in respect of the construction, design, maintenance, processing, or supply of aircraft or aircraft components:	per hr	per hr	per hr	per hr
Fee/Chg	e) the issue or renewal of, or any amendment to, a certificate of approval or authorisation in respect of a simulator:	per hr	per hr	per hr	per hr
Fee/Chg	f) the grant or renewal of, or any amendment to, an approval or authorisation in respect of a training and checking organisation:	per hr	per hr	per hr	per hr
Fee/Chg	g) the monitoring of an approved training and checking organisation:	per hr	per hr	No charge	No charge
Fee/Chg	h) the assessment of an application for the grant or renewal of, or any amendment to, a maintenance organisation certificate issued under rules made under the Act:	per hr	per hr	per hr	per hr
Fee/Chg	i) the monitoring of the holder of a maintenance organisation certificate issued under rules made under the Act.	per hr	per hr	No charge	No charge

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Regulatory Deliverable		Current Fees & Charges		Proposed Fees & Charges	
		GST Inclusive	GST Exclusive	GST Inclusive	GST Exclusive
Changes are <b>highlighted</b>					
<b>Part 6: Air traffic services, navigation installation, and instrument flight procedure service and registration charges</b>					
Fee/Chg	a) the assessment of an application for, or the grant or renewal of, or any amendment to, a telecommunication service certificate, an air traffic service certificate, an aeronautical information service certificate, or an instrument flight procedure service certificate:	per hr	per hr	per hr	per hr
Fee/Chg	b) the monitoring of an air traffic services provider, an air navigation installation provider, or an instrument flight procedure service provider:	per hr	per hr	No charge	No charge
Fee/Chg	c) the allocation of an ICAO location indicator or an ICAO aircraft operating agency designator:	per hr	per hr	per hr	per hr
Fee/Chg	d) the registration of instrument flight procedures:	per hr	per hr	per hr	per hr
Fee/Chg	e) the assessment of a radio frequency within those parts of the radio frequency spectrum specified in the following table:	per hr	per hr	per hr	per hr
<b>Part 7: Aviation security</b>					
Fee/Chg	a) the assessment of an application for the grant or renewal of, or any amendment to, any approval in respect of—				
Fee/Chg	i. any provider of aviation security services:	per hr	per hr	per hr	per hr
Fee/Chg	ii. any aerodrome security programme or procedure:	per hr	per hr	per hr	per hr
Fee/Chg	iii. any other security programme or procedure that is required by or under the Act, or any person or organisation required to establish such a programme or procedure:	per hr	per hr	per hr	per hr
Fee/Chg	b) the monitoring of any programme, procedure, or person referred to in paragraph (a).	per hr	per hr	No charge	No charge
<b>Part 8: Meteorological service providers</b>					
Fee/Chg	a) the assessment of an application for the grant or renewal of, or any amendment to, a certificate authorising the provision of meteorological services to civil aviation:	per hr	per hr	per hr	per hr
Fee/Chg	b) the monitoring of the holder of a meteorological certificate issued under rules made under the Act.	per hr	per hr	No charge	No charge



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Regulatory Deliverable		Current Fees & Charges		Proposed Fees & Charges	
		GST Inclusive	GST Exclusive	GST Inclusive	GST Exclusive
Changes are <b>highlighted</b>					
<b>Part 9: Miscellaneous</b>					
Fee/Chg	a) the certification and clearance, or other processing, of material to be published in the Aeronautical Information Publication:	per hr	per hr	per hr	per hr
Fee/Chg	b) the production of, or amendment to, any aviation publication other than the Aeronautical Information Publication New Zealand:	per hr	per hr	per hr	per hr
Fee/Chg	c) any investigation carried out for the purpose of assessing an application for an exemption from any rules made under the Act:	per hr	per hr	per hr	per hr
Fee/Chg	d) any investigation carried out for the purpose of assessing an application for a determination in respect of the construction, alteration, activation, or deactivation of an aerodrome:	per hr	per hr	per hr	per hr
Fee/Chg	e) any investigation carried out for the purpose of assessing an application for acceptance of a means of compliance (other than a means of compliance considered to be acceptable in the relevant advisory information) with any rules made under the Act:	per hr	per hr	per hr	per hr
Fee/Chg	f) any investigation carried out for the purpose of assessing an application for approval of any written examinations or their equivalents:	per hr	per hr	per hr	per hr
Fee/Chg	g) any aeronautical study or safety review conducted for the purposes of rules made under the Act:	per hr	per hr	per hr	per hr
Fee/Chg	h) any aeronautical study conducted to determine whether the proposed construction or alteration of a structure, or any other proposed activity, could constitute a hazard in navigable airspace.	per hr	per hr	per hr	per hr
Fee/Chg	i) any inspections or monitoring carried out under section 15 of the Act for which a specific charge is not otherwise prescribed:	per hr	per hr	<b>No charge</b>	<b>No charge</b>
Fee/Chg	j) any assessment of an application in respect of the grant or renewal of, or any amendment to, any approval, for any purpose under the Act or any rules made under the Act, that is carried out by any employee of the Authority and for which a fee or charge is not otherwise prescribed or fixed.	per hr	per hr	per hr	per hr
<b>Fee/Chg</b>	<b>k) any inspections or monitoring of required actions, following routine audit and inspection, for any purpose under the Act or any rules made under the Act, that is carried out by any employee of the Authority and for which a fee or charge is not otherwise prescribed or fixed.</b>	<b>per hr</b>	<b>per hr</b>	<b>per hr</b>	<b>per hr</b>

## Part Five: How the Proposed Changes Meet the Policy Questions

299. The main underlying policy questions to which this funding review is responding were set out in paragraph 34 as:
- A. Are the costs for the various regulatory activities being recovered from the most **appropriate** sources?
  - B. Is the funding sourced from levies appropriately **balanced** with that sourced from fees and charges, and **aligned** to the logic of the regulatory interventions applied by the CAA?
  - C. Is the revenue generated **matched** to that required by the CAA to discharge its regulatory obligations, including meeting the Government's policy intentions on minimising the regulatory impost on participants in, and users of, the aviation system?
300. Table 12 below sets out how the proposed changes meeting the three key policy questions and the guidance from the Central Agencies (the Treasury and the State Services Commission) and the Office of the Auditor General, which is summarised in paragraph 371 in Appendix One.

**Table 12: How the proposed changes meeting the three key policy questions**

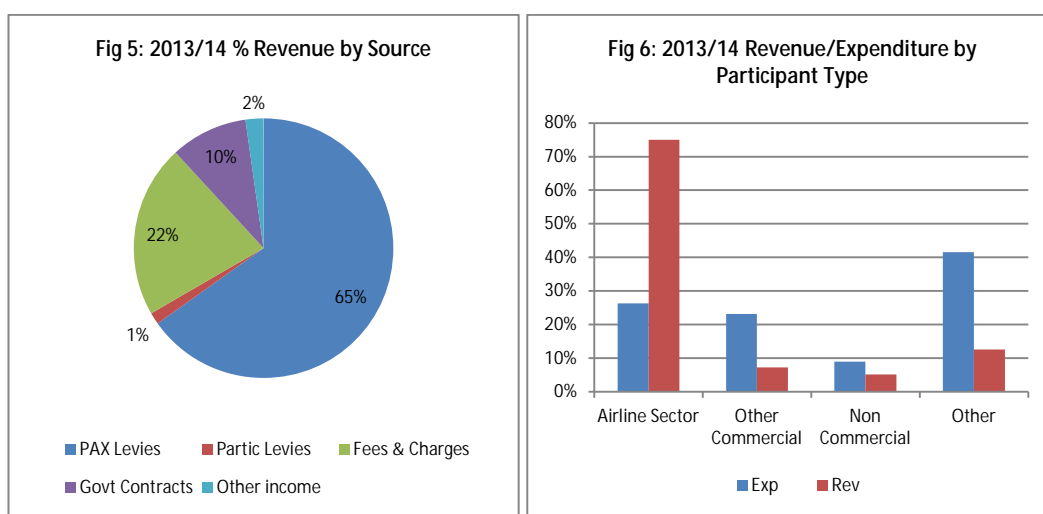
Proposed Change	Policy Question			
	A Appropriate	B Balanced	B Aligned	C Matched
Passenger Levies adjusted	✓		✓	
Surveillance funded from levies	✓	✓	✓	
Participation Levy only for private operators	✓			✓
Establish Operations Safety Levies	✓	✓	✓	✓
Establish Operators Safety Levies	✓	✓	✓	✓
Establish Freight-only flight levies	✓			✓
Establish Agricultural Products Levy	✓	✓		✓
Introduce Variable Hourly Fees		✓	✓	✓
Medical Certification Application Fees reduced	✓	✓	✓	
Fixed Fees rates	✓	✓		✓

## Part Six: Funding Pressures and Implications

301. This section provides an overview of the financial changes that would occur if the proposed levies are put in place.

### Balance between levies and fees and charges and the associated cost of services

302. Figure 5 shows the sources of overall CAA revenue and the percentage of revenue derived from each source. Figure 6 compares overall revenue derived from the various sub-parts of the aviation sector with CAA expenditure in those sectors.



**Note:** Fig 5 shows revenue by type, Fig 6 shows revenue by source

303. From Figure 5 it is clear that the majority of our funding comes from the passenger safety levies, and is not well balanced in terms of expenditure by sector as shown in Fig 6. Just under 50% of our revenue is from domestic passenger levies.

