CIVIL AVIATION AUTHORITY
OF NEW ZEALAND
Te Mana Rererangi Tūmatanui o Aotearoa

Pricing Review 2024

Consultation document

27 August 2024 – 8 October 2024

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Part 1: About this pricing review

A message from the Minister of Transport

New Zealand's aviation system plays a vital role in supporting our economy. It connects us with the rest of the world and enables people and goods to move efficiently around our country. We also have a vibrant general aviation sector, which is expected to continue to grow, innovate and adapt through greater use of new technologies which are transforming the aviation sector globally.

Within this aviation system, the Civil Aviation Authority of New Zealand (Authority) has a critical role making sure that our skies are safe and secure. It is therefore important that the Authority has the resources it needs to do its job, which is becoming more complex.

This funding review is the first step in re-establishing a sustainable funding model for the Authority after several years of unprecedented disruption. Since 2020, the Authority has effectively been subsidised by the Crown, which stepped in to cover the shortfall in revenue that occurred when our borders were closed during the COVID-19 pandemic.

Fiscal constraints mean the Government cannot continue to support the Authority and a cost recovery model must be restored. The Board of the Authority has committed to returning to self-sustainability by 1 July 2025, which requires an increase in the levies, fees and charges which fund it. Fees, levies, and charges for the Authority and Aviation Security have not been reviewed since 2017 and 2019 respectively.

The Government is committed to keeping the cost increases as low as possible

I am aware that the increases proposed in this consultation document are significant and come at a time when aviation businesses are facing cost increases in other areas. The Government is committed to keeping these cost increases as low as possible. I have made this expectation clear to the Authority's Board. I am asking your feedback on how we can do this through this process.

The scope of this proposal has been kept as tight as possible given the urgency of filling the funding gap

The proposals set out in this document will cover the two-year period between 1 July 2025 and 30 June 2027. The options to recover costs are intended to ensure the Authority has sufficient resource to undertake its functions while further work takes place to ensure the Authority is right sized for the future.

Given the urgency of filling the funding gap when Crown funding comes to an end, the scope of the current proposal has deliberately been kept as tight as possible. However, I am interested in your feedback on areas where you consider that costs could be reduced further during this interim period, without compromising the Authority's ability to deliver the functions that are required to support a safe and secure aviation system.

Hon Simeon Brown
Minister of Transport

Authority foreword

The Authority is the Government's primary civil aviation safety and security regulator. We play a vital role in enabling safe travel to maintain and enjoy relationships with friends and family, and to support the business, tourism and leisure activity of New Zealanders at home and travelling overseas, and for visitors to New Zealand.

Our regulatory activity spans everything from airplanes and helicopters, emerging aviation technologies (such as drones), airports, airlines and cargo agents, to pilots, engineers, and providers of aviation security and air navigation services.

Daily, we assess licensing and certification applications; provide safety and technical advice; enforce aviation rules and laws; engage with our international partners, regulated parties, and government agencies; perform investigations; and monitor aviation activity. Nearly fourteen million travellers were screened by our frontline security staff (and detection dogs) in the last 12 months.

As the Minister has outlined, the Authority is not covering its costs, and it is no longer feasible for the Crown to provide financial support due to the constrained fiscal environment it faces. This review of the pricing of fees, levies and charges is essential to restore the Authority to financial sustainability and ensure it can continue to fulfil its functions.

I want to assure you that the Board is conscious of the cost-of-living challenges facing New Zealanders and that this pricing review has sought to minimise cost increases as much as possible. We are in an environment where pricing has not been reviewed for 7 years for CAA and 5 years for AvSec. Costs have been considered through a rigorous process and deferred as far as possible, efficiencies sought, and performance measures set to drive improvements and value for money.

We have also considered the increases against other agency charges domestically and internationally to ensure they are reasonable. Ultimately, while we cannot avoid the increases in this review, they are necessary to maintain the aviation system performance that New Zealanders expect. We look forward to receiving your feedback on the proposals.

Keith Manch

Director of Civil Aviation and Chief Executive
Civil Aviation Authority

About this consultation

This consultation document is a pricing review that proposes changes to the levels of the Authority's fees, levies and charges. These changes will ensure the Authority has sufficient revenue to carry out its statutory functions and meet its obligations from 1 July 2025 to 30 June 2027.

Throughout this document, we refer to our organisation as the Authority, we, and our. AvSec refers to our AvSec business group within the Authority. CAA refers to the remainder of the Authority, other than AvSec.

Appendix 1: Key definitions and abbreviations used in this document contains an explanation of key terms used throughout this consultation document.

We want your feedback on the options included in this document

We'd like your feedback on the proposals outlined in this consultation document. See **page 9** for details on how to make a submission.

Page 39 lists the questions we are seeking feedback on.

Consultation will take place over six weeks, between **27 August 2024** and **8 October 2024**.

Why we are doing this pricing review

The Authority's costs have not been met by income from fees, levies and charges since 2020. Crown funding has supported the shortfall. The Minister of Transport has made clear that Crown funding must end on 30 June 2025.

This pricing review focuses on returning the Authority to financial self-sustainability by 1 July 2025.

The scope of this pricing review is limited to determining how much sector funding is needed over the interim two-year period between 1 July 2025 and 30 June 2027, and how best to allocate the cost increases that have occurred since the rates were last set.

A first principles funding review will be undertaken subsequently, which will look at the cost recovery and funding model more broadly.

What's not included in this review

This review does not propose changes to the current cost-recovery model, and no new funding mechanisms are proposed. The review does not consider the level of Crown funding that the Authority receives for functions such as Ministerial servicing or international engagement.

This consultation does not include changes to pricing levels for some items that were included in our suspended 2020 Pricing Review consultation, including specific cost recovery settings for the unmanned aircraft and emerging technology sector, Airport Identification Cards, Regulated Air Cargo

Agents or the current basis of the Agriculture Levy. These will be considered in the broader review of the cost recovery and funding model.

External factors may impact the accuracy of data

External factors may affect the accuracy of the analysis and modelling, and resulting prices for fees, levies and charges. External factors include economic conditions (domestic and global) impacting growth in air travel, and the level of inflation.

Additional detail beyond this Consultation Document

This document has been developed to explain our proposals to a wide range of stakeholders. Necessarily, a number of complex issues have been simplified. Greater detail and technical analysis is available in a Cost Recovery Impact Statement published online at https://www.aviation.govt.nz/about-us/what-we-do/how-we-are-funded/funding-review-2024.

What happens after the consultation

After the consultation, the following will happen.

1. We'll analyse all submissions and consider the views and points made by submitters. We may adapt proposals if necessary.
2. We'll engage with the Minister of Transport to consider the results of the consultation and the options we provide.
3. Revised or confirmed proposals will be taken to Cabinet for approval and implementation.

If Government approves, changes to the current pricing regime would come into effect by 1 July 2025

To allow the sector to plan for changes, the Authority and Ministry of Transport plan to seek final decisions from the Government by 20 December 2024, with required regulatory amendments in place by 31 May 2025 and taking effect on 1 July 2025.

How to make a submission

You can make a submission by completing the online feedback form at https://www.aviation.govt.nz/about-us/what-we-do/how-we-are-funded/funding-review-2024. The form includes the questions this consultation document seeks feedback on, and is the quickest way to provide your feedback.

Alternatively, you can download the feedback form and email the completed form to pricingconsultation@caa.govt.nz.

Please ensure that you have submitted your feedback by 5pm, 8 October 2024.

If you have questions about anything in this document, please contact us on pricingconsultation@caa.govt.nz.

All submissions become public information and can be requested under the Official Information Act 1982 (OIA).

Please indicate clearly if any parts of your submission are commercially sensitive, or if you have any other reasons for not wanting that information to be disclosed. We'll consider this when making a decision in respect of any OIA requests. We cannot guarantee confidentiality in respect of any specific submissions.

Executive summary

The Authority has faced cost increases since the current funding rates were set, and the fees, levies and charges no longer reflect the costs of regulatory activity. Most of these cost increases are not discretionary.

- There has been significant cumulative inflationary pressure since the current funding rates were set in 2017 and 2019, meaning that the same activities now cost more.
- The Authority needs to rebuild its financial reserves which were depleted during the COVID-19 pandemic.
- The complexity in the aviation system has increased, including the integration of new and advanced aviation technologies into the traditional aviation system.

Since 2020, the Government has been funding shortfalls in revenue to mitigate significant revenue reductions we faced during the COVID-19 pandemic and the increased costs of operation. The Government will not provide financial support to the Authority beyond 30 June 2025, meaning we must return to financial self-sustainability as soon as possible and no later than 1 July 2025.

In addition to meeting these cost pressures, this review proposes modest resourcing increases to ensure that we can better meet the expectations of Government, users of the civil aviation system and participants in the system.

We must identify ways to increase our revenue so we can continue to undertake the regulatory functions that ensure our skies are safe and secure. We have undertaken a limited-scope pricing review that focusses on returning the Authority to financial self-sustainability. No new funding mechanisms have been proposed, and proposed changes to levy, fee and charge rates utilise the existing cost recovery model, and the underlying policy rationale for that model.

Funding needs to increase to maintain existing activity levels

As the Government's primary civil aviation safety and security regulator, our paramount priority is ensuring the safety and security performance of the aviation system and its users. By undertaking our regulatory functions, we provide assurance that the aviation system is safe and secure, and that people are safe and feel safe when participating in, or engaging with, the aviation system.

Our work is vital as it not only protects life; it also enables travel, recreation and commerce, and it protects the environment.

Once the Government's financial support ends on 30 June 2025, income from the current levy, fee and charge rates would be insufficient to maintain required resourcing levels. The Authority would need to reduce resourcing by 788 FTE (of the 1,951 FTE forecast to be employed at June 2025). This would have significant consequences for the aviation sector, the travelling public and the New Zealand economy, as the Authority simply could not sustain the current levels of 'service' it provides.

This review intends to maintain Authority resourcing at a level where we can continue to undertake our core regulatory functions effectively and assure the public that the aviation system is safe and secure. It seeks to avoid impacts such as:

- passengers arriving earlier at airports and waiting longer for aviation security screening
- certification wait times increasing for those in the aviation system, and those wishing to enter the aviation system, particularly in the emerging aviation technologies space
- parts of the sector reducing in size to match the reduced capacity of the Authority or incurring significant costs as a result of the Authority's reduced capacity, or becoming non-compliant and introducing risks into the aviation system.