304. It is the disparity between the revenue contribution by the airline sector and the costs it imposes in terms of regulatory activity that the Board of Airline Representatives New Zealand (BARNZ) points to as constituting “the airlines cross-subsiding costs incurred in general aviation”. While, in a literal sense there is some validity to that claim, in a legal sense, however, there is not. Treasury and OAG guidance certainly advise that fees and charges should relate to the costs incurred in a particular activity and as a general rule cross-subsidies in fees and charges should be avoided.

305. A levy, however, is different. Section 42A of the Civil Aviation Act enables the Governor General to impose levies for the purpose of enabling the Authority to carry out its functions under the Act. Unlike a fee or a charge there is no need for a direct linkage between a levy and the costs incurred in a particular activity.

306. One of the significant ‘balancing acts’ that occurs when reviewing our funding is the degree to which one seeks to reduce the revenue/expenditure imbalance in Figure 6 above. While

the decision is ultimately that of the Minister of Transport, the Board is of the view that the General Aviation sector's ability to bear the full costs the State incurs in providing effective safety oversight of the sector is limited. Thus, when reviewing this balance, the Authority has carefully considered the extent of any increase in the proportion of costs recovered from Other Commercial operations. Accordingly, the Board has proposed to phase-in the new operations safety levies over the triennium.

### Yield from Changes to the Levies Fees and Charges

307. When considering the yield from the proposed changes to levies, fees and charges, it is important to bear in mind that the Authority is:
- i. Recommending a funding framework that provides for long-term stability and predictability of the levies, fees and charges;
  - ii. Seeking to ensure that there are incentives on it to always be as economically or financially efficient as possible;
  - iii. Recommending a transitional approach to give businesses time to adjust to the new funding regime; and
  - iv. Seeking to create a framework that can easily respond to changes in risk by sector and the associated cost of oversight.
- v. Table 13 on the next page gives the revenue yield that would be generated by the proposed levy rates, and the fixed fees and charges. Please note these figures have been calculated on projected activity levels based the 2013/14 year data for the categories A – F.

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**Table 13: Estimated Annual Revenue sourced from levies, fixed fees and charges**

Note that passenger numbers in each category vary by year

Category	Rule Part(s)	Parameters	Year One Rates and Revenue Yield (excluding GST)		Year Two Rates and Revenue Yield (excluding GST)		Year Three Rates and Revenue Yield (excluding GST)	
			Rate/activity unit	Projected Yield	Rate/activity unit	Projected Yield	Rate/activity unit	Projected Yield
<b>Operations Safety Levy</b>								
A	115	Any adventure aviation flight operation using New Zealand registered aircraft <sup>43</sup> (per hour)	\$ 2.50	\$ 1,635	\$ 5.63	\$ 3,679	\$ 12.50	\$ 8,175
B	115	Any launch or descent operation (including tandem operations) using aircraft not required to be registered in New Zealand <sup>44</sup> (per launch or descent)	\$ 0.50	\$ 38,844	\$ 1.13	\$ 87,399	\$ 2.50	\$ 194,222
C	121 & 125	Large- and medium-sized commercial aeroplane operations, excluding freight – only operations & passenger transport operations of > 20,000 passengers pa (per hour).	\$ 1.10	\$ 41,658	\$ 2.48	\$ 93,730	\$ 5.50	\$208,288
D	135	Small-sized commercial aeroplane or helicopter operations, excluding freight – only operations & passenger transport operations of > 20,000 passengers pa. (per hour)	\$ 1.30	\$ 91,057	\$ 2.93	\$ 204,878	\$6.50	455,286

<sup>43</sup> This levy would apply to operations such as commercial warbird flights which charge typically in the order of c\$2,500 per hour but does not include hang-gliders or paragliders etc.

<sup>44</sup> This levy would include commercial parachute jumps which typically retail at ~\$400 per jump as well as hang-glider or para-glider descents etc.

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Category	Rule Part(s)	Parameters	Year One Rates and Revenue Yield (excluding GST)		Year Two Rates and Revenue Yield (excluding GST)		Year Three Rates and Revenue Yield (excluding GST)	
			Rate/activity unit	Projected Yield	Rate/activity unit	Projected Yield	Rate/activity unit	Projected Yield
E	137 Etc.	Any operator involved in agricultural operation which <i>involves</i> the application of product (per tonne applied)	\$ 0.17	\$ 124,271	\$ 0.39	\$ 279,611	\$ 0.87	\$ 621,357
F	121, 125, 129 & 135	Any operator that carries out freight-only transport operations <ul style="list-style-type: none"> <li>• NZ Registered aircraft per tonne of payload</li> <li>• Internationally registered aircraft per tonne of payload (outbound only)</li> </ul>	\$ 0.60	\$60,919	\$ 1.35	\$ 137,069	\$3.00	\$ 304,598

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Category	Rule Part(s)	Parameters	Year One Rates and Revenue Yield (excluding GST)		Year Two Rates and Revenue Yield (excluding GST)		Year Three Rates and Revenue Yield (excluding GST)	
			Rate/activity unit	Projected Yield	Rate/activity unit	Projected Yield	Rate/activity unit	Projected Yield
<b>Operator Safety Levy</b>								
		Operators in Category C and D: based on number of aircraft in weight category X rate for that category, per annum						
		I. MCTOW Heavy — exceeding 100,000kg	I. \$ 1,050.00		I. \$ 1,050.00		I. \$ 1,050.00	
		II. MCTOW Medium Heavy — exceeding 13,600kg but not exceeding 100,000kg	II. \$ 900.00		II. \$ 900.00		II. \$ 900.00	
		III. MCTOW Medium — exceeding 5,700kgs but not exceeding 13,600kg	III. \$ 700.00	\$229,110	III. \$ 700.00	\$229,110	III. \$ 700.00	\$229,110
		IV. MCTOW Medium Light — exceeding 2730kgs but not exceeding 5,700kgs	IV. \$ 400.00		IV. \$ 400.00		IV. \$ 400.00	
		V. MCTOW Light — exceeding 1,000kgs but not exceeding 1000kgs	V. \$ 100.00		V. \$ 100.00		V. \$ 100.00	
		VI. MCTOW Very Light — not exceeding 1000kgs (per aircraft)	VI. \$ 70.00		VI. \$ 70.00		VI. \$ 70.00	

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Passenger Safety Levy								
<b>Pax Dom.</b>		Domestic Passenger Levy (non-ANZA) (per passenger departure)	\$1.67	\$16,265,700	\$1.67	\$ 16,824,043	\$1.67	\$17,413,765
<b>Pax Int.</b>		Existing International Passenger Levy rate (per passenger departure)	\$1.67	\$9,388,135	\$1.67	\$ 9,818,015	\$1.67	\$ 10,297,567
<b>Pax ANZA</b>		Existing ANZA Passenger Levy (per passenger departure)	\$1.63	\$ 3,251,731	\$1.63	\$ 3,363,352	\$1.63	\$ 3,481,245
Participation Levy								
<b>Participation Levy on</b> (non-commercial and recreational)				\$ 249,000		\$ 249,000		\$ 249,000



## Overview of financials

308. Operating and capital expenditure budgets are the financial plans flowing from the CAA's strategic and business planning process, and provide a baseline for financial control and maintaining accountability for financial performance.
309. The budgets include all expected revenues and known and planned costs. However, they exclude any funding decisions or financial commitments in relation to a potential major IT replacement programme which is subject to Cabinet decisions in 2015/16, and the outcome of the Triennial Funding Review.

## Financial position

### Revenue and Expenditure

310. The CAA's financial outlook for the current year and through to June 2018 is shown in Table 14 below. This table assumes the rates for levies, fees and charges proposed in this consultation document are approved.

**Table 14: Current Financial Forecast Based on Proposed Levies, Fees and Charges rates**

Year	Estimated Actual	Budget (\$ ,000)			
	2014/15	2015/16	2016/17	2017/18	2018/19
Revenue	38,684	39,788	39,874	41,248	43,422
Expenditure	37,968	41,065	42,307	42,350	42,818
<b>Annual Surplus/Deficit transferred to (from) reserves</b>	<b>716</b>	<b>(1,277)</b>	<b>(2,433)</b>	<b>(1,104)</b>	<b>604</b>

### Detailed Financial Statements

311. Detailed financial statements are shown in Appendix Two.
312. The financial statements have been prepared in accordance with Standard Accounting Practices and the CAA's Reserves Policy.

### Key Risks

313. The following key risks have been identified as part of the preparation of the 2015/16 and out-year forecasts.

#### *Revenue*

**Passenger Revenue** – Forecasting passenger volumes is inherently problematic and actual volumes can be relatively volatile depending on the prevailing economic conditions and the response of carriers in a competitive aviation market. The CAA is particularly vulnerable to

changes in the domestic market, with domestic passenger levies accounting for just under 50% of our revenue. The current conditions are characterised by Jetstar emerging as competition to Air New Zealand and seeking to increase its market share, which could negatively impact revenues, as it pays a discounted domestic levy rate. This would largely be mitigated by an increase in the ANZA Passenger Safety Levy to within 2% of the Domestic Passenger Safety Levy.