More detail on the funding pressures that the Authority faces and the consequences of not addressing those pressures is set out in **Part 3: Funding pressures**.

Preferred options to recover costs for the Authority

We have analysed options to return the Authority to financial self-sustainability and rebuild the Authority's cash reserves.

Our preferred options are:

- **CAA:** all fees, levies, and charges are adjusted for inflation, with funding for residual costs recovered through increasing passenger safety levies
- **AvSec:** raise the domestic and international security Levies by the same/similar proportion

We considered the impacts of different cost recovery options on sector participants and the proper operation of the Authority's statutory functions, and we are confident that the preferred option strikes the best balance.

The table below outlines the impact of our preferred options on the passenger levies, which make up the majority of our funding. The impact on other fees, levies and charges are in **Appendix 5: Other fees, levies and charges under preferred option.**

Preferred options	Current ($)	Proposed ($)	Change ($)	Change %
Passenger Safety Levies	1.60	3.94	2.34	146%
Domestic Passenger Security Levy	6.57	10.93	4.36	66%
International Passenger Security Levy	13.12	22.54	9.42	72%

Part 4: Proposed cost recovery options set out the options we considered, the analysis comparing each option to the status quo, and their wider economic impacts.

Part 2: New Zealand's aviation system

New Zealand's aviation system

A safe and secure civil aviation system is essential to support New Zealand's economic prosperity and social cohesion.

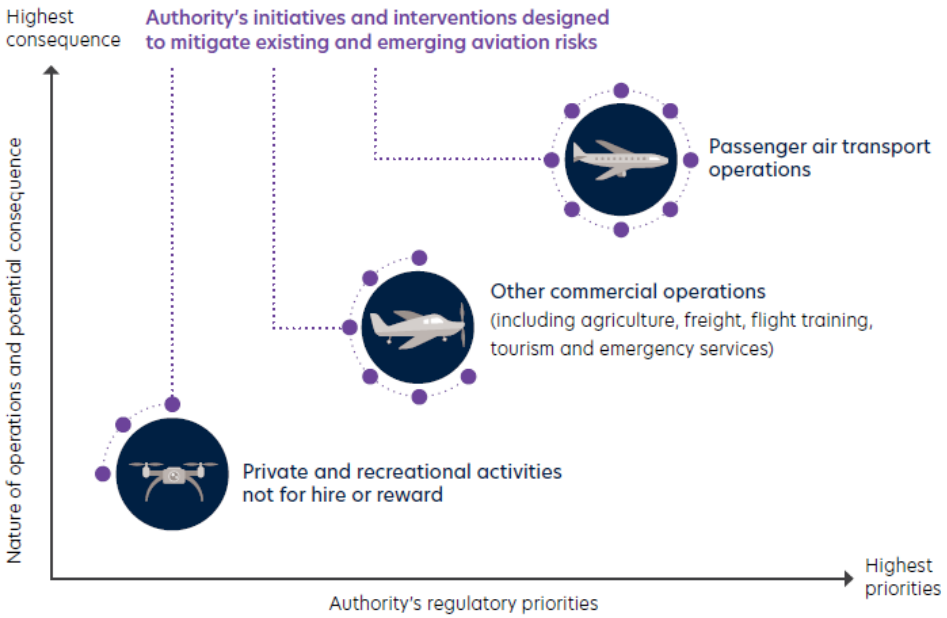
Due to our geographical location, almost all travel to and from New Zealand is carried out by air. Our tourism industry is particularly dependent on good international air links. International supply chains are also dependent on the aviation system because they import and export high value cargo by air.

Domestically, we rely heavily on the aviation system for emergency services, as well as for agriculture, tourism, freight, and personal air travel.

Given our high reliance on international and domestic aviation, any substantial disruption to the New Zealand aviation system has significant consequences for New Zealand and for the government's transport sector outcomes.

New Zealand has a comparatively high level of private aircraft ownership and use, as well as smaller commercial operators. New Zealand also has comparatively fewer large commercial operators which impacts the Authority's cost recovery options.

The diagram below broadly summarises the three main sectors operating in New Zealand's civil aviation system. It shows our regulatory priorities in relation to the nature of aviation operations and activities carried out within those sectors.



Source: Regulatory Safety and Security Strategy 2022 – 2027.

The aviation system is constantly evolving – driven by commercial competition and technological innovation

The global aviation system has evolved dramatically over the years and continues to do so.

This has resulted in an increase in complexity across the New Zealand aviation system, and in its linkages with the global aviation system.

New Zealand's aviation system has experienced pressure to adopt:

- Emerging aviation technologies (such as unmanned aircraft, or low carbon propulsion systems to reduce emissions)
- measures to mitigate more sophisticated security threats.

New Zealand's aviation system is part of the global aviation system

New Zealand is a signatory to the Chicago Convention, an international treaty that laid the foundations for the modern international and domestic aviation system we enjoy.

Our rights and responsibilities are promulgated through membership of the International Civil Aviation Organisation (ICAO). New Zealand has to play its part in meeting international standards and assuring safe and secure travel in order to maintain access to other nations airspace and maintain international air linkages.

Compliance with international standards is a requirement of ICAO membership, and these are constantly evolving to meet new technology and threats.

Many of the cost pressures the Authority faces relate to New Zealand's membership of the international aviation community and the air linkages we have.

The Civil Aviation Authority's role

The Authority has a key role to play in the aviation system. The Authority is a Crown entity established under the Civil Aviation Act 1990 (the Act).

As the Government's primary civil aviation safety and security regulator, our paramount priority is ensuring the safety and security of aviation system users. We regulate everything from traditional aircraft, emerging aviation technologies, airports, airlines, and cargo agents, to pilots, engineers, passengers and providers of aviation security and air navigation services.

Daily, we assess licensing and certification applications; provide safety and technical advice; enforce aviation rules and laws; engage with our international partners, regulated parties, and government agencies; perform investigations; and monitor flight activity.

The Authority includes AvSec — a business group within the Authority. AvSec is responsible for delivering aviation security in-line with global standards, while enabling facilitation. Most New Zealanders have interactions with our frontline AvSec staff (and detection dogs) who undertake protective security functions, such as passenger screening, baggage, and freight screening at airports.

The Authority has 1,951 FTE, of which 1,540 (79%) are in AvSec[1]. Most (84%) of the Authority employees work directly on the frontline, either in security-designated airports or as part of the regulatory safety and security function. The remainder of the Authority undertakes core enabling activities to ensure the smooth and effective operation of frontline regulatory functions, as well as delivering a range of statutory and intelligence functions.

Relationship of AvSec to the Authority

Section 72B(3B) of the Act requires us to maintain separate financial accounts for AvSec. This requirement is for the purposes of transparency of financial reporting — ensuring the costs of providing aviation security services are transparent given other organisations such as airports could, with Ministerial approval, provide aviation security services.

CAA's resourcing appears higher because it includes all the functions required to support AvSec. AvSec is a large operational business group that is spread out across multiple sites across New Zealand. Therefore, its support requirements are greater relative to the rest of the Authority's business groups.

[1] As forecast for 30 June 2025.

How the Authority is funded

The Authority's funding model is built on three fundamental pillars.

1. Policy and legal framework	It is Government policy for the Authority to recover its costs from the aviation sector rather than publicly funding them through general taxation. Legislation provides the Authority with the ability to recover the costs of its regulatory activities through setting fees, charges, and levies on the aviation sector.
2. Specific cost recovery settings	The specific cost recovery arrangements are developed using the cost recovery principles set by Government and are publicly consulted. The current funding arrangements for the Authority are based upon 'first principles' funding reviews that established recovery regimes for CAA in 2017 and AvSec in 2019. Application of the legislation and principles means that the majority of our funding is from safety and security levies on passenger air transport operations. • Other commercial operators pay operator safety levies. • Specific fees or an hourly charge are paid by participants for a wide range of regulatory applications and approvals. • Crown funding contributes to the cost of 'public goods' such as policy advice for the Minister of Transport and international engagement. More information about how we are funded is at: https://www.aviation.govt.nz/about-us/what-we-do/how-we-are-funded/
3. Periodic reviews	The cost recovery arrangements are reviewed regularly at either: • first principles level – where significant operational changes warrant • pricing level – where costs have increased but operations have not materially changed.

An effectively resourced regulatory agency is a foundation for a successful aviation system

Our regulatory activities provide assurance that the aviation system is functioning safely and securely, and that people are safe and feel safe when participating in, or engaging with, the aviation system.

We recognise the vital role that we play in supporting and facilitating opportunities for New Zealand's economic growth and social connections. The effective delivery of our functions enables New Zealand to uphold its reputation as both a trusted trade partner, and a safe and secure

destination to fly to and within. In turn, this provides opportunities to improve economic outcomes for New Zealanders.

We acknowledge that parts of the sector are experiencing long wait times for regulatory approvals. While these delays are driven by a range of factors, including the increasing complexity of the aircraft, products and operations, they can have a material impact on an operator's ability to run their business. Similarly, increasing wait times for security screening impacts passengers and can cause stress and frustration.

Efficiency is a balance between maintaining outcomes without increasing cost

We are always looking at how we can be more efficient while maintaining safety and security outcomes. This includes reviewing how we can streamline processes, and better use technology to meet the demands of aviation sector participants and the public. We strive to match resources to demand, in a way that does not unduly increase cost.

We are making a range of improvements to reduce certification wait times, such as:

- grouping together similar applications in the unmanned aircraft space
- redirecting frontline inspectorate resourcing to focus on core certification activities, reducing other activities such as monitoring and inspection, and support to other internal projects like policy and rules development
- reviewing and updating of certification application forms to improve their usability for applicants and inspectors, and increased provision of guidance and clear explanations of the information that is required
- increasing our use of an intelligence led and risk-based approach, to focus resources on areas where risks are the greatest. This includes giving consideration to a certificate holders experience and systems when they are proposing to expand their operations, and changing our approach to certificate renewals to focus on key areas of risk rather than a full recertification process.