**Economic Factors** – Emerging economic factors are the growth in the economy, particularly in Christchurch and Auckland. The extent to which this growth will increase interest rates may strengthen the exchange rate that will have a corresponding adverse effect on fuel prices. Hedging strategies by the major airlines will probably mitigate this in the short term. However, these factors may impact airlines' pricing strategies and disposable income for the traveling public that may affect passenger volumes.

In addition, variations in New Zealand's terms of trade could affect the agriculture and freight sectors.

**Crown Funding** – Pressure from the Ministry of Transport and government may emerge on the level of Crown funding the CAA receives for policy work. In particular, there are indications from the Ministry that it is looking at the rules process from a sector perspective and if process efficiencies can be found, it is possible that funding for rules development may be reduced, or the function may be consolidated into the Ministry of Transport. This possibility, including any associated change costs, has not been factored into the budget, and we have assumed that the current level of funding will continue.

### *Expenditure*

**Remuneration** – Pressure on salary levels has mainly been addressed with the implemented and planned remuneration market catch-up adjustments and role re-sizing exercises undertaken in the past year. The future performance-based remuneration provisions will also assist the CAA to keep aligned to the market.

However, the scarce technical specialist skillset required for some front-line regulatory positions may expose us to increasing remuneration costs, with difficulty still being experienced in attracting people of the right calibre to roles in the CAA.

## Part Seven: Future Development of the Framework

314. This section discusses some ideas for further development of the levies framework.

### Review fees three yearly and Funding Framework six yearly

315. The current expectation of Government, as established by the Cabinet's 2012 Funding Review decision is that the CAA will review its levies, fees and charges every three years.

#### CAA Proposal 23

- We propose that, having established a framework for setting levies, fees and charges with this funding review, that framework should be reviewed every six years to ensure its fitness for purpose and ongoing compliance with Government policy, with reviews of the rates for levies fees and charges being reviewed every three years.

### Operations Safety Levies

#### Further development of Operations Safety Levies

316. There is the potential for each category of operator to be further divided into a number of classes depending on the risk profile of an organisation.

317. While the risk profile of an organisation is difficult to measure with certainty, it can be inferred from the circumstances relating to the organisation, and its operating environment for example its size and stage in its organisational life-cycle (i.e. maturity) and operating history. For example:

- § Larger organisations generally tend to have a lower risk profile by activity because of their better access to resources (such as equipment, internal processes, capital, etc.) and capability (such as staff, etc.) (as discussed at paragraphs 259 to 261); and
- § Smaller organisations tend to have higher risk profiles because they have less resilience in terms of access to resources and capability

318. This is reflected in the certification requirements for each operating rule part. For example, as the scope and complexity of an operation increases, the requirements of the relevant operating rule(s) increase in complexity and rigour.

#### Question 1

- Should the CAA introduce a 'category by class' model to apply safety levies to Other Commercial operations?

## Regressive Levy Rates

319. In the model outlined above, at paragraph 316, the rates for each Class within a Category could be set to be regressive - that is, they would decrease on a 'per unit of activity' basis from Classes I to II, III or IV providing an incentive for growth in activity. This would mean that smaller operators would pay a slightly higher rate than the average rate per unit while larger, more complex, or better performing organisations would pay a slightly lower rate per unit of activity. The regressive nature of levies under this approach would provide a way of reducing the levy rate per unit of activity for larger or better performing organisations.
320. Whilst it is recommended that the Authority canvass the idea of a 'category-by-class' model through consultation, it is not proposed to set levy rates by this mechanism yet.

### Question 2

- **Should the CAA develop a regressive levy structure to apply safety levies to Other Commercial operations?**

## Risk based levies, fees and charges

321. In the Phase One Discussion Document, we discussed risk in the New Zealand aviation system. Taking a risk-based approach to regulation allows us to target resources more effectively, enabling us to mitigate the risks in the civil aviation system better and to apply the most appropriate intervention.
322. Increasingly sophisticated risk profiles are being developed for the different aviation sectors, such as agricultural aviation, commercial adventure aviation and the airlines sector. These will enable the CAA to better identify specific risk factors and apply more targeted and proactive responses. Over time we will create profiles for other sectors within the aviation system.
323. Factors such as participant organisational culture, attitudes and behaviours, skills, business systems and resources are considered when the CAA assesses participant risk, and are rated against a standard performance scale. Assessment is based on information gathered from audits, investigations and incident reporting.
324. A key factor the CAA considers when allocating regulatory resource to compliance activity is the potential consequence of a safety failure. For example, while a failure in passenger-carrying operations is much less likely than a failure in other aviation activities, the consequences of such a failure are more likely to be significant. The CAA therefore places a higher emphasis on regulatory activities for passenger-carrying operations.
325. As we get more sophisticated in the way we carry out risk assessments we intend to examine whether levies can be applied based on risk assessments for specific sectors and potentially for individual participants. While we are not at the stage where our risk

assessment and profiling technologies are robust enough to enable this approach to be successful, we are continuing to work towards this.

**Question 3**

- **Should the CAA further develop the concept of risk based levies as:
  - § Implementation of Safety Management Systems in the industry progresses; and
  - § Further development of our Risk Profiling systems occurs?**

**Flights in Transit through New Zealand Airspace**

326. There are also benefits received by flights which transit New Zealand airspace but which do not land in New Zealand. Consideration could be given at some later stage, to imposing some form of charge on such flights.

**Question 4**

- **Should the CAA examine the potential for charging levies on flights which transit New Zealand airspace but which do not land in New Zealand?**

**Other matters**

327. We have made many proposals and asked a number of questions in this document. If there are any other suggestions that you may have, please let us know.

**Question 5**

- **Are there any other proposals you may have that you think we should consider?**

## Part Eight: Implementation

328. There are a number of implementation issues that we will have to deal with if these proposals are approved including:

- § Legislative Changes
- § Business System Changes
- § Electronic Data Collection/Submission

### Legislative Changes

329. The changes proposed to the levy, fees and charges applied by the CAA would, if approved, require amendments to;

- § Civil Aviation (Safety) Levies Order 2002, and
- § Civil Aviation Charges Regulations (No 2) 1991.

330. These legislative changes would be made following Cabinet approval of our final funding review proposals.

### Business System Changes

331. Adoption of the proposed new levy structures will require changes to the way we record time and effort within the CAA. This will require adjustments to internal time recording and financial systems.

332. Changes to our finance systems will be required to account for the proposed new levies, and to provide participants with adequate financial information regarding levies, fees and charges that are due.

### Electronic Data Collection

333. The replacement of the paper-based data collection with an electronic submission method is being considered as part of IT upgrades. This would involve a secure dedicated website with individual sign-in and password protection for operators which would provide verification and signoff of the data submitted. The confidentiality of commercial data would be assured.

## Part Nine: Appendices

1. Background
2. Detailed Financial Projections
3. Summary of Proposals and Questions
4. Glossary

## Appendix One: Background

### Overview

334. As a signatory to the International Convention on Civil Aviation, New Zealand is required to have aviation safety arrangements in place. The requirements are set out in the Convention, which is maintained by the International Civil Aviation Organization (ICAO). Within New Zealand, the Civil Aviation Act 1990 is the foundation legislation for aviation safety regulation.
335. Each contracting state to the convention (of which New Zealand is one) is responsible for developing and promulgating the national legislation, regulations and standards necessary to comply with the ICAO commitments, and to implement national decisions in discretionary areas.
336. The role of the Civil Aviation Authority (CAA) is to:
- § Set a minimum standard of safety behaviour through Civil Aviation Rules and by placing conditions on aviation documents;
  - § Allow entry into the civil aviation system to those operators and participants who meet the required minimum standard for certification and the conditions placed on their aviation documents (certification);
  - § Provide information and advice to operators and participants to help them comply with the Civil Aviation Rules;
  - § Monitor operator and participant adherence to the safety standards and their aviation documents, including identifying action that the participants need to take to ensure that they comply with the safety standards (surveillance); and
  - § Where necessary in the interests of safety, impose conditions on, or suspend or revoke, the aviation document issued to the operator or participant.
337. It is our surveillance oversight of the aviation system, and any subsequent administrative or compliance action that may arise, that enables the Director of Civil Aviation (DCA), the Board, the Minister of Transport and ultimately the New Zealand public and international visitors, to be assured of the integrity of the civil aviation system in New Zealand. Very little of our activity is discretionary. Almost everything we do can be traced back to an international or New Zealand legislative or regulatory requirement. These different layers of legislation shape what we do and how the New Zealand aviation system operates.
338. We are currently funded almost entirely by a mixture of fees, levies and charges collected from participants in the aviation sector, including airlines, passengers, pilots and others, and aviation related organisations. Aviation is a volatile industry, with unexpected changes in passenger volumes, yet we have a relatively inflexible pricing mechanism.
339. The aviation industry has indicated that it would be extremely helpful if the Authority's levies, fees and charges could be adjusted at more regular intervals to respond more



quickly to changes in its operating environment. It is for that reason that the Government decided that we needed to review our levies, fees and charges every three years.