We have worked closely with airports and airlines to better manage and reduce security screening queues, utilise queue combing support, negotiate more rental space in airports, and invest in new screening technology that provides a smoother screening experience for passengers. We have:

- developed a better understanding of the causes of aviation security screening queues, including introduction and planned rollout of queue measurement technology systems to enable more efficient targeting of resourcing to known peak periods
- invested in new screening technologies to balance the delivery of improved security standards with simpler and improved passenger experience
- used the additional screening point data available with the new technology to focus on process stages where further improvements can be gained.

Regular reviews have provided evidence that the Authority operates efficiently

The Government has a strong focus on agencies being as efficient as possible to ensure they provide value to the public. The Authority is regularly reviewed to ensure our effectiveness, efficiency, cost-base and execution of our core functions.

Recent reviews found opportunities for improvements which we have addressed (or are addressing). We have used these improvements to inform the current pricing review.

However, almost all these reviews found resourcing pressures across both frontline and 'back-office' functions. This has meant there has been inadequate funds to carry out our core regulatory activities or undertake the necessary improvement activities to support a modern intelligence-led, risk-based regulator.

To support this pricing review, KPMG undertook testing and validation of the assumptions associated with resource modelling and international and domestic passenger security levies. KPMG verified that:

- the FTE increases are directly linked to either legislation, international standards or direction from the Minister
- the workforce demand assumptions driving the FTE increases are reasonable and are the basis for the size of the FTE increases
- the assumptions underpinning the rostering are reasonable for AvSec's operational needs.

The final report is available at https://www.aviation.govt.nz/about-us/what-we-do/how-we-are-funded/funding-review-2024.

Part 3: Funding pressures

Funding pressures the Authority faces

This section outlines key challenges and funding pressures the Authority faces and the consequences if pricing rates are not increased.

A summary of the problem: the cost of necessary safety and security regulatory activity exceeds the Authority's income

The Authority's income from fees, levies and charges does not cover the costs of delivering its functions. This is because our pricing rates are out of date. CAA's pricing has not been reviewed since 2017, and 2019 for AvSec. Costs have significantly increased since then, and our current regulatory activity significantly exceeds our income. Cumulative inflation costs alone are forecast to require a 43% increase.

Without an increase in funding rates from 1 July 2025, the Authority faces a deficit of $145.60 million in 2025/26 and will have to reduce its workforce by 788 FTEs.

Appendix 4: Authority financial forecasts provides detailed forecasts and deficits for the CAA and AvSec.

There are also specific cost pressures that cannot be met within current resourcing levels. These are outlined on **pages 23** and **24** below.

The Authority faces several challenges due to not being able to review its pricing since COVID-19

The COVID-19 pandemic had a critical impact on our funding and has resulted in a unique set of circumstances.

We were in the process of reviewing our pricing when the COVID-19 pandemic began. To protect the aviation sector during the COVID-19 pandemic, the Government placed a moratorium on funding and pricing reviews.

The massive reduction in aviation activity meant that the Authority was not receiving a level of sector income to cover the costs of core regulatory and statutory functions. We were required to

completely deplete our reserves. Since 2020, the Government has been funding the shortfalls in revenue – totalling $445 million.

As a result, we are in a situation where:

- pre-COVID-19 pandemic, we were already facing funding and resourcing pressures
- our pricing rates are significantly out of date and don't reflect inflation or other cost increases
- we have no reserves or financial resilience
- the Government has been funding the shortfalls, including the cost increases.

The aviation sector and travelling public are experiencing a level of capability and capacity which we cannot fund

As a result, the aviation sector and the travelling public are currently experiencing a level of capability and capacity from the Authority that is significantly higher than the level of existing fees, levies and charges provide for.

This means that the cost increases proposed in this consultation mainly relate to the increased costs of maintaining the current level of resourcing. A small proportion of the cost increases are due to a proposed growth in resourcing (less than one quarter of the increase for CAA, and less than one third of the increase for AvSec).

The Authority must return to cost recovery and financial self-sustainability

While the Authority has managed to stretch its resources since the pandemic and continue with financial support from Government, it is unsustainable to continue to do so.

The Government cannot continue to fund the shortfalls in our revenue and Government funding will end on 30 June 2025.

The Government has directed the Authority to undertake a pricing review to enable our return to financial self-sustainability. The review needs to be implemented on 1 July 2025, when the Government funding ends.

Consequences if funding rates are not increased

Current funding from the sector does not meet the costs of delivering our functions. Once Government funding ends on 30 June 2025, the Authority will face significant consequences if sector funding is not increased. This will have significant impacts on our ability to deliver our functions, and flow on impacts on the sector and the New Zealand economy.

Financial and resourcing consequences

Increasing the funding rates will enable the Authority to retain existing resourcing to meet our performance targets that underpin the delivery of effective safety and security activity. Our performance targets are published in our Statement of Performance Expectations.[2]

If funding rates are not increased from 1 July 2025, the Authority faces a deficit of $145.60 million in 2025/26, and will have to reduce its workforce by 788 FTEs. This will have a significant impact on the Authority's ability to undertake core statutory and regulatory functions.