## Context

340. The Civil Aviation Authority of New Zealand was established in 1992 as a Crown entity under the Civil Aviation Act 1990, and is responsible to the Minister of Transport. The Authority is governed by a five-member board appointed by the Minister to represent the public interest in civil aviation (section 72A of the Act).
341. Our primary objective, mandated in the Civil Aviation Act 1990, is safety and security. We carry out 'safety, security and other functions in a way that contributes to the aim of achieving an integrated, safe, responsive and sustainable transport system'<sup>45</sup>.
342. We do this within the two divisions of the Authority, the aviation safety and regulatory function (the regulatory agency) under the Director of Civil Aviation, and the Aviation Security Service.
343. The aviation safety and regulatory function (the regulatory agency herein referred to as the CAA) delivers four core functions:

§ **Policy and regulatory strategy** – We work to ensure that New Zealand's civil aviation system is robust and responsive to the continually changing aviation community; is respected internationally; and provides an appropriate level of safety and security for the New Zealand public. Civil aviation in New Zealand has minimum safety and security standards that must be met by participants. Standards are developed in consultation with the aviation community and the Ministry of Transport. The standards are detailed in the Civil Aviation Rules, which are made by the Minister of Transport.

§ **Outreach** – We support civil aviation participants with aviation safety publications, courses, seminars and advice. Our safety education is focused on the greatest safety concerns, and our aim is to influence attitudes, change behaviour and encourage aviation participants to operate well above safety minimums.

§ **Certification and licencing** – We use certification and licencing to control entry and exit to the New Zealand civil aviation system. To operate within the civil aviation system, a participant (an individual or organisation) must be granted an aviation document. These include a pilot licence, operating certificate, aircraft registration, engineer licence, air traffic control licence, or aerodrome certificate.

New Zealand has a high rate of participation in aviation per capita relative to other countries.

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<sup>45</sup> Civil Aviation Act 1990 s72AA

Table 16 below shows the numbers of active aviation document holders:

**Table 16: Active aviation document holders**

	At 30 June 2013	At 30 June 2014	At 30 June 2015	
Organisations	775	750	<b>751</b>	
Individuals	13,373	13,477	<b>13,254</b>	Includes individuals with active medical certificates and licensed aircraft maintenance engineers
Aircraft	4,851	4,836	<b>4,909</b>	

§ **Surveillance and investigation** – We monitor compliance with safety and security standards, investigate and analyse accidents and incidents, and carry out corrective action and enforcement. Our monitoring role includes inspecting and auditing participants in the civil aviation system. We assess the level of risk that each operator poses to aviation safety. We use this level of risk to decide the degree of surveillance and monitoring attention we give the operator. We also administer the provisions of the Health and Safety in Employment Act 1992 for aircraft in operation.

- 344. At 1 June 2015 we employed 239.6 full-time equivalent staff (FTEs) to carry out our regulatory and associated functions and provide shared services to Avsec. CAA staff members are based in Wellington, Auckland, and Christchurch.
- 345. We operate to a consistently applied Regulatory Operating Model<sup>46</sup>, which is founded in the Civil Aviation Act. This model outlines the principles that underpin our regulatory approach.

## Our Operating Environment

### Economic indicator

- 346. The aviation industry is highly dynamic. Air passenger traffic always reflects economic cycles, and geopolitical events (for example, terrorism or political turmoil). Traffic growth is aligned to economic growth, and travellers from Asia are largely responsible for growth in passenger numbers in New Zealand.

### Global connections

- 347. Through global cooperation, regulators are able to share aviation safety information and to cooperate in certificating civil aircraft. This is achieved through our membership of the International Civil Aviation Organisation, and through a series of bilateral aviation agreements between New Zealand and other countries. Risk-based regulation, in conjunction with Safety Management Systems, is emerging as the global standard in the aviation industry. It is seen as the next step in the evolution of aviation safety, and is used increasingly in managing other critical areas.

<sup>46</sup> Our Regulatory Operating Model can be found [here](#)

### New technology

348. Advances in aircraft technology are changing the priorities of aviation regulators. Because of rapid technological advances in aviation, we have had to enhance the existing information base, and build relationships with participants involved with emerging technology. Regulatory function staff members are trained, in New Zealand and overseas, to maintain and enhance their skills to international levels.

### Dynamic security environment

349. As the global marketplace continues to grow, millions of international travellers and tonnes of freight are exposed to various types of aviation-related services. The global civil aviation industry is subject to enormous change and volatility, and we must keep track of these changes to ensure that New Zealand's civil aviation system meets international expectations. For example, air passenger and cargo traffic are highly sensitive to natural disasters, the economy, politics, levies imposed on emissions trading schemes, and fuel price fluctuations. The Authority is regarded as a world-class provider of aviation security services.

### Sustaining industry growth

350. Aviation fuel efficiency continues to improve with advances in technology, infrastructure and operations. We are also committed to meeting environmental performance targets. The International Civil Aviation Organisation sets international aviation goals, working on market-based measures and promoting sustainable biofuels in aviation.

## Government Policy

351. The Government's priorities are to manage the Government's finances responsibly, build a more competitive and productive economy, deliver better public services and rebuild Canterbury. The Government's Business Growth Agenda has a specific focus on six key ingredients that businesses need to grow and drive the economy: export markets, innovation, infrastructure, skilled and safe workplaces, natural resources, and capital. Each of these has its own programme of work.
352. Aviation is strategically important in New Zealand's economy. Strong safety and security performance provides many advantages for New Zealanders. The role we play is key to maintaining integrity and confidence in New Zealand's civil aviation system, to ensure **safe flight for social connections and economic benefits** for New Zealand

## The 2012 Funding Review

353. Proposals resulting from the 2012 Funding Review were put to the Government in mid-2012 and Cabinet agreed to implement the proposals from 1 November 2012. The Cabinet also required the CAA to review its levies, fees and charges every three years.

354. In April 2013, the Authority initiated this Funding Review which will review levies, fees and charges for the next triennium, with advice to the Minister of Transport regarding any changes to levies fees and charges being provided prior to 30 June 2015.

### Summary of Benefits Realised since the 2012 Funding Review

355. We are acutely aware of the need for efficiency in the delivery of our regulatory services. As the scope of those services covers a wide range of disciplines, the fees and charges also take into account the varying nature, size and complexity of the various regulatory activities including surveillance, (audit and inspection) and certification.

356. Consistent with the approach taken in the Service Charter is the expectation that our clients will be provided with services not only at a fair cost, but also at a cost that provides adequate funding for the CAA to satisfy the public interest in having a safe and secure civil aviation system.

357. Professor Malcolm Sparrow<sup>47</sup> observes that "Citizens do not expect that governments will be able to avoid all disasters or contain all harms. But they do expect government agencies to provide the best protection possible, and at a reasonable price, by being:

- a) **Vigilant:** so they can spot emerging threats early, pick up on precursors and warning signs, use their imaginations to work out what could happen, use their intelligence systems to discover what others are planning, and to do all this even before much harm is done
- b) **Nimble:** flexible enough to organize themselves quickly and appropriately around each emerging risk rather than being locked into routines and processes constructed around the risks of a preceding decade, and being more problem centric than program-centric
- c) **Skilful:** masters of the entire intervention toolkit, experienced (as craftsmen) in picking the best tools for each task, and adept at inventing new approaches when existing methods turn out to be irrelevant or insufficient to suppress a risk. These notions are fundamental to effective risk control.(2012)<sup>48</sup> "

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<sup>47</sup> Professor of Practice of Public Management Program in Criminal Justice Policy and Management. Kennedy School of Government, Harvard University

<sup>48</sup> Sparrow MK (2012) The sabotage of harms: an emerging art form for public managers; downloaded from <http://www.hks.harvard.edu/fs/msparrow/documents--in%20use/Sparrow--Sabotage%20of%20Harms--Esade--March%202012.pdf> ; downloaded 17/09/13

358. In CAA's case the strengths and challenges we face can be characterised as shown in Table 17 below:

**Table 17: CAA Strengths and Weaknesses**

Strengths	Challenges
<ul style="list-style-type: none"> <li>• A high level of aviation technical expertise</li> <li>• More subtle surveillance activity;</li> <li>• Increasing use of non-coercive regulatory tools;</li> <li>• Greater focus on 'human factors' and behavioural change;</li> <li>• Improved data analysis and information sharing;</li> <li>• Improving flexibility to work openly with current paradigm to achieve safety outcomes for new technologies and operating approaches;</li> <li>• Improving relationships with the regulated sector; and</li> <li>• Better use of various media to promote the 'safety story'.</li> </ul>	<ul style="list-style-type: none"> <li>• Maintaining the confidence and trust of Ministers, the public and the sector;</li> <li>• Risk is becoming increasingly behavioural as safety-related technology improves;</li> <li>• Difficulty in keeping in step (if not ahead) of technology development and sector complexity;</li> <li>• Increasing public expectations of 'no-risk' results in high-risk aviation sports/activities;</li> <li>• Ensuring the CAA responds to technological and operational challenges</li> <li>• Media seeks to 'blame' regulators (and Investigators) for failure to 'keep people safe' in high-risk aviation sports/activities; and</li> <li>• In a high-risk high-reliability industry that has had very few failures (such as aviation) there is a challenge of maintaining regulator relevance and public understanding of the sector.</li> </ul>

*2012 Value for Money Review and subsequently*

359. The CAA carried out a Value for Money Review in 2011 which aimed to provide assurance to stakeholders that CAA revenue from participants is being utilised prudently to successfully deliver the required safety outcomes, maximise the value from the Authority's revenue, and identify possible efficiency and effectiveness gains across the Authority to enhance our ability to be sustainable in the future.

360. That review enabled the Authority to manage its services from within its current resources. As part of the initiatives arising from the review, the CAA's:

- § Service delivery functions are achieving both efficiency and effectiveness improvements through an outcome focus and more efficient and capable back-room and processing functions. This provides opportunities to review and improve core processes;
- § Policy functions ensure the work we are engaged in is closely aligned with Government priorities, and that we are supported by effective prioritisation of work; and
- § Corporate support functions using their cross-Authority focus to generate economies, and focus on ensuring the Authority's infrastructure and corporate systems operate efficiently and effectively.

361. This has been achieved through:

- § Increased/improved engagement with the Minister;

- § Increasing sophistication in stakeholder engagement;
- § Recognition of the need to 'tell the safety story better' – what impact does CAA have?
- § Better strategic foresight/insight;
- § Recruitment based on behavioural characteristics as well as technical skill;
- § Competency based professional development;
- § Increased training in 'soft' skills (e.g., interview techniques); and
- § Improved performance management systems.

362. Over the period under consideration, we have:

- § Moved significantly towards becoming a risk-based regulator, increasing capability in this facet of our role;
- § Maintained safety outcomes in major passenger segments of the aviation business, while improving safety in others (such as agriculture);
- § Achieved the savings targets set during the last funding round, and carried out other cost reduction and sharing activities;
- § Increased trust among travelling public as to the aviation safety and security regimes we oversee;
- § Strengthened stakeholder relationships with the sector, enabling greater influence in those organisations (including among executive teams and in the boardrooms of those organisations);
- § Implemented necessary organisational components to ensure effectiveness and value for money, including clarity of strategic intent and objectives, workload, organisational and financial planning, openness and transparency of process, compliance with statutes and regulations, and risk assessment; and
- § Established an organisational environment where change and development are ongoing to improve effectiveness and value for money.

363. Examples of efficiency improvements achieved include:

- § **Shared services between the CAA and Avsec:** In 2012 the Authority instituted a shared-services arrangement between the CAA and Avsec. Over the subsequent two years this has resulted in the formation of common corporate support and organisational development functions encompassing financial management, HR management and payroll, IT services, risk management, project services, and planning and reporting.
- § **Wellington accommodation costs:** During the 2013/14 year, the Authority reached agreement with Callaghan Innovation for Callaghan to sub-lease 1,288 m<sup>2</sup> of space previously occupied by the Aviation Security Service on level 14 of the Asteron Centre in Wellington. The Aviation Security Service has relocated to space occupied by the Civil Aviation Authority in the same building, a space rationalisation that was planned in 2012. The arrangement is effective from 1<sup>st</sup> June 2014 until the CAA's lease expires in

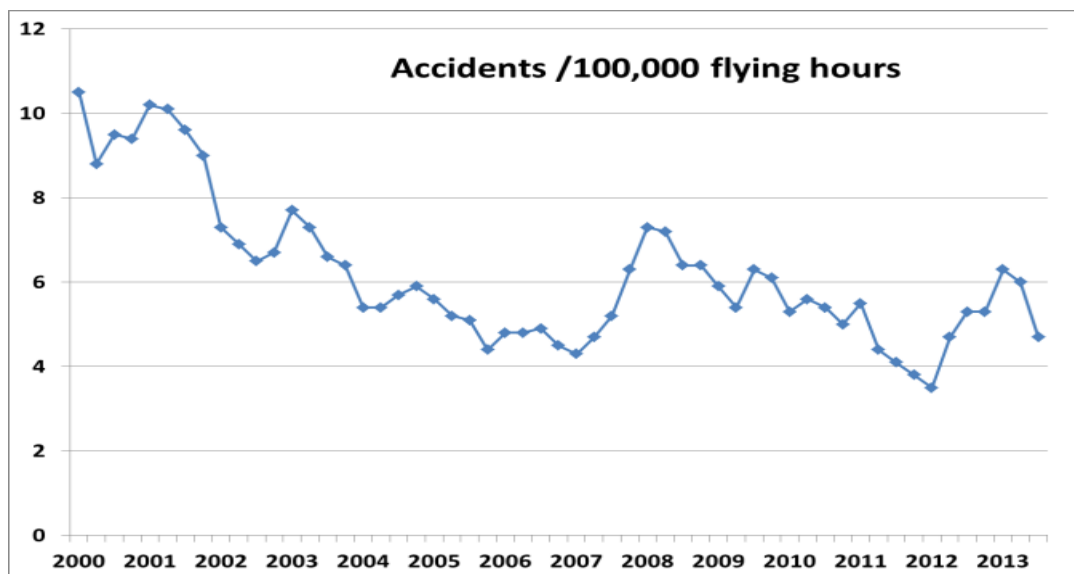
2022 and will realise almost \$5.0M in rental cost avoidance for the Crown. These savings are in addition to the almost \$0.9M base-line savings achieved by CAA in the years 2011/12 to 2013/14.<sup>49</sup>

- § **Shared services across the Transport sector:** The Authority is participating in a work programme led by the Ministry of Transport to identify where common services can be delivered more efficiently and cost effectively by shared services across the Transport sector.

### New Zealand's aviation safety performance is generally improving

364. Overall, New Zealand's civil aviation system has sustained, on average, an improvement in safety performance. The civil aviation system is complex and while we do not have a single performance measure to describe or assess how well it is performing, an internationally accepted measure is the accident rate. The overall accident rate is decreasing and accident rates for the major Safety Outcome Target Groups are also decreasing. Figure 6, below, shows Accidents/100,000 flying hours.

Figure 6: Accidents/100,000 flying hours



365. The commercial parts of the aviation sector that carry most passengers have maintained a good safety performance record, and in most cases improved their safety record. The major exception to this is the commercial part of the aviation sector that provides 'adventure' services, such as ballooning parachuting and hang-gliding. The safety performance of this group is relatively poor and we have increased our focus on this sector significantly. Specific actions have been taken to address this issue through the introduction of the recent Civil Aviation Rule Part 115.

<sup>49</sup> For further information refer to the [Crown Office Estate report 2014](#), pp34-35.

366. In addition to the accident rates, we measure progress towards meeting our overall outcome using a range of other performance measures, including the cost of safety failure (social cost), and occurrence rates of incidents as a precursor to more serious events. The safety performance of airlines continues to be on a par with that of our international counterparts. There is a high degree of scrutiny of the airlines sector as, while the risk of failure is low, the consequences of a failure are large.
367. Further details on aviation safety in New Zealand are available from the CAA's quarterly Aviation Safety Summary Reports<sup>50</sup> and the CAA's Annual Report 2013–14<sup>51</sup>.

### The Civil Aviation Act 1990

368. The Civil Aviation Act 1990, provides at section 42A that "Governor-General may impose levies
- (1) Subject to subsection (3), for the purpose of enabling the Authority to carry out its functions under this Act and any other Act, the Governor-General may from time to time, on the recommendation of the Minister, by Order in Council impose on all or any of the persons referred to in subsection (2) a levy payable to the Authority, and may in the same manner vary any such order.*
- (2) A levy may be imposed under subsection (1) on—*
- (a) the holders of aviation documents of any class or classes specified in the order:*
- (b) persons who, but for an exemption granted under this Act, would be required by this Act to hold an aviation document of the class or classes specified in the order".*
369. The Act further identifies the basis upon which those levies may be struck, providing in section 42B:
- 1. Different rates of levies may be imposed or varied under [section 42A](#) in respect of different classes of persons, aerodromes, aircraft, aeronautical products, or aviation related services, or on the basis of different times of use or on any other differential basis.*
  - 2. The rate of any levy imposed or varied under [section 42A](#) may be calculated according to any one of, or any combination of 1 or more of, the following factors:*
    - (a) the quantity of aviation fuel purchased by any person:*
    - (b) the number of passengers able to be carried on any aircraft:*
    - (c) the number of passengers actually carried on any aircraft:*
    - (d) the amount of freight able to be carried on any aircraft:*
    - (e) the amount of freight actually carried on any aircraft:*
    - (f) the distance flown by any aircraft:*
    - (g) aircraft size or capacity:*
    - (h) the purpose for which any aircraft or aeronautical product is used or for which an aviation related service is supplied:*
    - (i) any other basis whatever that relates to the use, capacity, or size of—*
      - (i) any aircraft; or*
      - (ii) any aeronautical product; or*

<sup>50</sup> [http://www.caa.govt.nz/safety\\_info/safety\\_reports.htm](http://www.caa.govt.nz/safety_info/safety_reports.htm)

<sup>51</sup> [http://www.caa.govt.nz/about\\_caa/Annual\\_Reports/CAA\\_Ann\\_Rep\\_2014.pdf](http://www.caa.govt.nz/about_caa/Annual_Reports/CAA_Ann_Rep_2014.pdf)



- (iii) any aviation related service; or
- (iv) any privileges exercisable under any aviation document.