Frontline inspectorate – aviation safety and security regulatory oversight	
The frontline inspectorate will need to reduce by 92 FTEs (57% reduction to current frontline inspectorate)	• Extensive increase in wait times for certification and other approvals, particularly for those seeking to enter the system • Inability to undertake monitoring and inspection • A severely limited ability to undertake accident and incident investigations • Inability for inspectors to undertake training or improve certification processes • Policy and rules projects largely ceasing due to unavailability of subject matter expert (SME) resource

Frontline Aviation Security Service	
AvSec will need to reduce by the equivalent of 580 FTEs (38% reduction to current AvSec resourcing)	• Failure to meet screening targets, with significant additional wait times for passengers • Increased risk of a significant security incident due to pressure on aviation security officers at screening points • Inability to implement enhanced passenger and baggage screening technologies or non-passenger screening to keep pace with international standards. • Inability to meet flight schedule demand at numerous airports, or undertake aviation security screening at airports that start up international or jet flights

[2] https://www.aviation.govt.nz/about-us/corporate-publications/#Statements-of-Performance-Expectations

System and Practice Design	
System and Practice Design will need to reduce by 21 FTEs (47% reduction to current resourcing)	• Inability to support the Transport Rules Programme, with rules becoming even more out of date and misaligned to international standards • Increased need for exemptions • No updates to Advisory Circulars and limited operational policy and regulator learning to support frontline inspectorate • Inability to work with the sector to design regulatory interventions to mitigate safety risks • Limited ability to undertake ministerial servicing or provide policy advice to other agencies • International engagement will largely cease

Core enabling functions	
Core Enabling Functions will need to reduce by 95 FTEs (46% reduction to current resourcing)	• A severely limited ability to take enforcement action or prosecution. • Significantly reducing or ending key engagement and education such as courses and workshops, Vector magazine and Good Aviation Practice booklets. • Breaching committed contracts, such as Information Systems and lease contracts for head office and AvSec stations. • The ongoing utilisation of outdated and unsupported systems, and a lack of tools and software for staff such as laptops. • Inability to recruit or meet employment obligations or processes for a large workforce.

Wider economic and sector impacts

The immediate financial and resourcing consequences will have flow on impacts for the aviation sector and the wider economy.

Certification wait times will increase. This will place higher costs on businesses, or cause business failure due to delays.

- The commercial aviation sector will be unable to operate effectively if the Authority is unable to support timely regulatory activities, having negative consequences for tourism, trade, and business.
- There could be reduced competition due to business failure, impacting those that utilise aviation services, such as the agricultural sector.
- The wider benefits of innovation in the aviation sector may not be realised such as from emerging technologies that could solve significant problems (like reducing emissions) and

increase economic growth. Advanced aviation technology businesses will leave New Zealand due to the long wait times they will face to enter the New Zealand civil aviation system.

Passenger wait times will increase. We will need to reduce the number of screening lanes at airports, resulting in fewer passengers being processed through aviation security screening. For example, each lane can process between 270 and 320 passengers per hour, depending on the equipment able to be installed. When the numbers of passengers requiring screening exceeds those numbers, there will be longer wait times.

- Passengers will need to arrive earlier at the airport in advance of their flight and wait longer in aviation security screening queues. Our modelling indicates this will result in 27,660 hours of passenger waiting time per day at airports beyond our current targets[3] (this has an equivalent impact to travel time delays for motorists from closing 17 Transmission Gully motorways).
- Airlines will need to reduce their schedules to fit withing aviation security screening capacity.

There will be a loss of confidence in New Zealand's aviation system. Overseas aviation regulators and operators may perceive a lack of safety and security regulatory oversight.

- Additional burdens and costs for international operators and passengers could be applied to mitigate any reduction in safety or security outcomes. At the more extreme end, if fundamental international standards for regulatory oversight cannot be met, there is a risk that international operators may choose not to fly to New Zealand.
- New Zealand aviation operators and businesses may no longer benefit from mutual recognition agreements where other states accept our regulatory approvals.

[3] Current targets are to screen 95% of passengers within 10 minutes.

Additional resourcing to meet sector and passenger expectations

Increasing funding rates to maintain existing resourcing levels will prevent the consequences set out above. However, they will only maintain the current level of regulatory activity, and current wait times will stay the same. As complexity increases and security threats evolve, and the regulatory framework continues to become more out of date, these wait times will increase.

We have made a range of improvements and implemented initiatives to improve efficiency and reduce wait times within our current levels of resourcing. Examples of these are on **page 16.**

We have identified additional resource that, if funded, will help to reduce the wait times currently experienced by the sector

- 44 additional FTE for CAA: specific focus on reducing wait times for the sector, particularly in relation to new certifications and amendments for both the traditional aviation sector and advanced aviation technology.
- 193 additional FTE for AvSec: specific focus on mitigating the impacts of increased security requirements and flight schedule demand on passenger wait times.

Frontline inspectorate – aviation safety and security regulatory oversight	
Certification wait times are too long Increased complexity has resulted in certification activities taking longer Certification of emerging technology is very complex and takes FTE resource away from traditional aviation certification New functions in the Civil Aviation Act 2023 need to be implemented Limited ability to support policy and rules work, or to undertake training or make improvements to certification processes	34 additional FTE: • 24 FTE focussing on reducing wait times • 6 FTE emerging aviation technology certification • 4 FTE on new Act requirements like drug and alcohol management and unmanned aircraft threat mitigation.