## Levies and fees currently in place

370. The Authority currently charges two types of levy<sup>52</sup>, and a range of fees<sup>53</sup>. These are summarised in Table 18 below:

**Table 18: Summary of Current Levies and Fees**

Levy or fee	Description	% of Revenue 2013/14
Passenger Safety Levies	Domestic Passenger Levy Domestic air passenger operators pay a set fee for each passenger carried	68
	International Passenger Levy International air passenger operators pay a levy at a defined rate for each departing international passenger	
	ANZA Levy If an operator holds an Australian AOC with ANZA privileges; and conducts or intends to conduct a regular air transport passenger service under the Australian AOC with ANZA privileges; and has complied with section 11B of the Act then the operator must pay to the Authority a levy per passenger carried by the operator on each domestic sector of a regular air transport passenger service flight	
Participation Levy	Every aviation operator who does not pay the domestic passenger levy must pay an annual participation levy. The owner of each New Zealand registered aircraft is levied an amount based on the maximum certificated take-off weight of the aircraft.  Neither passenger levy nor specific activity-based levy is applied to any of adventure aviation; or agricultural aviation; or ballooning or gliding, nor to operations under Rule Part 135: Air operations - Helicopters and Small Aeroplanes.	2
Fees and Charges	A range of fees and charges for aviation activities and services, including: <ul style="list-style-type: none"> <li>Medical certification application</li> <li>Charges for surveillance, certification, etc.</li> <li>Approval of manuals, programmes, procedures, equipment, etc.</li> </ul> The full range of fees and charges is set out in the <a href="#">Civil Aviation Charges Regulations (No 2) 1991</a>	18

<sup>52</sup> Refer to [Civil Aviation \(Safety\) Levies Order 2002](#)

<sup>53</sup> Refer to [Civil Aviation Charges Regulations \(No 2\) 1991](#)

## Central Agency Guidance regarding levies fees and charges

371. We have adopted a set of principles founded in guidance from the Central Agencies<sup>54</sup> (the Treasury and the State Services Commission) and the Office of the Auditor General<sup>55</sup>.
372. The approach we have adopted in this funding review is consistent with the Government's "cost recovery" objectives, and comply with the public sector guidance material on the setting of fees and charges for services delivered to third parties by Government agencies. The key points of the guidance can be summarised as that funding models should:
- i. Enable the recovery of the full cost of providing specific services to specific users in a practicable way, and ensure that the balance between two or more different funding sources is transparent;
  - ii. Be broadly based, simple, and consider every significant activity;
  - iii. Result in lower transaction and administrative costs for both the CAA and participants;
  - iv. Be predictable and consistent in application across services and between participants and durable to variations in circumstances and business conditions over time, having regard to the impact on stakeholders and the CAA of price fluctuations;
  - v. Encourage management and operational decisions on the services that are required consistent with encouraging innovation, achieving outcomes that Government is seeking, and the efficient allocation of resources generally; and
  - vi. Have mechanisms for the consideration and inclusion of general levies where specific service recipients cannot be identified.
373. Because the foundation for the pricing principles is in that guidance material, adherence to the principles will ensure adherence to the public sector guidance. The principles take into account the expectation of the Government that CAA would move closer to full cost recovery, as was made clear in the Government's decision on the 2012 levies, fees and charges review.
374. We have taken independent advice to ensure that our application of the Treasury and Office of the Auditor General guidance on the setting of levies, fees and charges is consistent and meets the thrust of that guidance.

## Levies fees and charges defined

375. The third party funding payments collected by the Authority are called *levies* or *fees and charges*. This is regardless of the nature or purpose of the payment. However, a levy differs from a fee or charge for a specific good or service — it is more akin to a tax, but one that is

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<sup>54</sup> Guidelines for Setting Charges in the Public Sector, The Treasury, December 2002

<sup>55</sup> Guidelines on Costing and Charging for Public Sector Goods and Services, The Audit Office, 2008

charged for a specific purpose and to a specific group. It is usually compulsory to pay a levy.<sup>56</sup>

376. Common definitions<sup>57</sup> established by the Legislation Advisory Committee, the Office of the Auditor-General and the Treasury together result in 'levies' and 'fees and charges' meaning as follows:

§ **Levy** (money for specific purpose): A cost-recovery payment for a specific purpose, for example - a function or an area of activity (rather than a product or service) provided by a public entity to a group where there is an indirect connection between the cost, the purpose and the benefit across the group;

§ **Fee or charge** (money for product or service): A cost-recovery payment for a specific product or service provided by a public entity to an individual where there is a direct connection between the cost, the product or service and the benefit to the individual.

### Public Club and Private Goods

377. The following paragraphs define the terms Public, Club and Private goods

#### *Public goods*

378. A good is considered public when excluding people from its benefits is either difficult or costly, and its use by one person does not detract from its use by another. The second of these features implies that exclusion is not only difficult, but also undesirable. There is a good case for recovering the costs of a public good from the community as a whole. In practice, many Government-provided outputs share the characteristics of public goods to some extent.

#### *Club goods*

379. In the case of a club good, people can be excluded from its benefits at low cost (unlike a public good), but its use by one person does not detract from its use by another. Club goods can be provided by member-owned clubs, by a separate organisation, or be provided by the public-sector. Club goods are an important example of "near-public" goods. The key difference is that the ability to exclude implies the feasibility of charging or levying for use. Charging or levying club members can be an efficient way of recovering costs.

#### *Private goods*

380. In the case of a private good, people can be excluded from its benefits at low cost, and its use by one person conflicts with its use by another. There is a strong case for recovering the costs of a private good from those who benefit from it.

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<sup>56</sup> Office of the Auditor-General (OAG) Good practice guide: Charging fees for public sector goods and services June 2008

<sup>57</sup> Legislation Advisory Committee (LAC) Guidelines on Process and Content of Legislation 2001 (2012 edition); Office of the Auditor-General (OAG) Good practice guide: Charging fees for public sector goods and services June 2008; and the Treasury Guidelines for Setting Charges in the Public Sector Dec 2002

## Appendix Two: Detailed Financial Projections

### Prospective Financial Statements including proposed changes to levies fees and charges

Table 19: Prospective Statement of Comprehensive Revenue

For the years ended 30 June	2015 Estimated Actual \$000	2016 Budget \$000	2017 Budget \$000	2018 Budget \$000	2019 Budget \$000
<b>Revenue</b>					
Passenger Levies	25,140	26,110	28,906	30,005	31,193
Operator Safety Levies	-	-	229	229	229
Operations Safety Levies			358	806	1,792
Participation Levies	536	524	249	249	249
Revenue for other services	8,458	8,947	6,124	6,124	6,124
Crown funding revenue	2,220	2,220	2,220	2,220	2,220
Ministry contract revenue	1,383	1,374	1,374	1,200	1,200
Interest and other revenue	948	614	414	414	415
Gain/(loss) on assets	-	-	-	-	-
<b>Total Revenue</b>	<b>38,684</b>	<b>39,788</b>	<b>39,874</b>	<b>41,248</b>	<b>43,422</b>
<b>Expenditure</b>					
Personnel costs	29,297	31,185	31,670	32,046	32,323
Other costs of services	6,912	7,170	8,571	8,147	8,205
Audit fees for financial statements	109	115	120	122	124
Finance costs	615	381	426	456	471
Depreciations and amortisation expense	880	1,015	1,364	1,425	1,539
Capital charge	-	-	-	-	-
Authority member costs	156	156	156	156	156
<b>Total Expenditure</b>	<b>37,968</b>	<b>40,023</b>	<b>42,307</b>	<b>42,352</b>	<b>42,818</b>
<b>NET SURPLUS/ (DEFICIT)</b>	<b>716</b>	<b>(235)</b>	<b>(2,433)</b>	<b>(1,104)</b>	<b>604</b>
<b>Other comprehensive revenue</b>					
Gain on revaluation of land and buildings	-	-	-	-	-
<b>Total other comprehensive revenue and expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE REVENUE FOR THE YEAR</b>	<b>716</b>	<b>(235)</b>	<b>(2,433)</b>	<b>(1,104)</b>	<b>604</b>

Table 20: Prospective Statement of Changes in Equity

<b>For the years ended 30 June</b>					
	2015 Estimated Actual \$000	2016 Budget \$000	2017 Budget \$000	2018 Budget \$000	2019 Budget \$000
<b>EQUITY</b>					
<i>Opening balance of equity at 1 July</i>					
General funds	10,204	10,920	10,685	8,252	7,149
Property, plant and equipment revaluation reserve					
Passenger security charges and other fees and charges reserves					
<b>Total opening balance of equity at 1 July</b>	<b>10,204</b>	<b>10,920</b>	<b>10,685</b>	<b>8,252</b>	<b>7,149</b>
Total comprehensive revenue and expense	716	(235)	(2,433)	(1,104)	604
Repayment of capital					
Capital contributions					
Capital transfers					
Transfers to passenger security charges and other fees and charges reserves					
Transfers from general funds					
<b>Total changes in equity during the year</b>	<b>716</b>	<b>(235)</b>	<b>(2,433)</b>	<b>(1,104)</b>	<b>604</b>
<i>Closing balance of taxpayers' equity at 30 June</i>					
General funds	10,920	10,685	8,252	7,149	7,753
Property, plant and equipment revaluation reserve		-	-	-	-
Passenger security charges and other fees and charges reserves		-	-	-	-
<b>Total closing balance of taxpayers' equity at 30 June</b>	<b>10,920</b>	<b>10,685</b>	<b>8,252</b>	<b>7,149</b>	<b>7,753</b>

Table 21: Prospective Statement of Financial Position

For the years ended 30 June					
	2015	2016	2017	2018	2019
	Estimated				
	Actual	Budget	Budget	Budget	Budget
	\$000	\$000	\$000	\$000	\$000
<b>Current Assets</b>					
Cash and cash equivalents	1,818	1,296	355	249	174
Debtors and other receivables	4,558	4,711	4,763	4,909	5,085
Services work in progress	41	41	41	41	41
Investments - term deposits	6,550	6,250	4,550	4,052	5,050
<b>Total Current Assets</b>	<b>12,966</b>	<b>12,298</b>	<b>9,709</b>	<b>9,250</b>	<b>10,350</b>
<b>Non-Current Assets</b>					
Property, plant and equipment	3,189	3,759	2,852	2,496	2,155
Intangible assets	581	765	1,779	1,436	1,373
Investment Property	-	-	-	-	-
<b>Total Non-Current Assets</b>	<b>3,770</b>	<b>4,523</b>	<b>4,631</b>	<b>3,932</b>	<b>3,528</b>
<b>Total Assets</b>	<b>16,736</b>	<b>16,822</b>	<b>14,340</b>	<b>13,182</b>	<b>13,878</b>
<b>Current Liabilities</b>					
Creditors and other payables	3,097	3,415	3,365	3,310	3,402
Employee entitlements	2,285	2,287	2,289	2,289	2,289
Derivative financial instruments					
<b>Total Current Liabilities</b>	<b>5,382</b>	<b>5,702</b>	<b>5,654</b>	<b>5,598</b>	<b>5,691</b>
<b>Non-Current Liabilities</b>					
Employee entitlements	360	360	360	360	360
Provisions	74	74	74	74	74
Borrowings	-	-	-	-	-
<b>Total Non-Current Liabilities</b>	<b>434</b>	<b>434</b>	<b>434</b>	<b>434</b>	<b>434</b>
<b>Total Liabilities</b>	<b>5,816</b>	<b>6,136</b>	<b>6,088</b>	<b>6,032</b>	<b>6,126</b>
<b>Net Assets</b>	<b>10,920</b>	<b>10,685</b>	<b>8,252</b>	<b>7,149</b>	<b>7,753</b>
<b>Equity</b>					
General funds	10,920	10,685	8,252	7,149	7,753
Property, plant and equipment revaluation reserve					
Passenger security charges and other fees and charges reserves					
<b>Total Equity</b>	<b>10,920</b>	<b>10,685</b>	<b>8,252</b>	<b>7,149</b>	<b>7,753</b>

## Appendix Three: Summary of Proposals and Questions

### CAA Proposal 1

- We propose to recover the cost of routine surveillance from levy funding, rather than from hourly charges; and
- We propose to continue to recover the cost of follow-up surveillance through the application of a direct hourly charge (as at present).

### CAA Proposal 2

- We propose to set international and domestic passenger safety levy base rates at:
  - Domestic Passenger Safety Levy \$ 1.92 incl. GST (\$1.67 excl. GST)
  - International Passenger Safety Levy \$ 1.92 incl. GST (\$1.67 excl. GST)

### CAA Proposal 3

- We propose to set the ANZA passenger safety levy base rates at:
  - ANZA Passenger Safety Levy \$ 1.87 incl. GST (\$1.63 excl. GST)

### CAA Proposal 4

- We do not propose to make any change to the threshold levels at which passenger levies become payable.

### CAA Proposal 5

- We propose not to amend the current charge-out rate of for Professional / Technical staff, from the current rate of \$284.00 (GST incl.) or \$246.96 (GST excl.).
- We propose to hold all fixed fee rates at the current levels (except for the Application Fee for a Medical Certificate, and the Foreign Owner deregistration charge).
- We propose that administrative staff time, incurred on certification activity for which hourly charges are made, is no longer charged for.

### CAA Proposal 6

- We propose that the Application Fee for a Medical Certificate be set at the rate of \$210.45 incl. GST (\$183.00 excl. GST).

### CAA Proposal 7

- We propose that for participants who must meet both the participation levy and the aircraft registration fee, the CAA would invoice those activities together.

- We propose, for aircraft that are under maintenance or being rebuilt for a period in excess of one year, to develop a mechanism to enable participants to pay the registration maintenance fee, thus reserving the mark, but not incur a participation levy. However, when the aircraft again becomes operational, the participation levy would apply from that date, and be charged on a pro-rata basis.

**CAA Proposal 8**

- We propose not to introduce any new fees and charges.

**CAA Proposal 9**

- We propose to amend the Civil Aviation Charges Regulations (No 2) 1991 to enable us to recover our costs when we are obliged to seek professional and/or technical expertise from outside the CAA when that is required for us to discharge our regulatory responsibilities.

**CAA Proposal 10**

- We do not propose to make any change to Participation Levies upon aircraft used only for private or recreational operations, or for predominantly non-commercial Part 141 operators.

**CAA Proposal 11**

- We propose that participation levies for Other Commercial operators be replaced by an Agricultural Operations Safety Levy, a Freight-only Operations Safety Levy, four Operations Safety Levies, and an Operator Safety Levy.

**CAA Proposal 12**

- We propose to introduce an Agricultural Operations Safety Levy, with the base rate set at \$1.00 (GST incl.) or \$0.87 (GST excl.) per tonne of product applied.

- We propose to implement the Agricultural Operations Safety Levy at variable rates over the funding triennium, as below:

§ First year	20%	= \$0.217 per tonne (GST excl.)
§ Second year	45%	= \$0.39 per tonne (GST excl.)
§ Third Year	100%	= \$0.87 per tonne (GST excl.)



### CAA Proposal 13

- We propose to introduce an operations safety levy for '*freight only*' flights in international, domestic -scheduled and domestic-unscheduled operations, based on the payload carried on those flights.
- We propose that the base rate of the freight-only operations safety levy is \$3.45 (GST incl.) or \$3.00 (GST excl.).
- We propose to implement the freight-only operations safety levy at variable rates over the funding triennium as below:

\$ Year One	20%	= \$ 0.60 (GST excl.)
\$ Year Two	45%	= \$ 1.35 (GST excl.)
\$ Year Three	100%	= \$ 3.00 (GST excl.)

### CAA Proposal 14

- We propose to establish an Operations Safety Levy on Other Commercial operations to cover all such activity other than commercial adventure aviation launch or descent operations.

CAA Proposal 15

- We propose to introduce Operations Safety Levies for the following flight operations, per flight hour:

	Incl. GST	Excl. GST																																						
<ul style="list-style-type: none"> <li>Any adventure aviation flight operation using New Zealand registered aircraft, other than those flights involved in parachute deployment operations per flight hour</li> </ul>	\$ 14.38	\$ 12.50																																						
<ul style="list-style-type: none"> <li>Any launch or descent operation (including tandem parachute, paraglider or hang glider operations), per launch or descent</li> </ul>	\$ 2.88	\$ 2.50																																						
<ul style="list-style-type: none"> <li>Large- and medium-sized commercial aeroplane operations, excluding freight –only operations &amp; passenger transport operations of &gt;20,000 passengers pa, per flight hour</li> </ul>	\$ 6.33	\$ 5.50																																						
<ul style="list-style-type: none"> <li>Small-sized commercial aeroplane or helicopter operations, excluding freight –only operations, per flight hour</li> </ul>	\$ 7.48	\$ 6.50																																						
<ul style="list-style-type: none"> <li>We propose to implement the Operations Safety Levies at variable rates over the funding triennium as below:                      Any adventure aviation flight operation using New Zealand registered aircraft, other than those involved in parachute deployment operations per flight hour  <table> <tr> <td>§ Year One</td> <td>20%</td> <td>= \$2.50 (GST excl.)</td> </tr> <tr> <td>§ Year Two</td> <td>45%</td> <td>= \$5.63 (GST excl.)</td> </tr> <tr> <td>§ Year Three</td> <td>100%</td> <td>= \$12.50 (GST excl.)</td> </tr> </table>                       Any launch or descent operation (including tandem parachute, paraglider or hang glider operations), per launch or descent  <table> <tr> <td>§ Year One</td> <td>20%</td> <td>= \$0.50 (GST excl.)</td> </tr> <tr> <td>§ Year Two</td> <td>45%</td> <td>= \$1.13 (GST excl.)</td> </tr> <tr> <td>§ Year Three</td> <td>100%</td> <td>= \$2.50 (GST excl.)</td> </tr> </table>                       Large- and medium-sized commercial aircraft operations, excluding freight-only operations &amp; passenger transport operation of &gt;20,000 passengers p.a., per flight hour  <table> <tr> <td>§ Year One</td> <td>20%</td> <td>= \$ 1.10 (GST excl.)</td> </tr> <tr> <td>§ Year Two</td> <td>45%</td> <td>= \$ 2.48 (GST excl.)</td> </tr> <tr> <td>§ Year Three</td> <td>100%</td> <td>= \$ 5.50 (GST excl.)</td> </tr> </table>                       Small-sized commercial aircraft operations, excluding freight-only operations  <table> <tr> <td>§ Year One</td> <td>20%</td> <td>= \$ 1.30 (GST excl.)</td> </tr> <tr> <td>§ Year Two</td> <td>45%</td> <td>= \$ 2.93 (GST excl.)</td> </tr> <tr> <td>§ Year Three</td> <td>100%</td> <td>= \$ 6.50 (GST excl.)</td> </tr> </table> </li> </ul>			§ Year One	20%	= \$2.50 (GST excl.)	§ Year Two	45%	= \$5.63 (GST excl.)	§ Year Three	100%	= \$12.50 (GST excl.)	§ Year One	20%	= \$0.50 (GST excl.)	§ Year Two	45%	= \$1.13 (GST excl.)	§ Year Three	100%	= \$2.50 (GST excl.)	§ Year One	20%	= \$ 1.10 (GST excl.)	§ Year Two	45%	= \$ 2.48 (GST excl.)	§ Year Three	100%	= \$ 5.50 (GST excl.)	§ Year One	20%	= \$ 1.30 (GST excl.)	§ Year Two	45%	= \$ 2.93 (GST excl.)	§ Year Three	100%	= \$ 6.50 (GST excl.)		
§ Year One	20%	= \$2.50 (GST excl.)																																						
§ Year Two	45%	= \$5.63 (GST excl.)																																						
§ Year Three	100%	= \$12.50 (GST excl.)																																						
§ Year One	20%	= \$0.50 (GST excl.)																																						
§ Year Two	45%	= \$1.13 (GST excl.)																																						
§ Year Three	100%	= \$2.50 (GST excl.)																																						
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§ Year Three	100%	= \$ 5.50 (GST excl.)																																						
§ Year One	20%	= \$ 1.30 (GST excl.)																																						
§ Year Two	45%	= \$ 2.93 (GST excl.)																																						
§ Year Three	100%	= \$ 6.50 (GST excl.)																																						