Frontline Aviation Security Service	
Security screening queues are increasing Implementation of enhanced screening technologies and practices Rebounding passenger volumes and schedule demand configurations, such as early and late fights Changes in scope and service levels	193 additional FTE: • 45 FTE for complete rollout of enhanced security requirements • 102 FTE for passenger volume and schedule demand • 46 FTE to meet increased scope and service levels

System and Practice Design	
Outdated regulatory framework creates inefficiencies and burdens Outdated rules and guidance places burdens on participants and inspectorate Operational policy is required to deliver efficiencies through risk-based and intelligence-led regulatory decision making Meeting international obligations and maintaining a strong reputation helps reduce burdens and compliance measures placed on the sector by other states	10 additional FTE: • 2 FTE policy and rules work, specific focus on ICAO security audit findings, advanced aviation technology and alternative propulsion systems • 4 FTE operational policy and guidance to support internal efficiency and address backlogs in guidance • 1 FTE working with sector on regulatory interventions to mitigate risks • 3 FTE high value international engagement and compliance

Core enabling functions	
Providing core statutory activities like enforcement and education Providing regulatory intelligence Ensuring smooth and effective operation of regulatory functions Meeting legal obligations as an employer and Crown Entity	Roles here are funded through 'overheads' of roughly 12% of AvSec's operating costs, and the equivalent of $58,000 for each additional proposed CAA FTE. This means that FTE increase or decrease proportionately to frontline FTE.

Part 4: Proposed cost recovery options

Proposed cost recovery options

This section provides our proposals to recover costs and return to financial self-sustainability.

Page 27 onwards identifies cost recovery options for CAA, and **page 31** onwards identifies cost recovery options for AvSec.

These options have been scaled through a review of the proposals by the Ministry of Transport, which resulted in decreasing additional resourcing in the proposals by 163 FTE.

Summary of preferred options to adjust levy settings

Our preferred options for the Authority are:

- **CAA:** all fees, levies, and charges are adjusted for inflation, with funding for residual costs recovered through increasing the passenger safety levies
- **AvSec:** raise the domestic and international security levies by the same/similar proportion

Preferred options	Current ($)	Proposed ($)	Change ($)	Change %
Passenger Safety Levies	1.60	3.94	2.34	146%
Domestic Passenger Security Levy	6.57	10.93	4.36	66%
International Passenger Security Levy	13.12	22.54	9.42	72%

These levy settings:

- restore the Authority to full cost recovery
- replenish the Authority's reserves over time
- meet substantial cost pressures since previous reviews were implemented
- account for forecast cost pressures until the end of the term of the review in 2027.

Proposed FTE increases will be phased

We recognise that there is more uncertainty than usual in setting the right recovery amounts. This is due to the time passed since the current levies, fees and charges rates were set, the impact of the COVID-19 pandemic on passenger volumes, and the difficulty in forecasting those volumes for the future.

- FTE growth has been phased over the review period. We will monitor operational and sector conditions and adjust the pace of any growth accordingly.
- We will advise the Minister of Transport to provide scope in the regulations to moderate the increase. This means if our costs do not increase as rapidly as forecast, or revenues rise faster (for example, due to slower recruitment or a higher rate of passenger volume growth), levies can be set accordingly within the proposed level as a maximum to avoid significant over-recovery.

Proposal one: cost recovery options for CAA

This section outlines the potential options to address funding pressures for the CAA, and our preferred option to recover costs.

The CAA includes both the safety and security regulatory oversight functions as well as the core enabling functions for the whole Authority. The costs for the core enabling functions are reflected in CAA costs due to requirements in the Act, and the structure of our shared services model.

Three options to return CAA to financial self-sustainability

The table below sets out the cost recovery options we have considered. The status quo sets out the current fees, levies and charges.

Options 1, 2 and 3 propose changes to the fees, levies and charges. These three options:

- recover the same level of revenue, but the allocation has been split differently
- incorporate the rebuilding of the Authority's cash reserves in accordance with the Authority's Reserves and Funding Policy
- assume that baseline Crown funding remains unchanged.

We have identified and analysed these options against the current cost recovery settings (status quo).

Options	Proposed Domestic and International Passenger Safety Levy	Proposed other charges
Status quo All fees, levies and charges remain the same as set in 2017	$1.60 (ANZA $1.57)	$246.96/hr and see Appendix 5 for others
Option 1 (preferred): All fees, levies, and charges are adjusted for inflation, with funding for residual costs recovered through increasing the passenger safety levies	$3.94 (ANZA $3.86) +146%	$354.19/hr and see Appendix 5 for others +43%
Option 2: Increase all fees, levies and charges by the same percentage	$3.65 (ANZA $3.58) +128%	$563.31/hr +128%
Option 3: Increase passenger safety levies to cover all increased costs, with no increase to other fees, levies and charges	$4.09 (ANZA $4.01) +155%	No change to other fees, charges and levies

Impacts, benefits, and challenges for each option compared to the status quo

The table below provides a comparative analysis of each option against the current settings during FY2024 to FY2027. The current settings are taken as the forecast position if no changes to the current fees, levies and charges framework are made and Crown support ends.