### CAA Proposal 16

- We propose to introduce an Operator Safety Levy, per aircraft, based on the size (MCTOW) of aircraft that are listed on their air operators certificate as at 1 July, per annum:

	Incl. GST	Excl. GST
• MCTOW Heavy - exceeding 100,000kg	\$ 13,685.00	\$ 11,900.00
• MCTOW Medium Heavy exceeding 13,600kg but not exceeding 100,000kg	\$ 3,335.00	\$ 2,900.00
• MCTOW Medium exceeding 5,700kgs but not exceeding 13,600kg	\$ 1,380.00	\$ 1,200.00
• MCTOW Medium Light – exceeding 2730kgs but not exceeding 5,700kgs	\$ 552.00	\$ 480.00
• MCTOW Light – exceeding 1,000kgs but not exceeding 1000kgs	\$ 115.00	\$ 100.00
• MCTOW Very Light – not exceeding 1000kgs	\$ 80.50	\$ 70.00

### CAA Proposal 17

- We propose not to introduce a participation levy on non-flying participants (such as aerodromes, air navigation service providers, security service providers or maintenance organisations, etc.).

### CAA Proposal 18

- We propose to delete the Foreign Owner Deregistration fee (currently set at \$440.00 (GST incl.), \$382.61 (GST excl.)).

### CAA Proposal 19

- We do not propose to recommend the application of a fuel levy or a fuel excise to partially or fully fund the Authority's regulatory functions.

### CAA Proposal 20

- We propose to introduce a penalty provision in regard to the payment of levies due, similar to that provided in respect of fees and charges in the Civil Aviation Charges Regulations (No 2) 1991, section 30.

### CAA Proposal 21

- We propose to amend the Civil Aviation (Safety) Levies Order 2002 to enable the collection of activity data for the purpose of calculating operator and operations safety levies due.
- We propose to introduce a provision enabling authorised CAA staff to audit activity returns from participants.

### CAA Proposal 22

- We propose to make changes to the schedules forming part of the:
  - § Civil Aviation (Safety) Levies Order 2002; and
  - § Civil Aviation Charges Regulations (No 2) 1991.in order to give effect to the proposals for changes to levies fees and charges.

### CAA Proposal 23

- We propose that, having established a framework for setting levies, fees and charges with this funding review, that framework should be reviewed every six years to ensure its fitness for purpose and ongoing compliance with Government policy, with reviews of the rates for levies fees and charges being reviewed every three years.

### Question 1

- Should the CAA introduce a 'category by class' model to apply safety levies to Other Commercial operations?

### Question 2

- Should the CAA develop a regressive levy structure to apply safety levies to Other Commercial operations?

### Question 3

- Should the CAA further develop the concept of risk based levies as:
  - § Implementation of Safety Management Systems in the industry progresses; and
  - § Further development of our Risk Profiling systems occurs?

### Question 4

- § Should the CAA examine the potential for charging levies on flights which transit New Zealand airspace but which do not land in New Zealand?

### Question 5

- Are there any other proposals you may have that you think we should consider?

## Appendix Four: Glossary

<b>ACAG</b>	Aviation Community Advisory Group (NZ)
<b>Act</b>	Civil Aviation Act 1990
<b>ADS-B</b>	Automatic dependent surveillance – broadcast (ADS–B) is a cooperative surveillance technology in which an aircraft determines its position via satellite navigation and periodically broadcasts it, enabling it to be tracked.
<b>AIA</b>	Aviation Industry Association
<b>AIS</b>	Aeronautical Information Service
<b>ANZA</b>	Australia New Zealand Agreement which is a subset of the Trans-Tasman Mutual Recognition Agreement
<b>AOC</b>	Air Operator Certificate
<b>Authority</b>	Five Member Board of the Civil Aviation Authority (the Crown Entity)
<b>Avsec</b>	Aviation Security Service
<b>BARNZ</b>	Board of Airline Representatives in New Zealand (Inc.)
<b>CAA</b>	Civil Aviation Authority of New Zealand (the organisation)
<b>Capability</b>	What an organisation needs (in terms of people, resources, systems, structures, culture and relationships) to effectively and efficiently deliver the outputs required to achieve the organisation's goals.
<b>Capacity</b>	The potential ability of an entity (person or organisation) to produce or perform.
<b>CASA</b>	Civil Aviation Safety Authority (Australia)
<b>CMU</b>	Central Medical Unit
<b>Director, or DCA</b>	Director of Civil Aviation Authority of New Zealand
<b>Effective</b>	Demonstrated capability of producing or achieving a desired outcome.
<b>Effectiveness</b>	A measure of the extent to which the outputs of an organisation achieve the desired outcomes.
<b>Efficiency</b>	A measure of the useful outputs derived from the resource input.
<b>Efficient</b>	An efficient organisation maximises the level of output for a given set of inputs, or it minimises the inputs required to produce a given level of output.
<b>ELT</b>	Executive Leadership Team
<b>Fee (or charge)</b>	A cost-recovery payment for a specific product or service provided by a public entity to an individual where there is a direct connection between the cost, the product or service and the benefit to the individual.
<b>FTEs</b>	Full Time Equivalents
<b>HSE</b>	Health and Safety in Employment
<b>ICAO</b>	International Civil Aviation Organization
<b>Intervention</b>	An action or a range of actions, regulatory or otherwise, that the CAA may undertake in order to deliver positive change.
<b>Levy</b>	A cost-recovery payment for a specific purpose, for example - a function or an area of activity (rather than a product or service) provided by a public entity to a group where there is an indirect connection between the cost, the purpose and the benefit across the group;

<b><i>MCTOW</i></b>	Maximum Certificated Take Off Weight
<b><i>Minister</i></b>	Minister of Transport
<b><i>MoT</i></b>	Ministry of Transport
<b><i>MoU</i></b>	Memorandum of Understanding
<b><i>NSS</i></b>	New Southern Sky - implementing the National Airspace and Air Navigation Plan
<b><i>Operational policy</i></b>	The instruments and practices by which the CAA rationalises and continuously improves the work we do through available knowledge and technology, and the translation of high level policy into operational activity.
<b><i>Other Commercial sector</i></b>	The commercial general aviation sector (Other Commercial Activities) carries passengers on both 'scheduled' and 'unscheduled' flights and carries out agricultural and freight-only operations under hire or reward. The passenger flights may include charter, sightseeing, parachutist deployment, air transfer/shuttle, and include both point A to point A and point A to point B flights.
<b><i>Outcome</i></b>	That which is achieved as a result or consequence of outputs.
<b><i>Outcome targets</i></b>	The broad goals which must be achieved in order to create long-term, positive change.
<b><i>Output</i></b>	The services which are delivered stemming from the activities of the organisation.
<b><i>Oversight</i></b>	The term used to describe all CAA activities, such as surveillance, safety analysis, safety investigation, safety promotion, etc., aside from certification of an operator.
<b><i>Participant</i></b>	A person or organisation that is the holder of an aviation document (such as a licence or a certificate)
<b><i>Policy</i></b>	The set of basic principles and associated guidelines developed by an organisation to govern its actions. Policy defines the limits within which decisions must be made.
<b><i>RCP Regulatory Craft Programme</i></b>	A programme of organisational change surrounding the replacement of the legacy Aviation Safety Management System (ASMS), the core business information technology system that supports the Authority's regulatory functions, and its Document Management System (DMS).
<b><i>Regulatory delivery</i></b>	The functions performed by a regulatory entity under the entity's Act, including the provision of regulatory services to participants subject to that Act.
<b><i>RPL</i></b>	Recreational Pilot Licence
<b><i>Safety</i></b>	A condition in which the risk of harm and damage is limited to an acceptable level.
<b><i>SMS</i></b>	Safety Management System
<b><i>SOI</i></b>	Statement of Intent
<b><i>SOPE</i></b>	Statement of Performance Expectations
<b><i>SSP</i></b>	State Safety Programme
<b><i>Stakeholder</i></b>	An individual or group that can affect, or is affected by, the achievement of a particular outcome or outcomes.
<b><i>System</i></b>	A group of interacting, interrelated, or interdependent elements forming a complex whole.
<b><i>TAIC</i></b>	Transport Accident Investigation Commission