Our criteria consist of five desired outcomes, goals, and aspirations for CAA, including:

1. **improving outcomes —** continuously improving aviation safety and security outcomes
2. **fulfilling statutory functions —** enabling successful fulfilment of statutory functions and international obligations and meeting wider government expectations
3. **increasing financial resourcing** — enabling an increase in financial and resourcing resilience against variability and events
4. **balancing cost recovery —** balancing cost recovery from the largest number of beneficiaries (or risk exacerbators) of a safe and secure aviation system
5. **ensuring positive financial and economic impacts** — ensuring the wider financial and economic impacts from a levy increase are net positive overall, negative impacts are minimised, and positive impacts are maximised.

We categorise each option as having positive, moderate, or negative impact

- ✈ have a positive impact
- ✈ have a moderate impact
- ✈ have a negative impact

	Improving aviation safety and security outcomes	Fulfilling statutory functions and wider expectations	Increasing financial and resourcing resilience	Balancing cost recovery from the largest number of beneficiaries	Ensuring positive financial and economic impacts
Status quo: All fees, levies and charges remain the same as set in 2017					
Option 1 (preferred option): All fees, levies, and charges are adjusted for inflation, with funding for residual costs recovered through increasing the passenger safety levies					
Option 2: Increase all fees, levies and charges by the same percentage					
Option 3: Increase passenger safety levies to cover all increased costs, with no increase to other fees, levies and charges					

Preferred option for CAA

Our preferred option is Option 1 – increasing all fees, levies and charges to adjust for inflation, and the remaining increases sourced through an increase to the passenger safety levy.

This option will return the Authority to financial self-sustainability and provides funding for the Authority to meet its statutory functions, as well as rebuild its reserves (over time). It spreads increased costs across the system fairly and reduces negative economic, financial and system performance impacts compared to other options. Those that receive the highest benefits from system safety and generate the most risk (in terms of the potential for harm to the greatest number of people) pay a higher proportion.

While Option 2 spreads costs evenly across the system, there is a risk that this option will reduce safety and security outcomes due to the disproportionate financial impact on smaller operators. This option could result in operators cutting corners on safety and security, which compromises the integrity of the aviation system as a whole. It will impact smaller businesses harder with little real benefit to passenger safety levies due to their disproportionate activity levels. Furthermore, while it appears fair to spread the costs evenly across all participants, it does not equitably spread the costs across beneficiaries because most of the beneficiaries (20 million) are passengers.

Option 3 mitigates the impact on smaller businesses and recognises that commercial airline activity is the highest proportion of all aviation activity with the most beneficiaries, and where the risks and benefits from system performance are greatest. However, it spreads the increase across one specific part of the sector. It is less fair than Option 1, because some participants do not contribute to funding the increased costs.

Proposal two: cost recovery options for AvSec

This section outlines the potential options to address funding pressures for the CAA, and our preferred option to recover costs.

Three options to return AvSec to financial self-sustainability

The table below sets out the cost recovery options we have considered. The status quo sets out the current levies.

Options 1, 2 and 3 propose changes to the domestic and international passenger security levies. These three options:

- recover the same level of revenue, but the allocation has been split differently
- incorporate the rebuilding of the Authority's cash reserves in accordance with the Authority's Reserves and Funding Policy
- assume AvSec will not receive Crown baseline funding.

We have identified and analysed these options against the current cost recovery settings (status quo).

Options	Domestic Passenger Security Levy	International Passenger Security Levy
Status quo All fees, levies and charges remain the same as set in 2019	$6.57	$13.12
Option 1 (preferred): Raise the domestic and international passenger security levies by the same/similar proportion	$10.93 +66%	$22.54 +72%
Option 2: Raise the international passenger security levy only	$6.57 +0%	$26.19 +100%
Option 3: Create a new single combined levy	$16.36 +149%	$16.36 +25%

Impacts, benefits, and challenges for each option compared to the status quo

The table below provides a comparative analysis of each option against the current settings during FY2024 to FY2027. The current settings are taken as the forecast position if no changes to the current fees, levies and charges framework are made and Crown support ends.

Our criteria consist of five desired outcomes, goals, and aspirations for AvSec, including:

1. **improving outcomes —** continuously improving aviation safety and security outcomes
2. **fulfilling statutory functions —** enabling successful fulfilment of statutory functions and international obligations and meeting wider government expectations
3. **increasing financial resourcing** — enabling an increase in financial and resourcing resilience against variability and events
4. **balancing cost recovery —** balancing cost recovery from the largest number of beneficiaries (or risk exacerbators) of a safe and secure aviation system
5. **ensuring positive financial and economic impacts** — ensuring the wider financial and economic impacts from a levy increase are net positive overall, negative impacts are minimised, and positive impacts are maximised.

We categorise each option as having positive, moderate, or negative impact

- ✈ have a positive impact
- ✈ have a moderate impact
- ✈ have a negative impact

	Improving aviation safety and security outcomes	Fulfilling statutory functions and wider expectations	Increasing financial and resourcing resilience	Balancing cost recovery from the largest number of beneficiaries	Ensuring positive financial and economic impacts
Status quo: All fees, levies and charges remain the same as set in 2019					
Option 1 (preferred option): Raise the domestic and international passenger security levies by the same/similar proportion					
Option 2: Raise the international passenger security levy only					
Option 3: Create a new single combined levy					

Preferred option for AvSec

Our preferred option is Option 1 – increasing both the domestic and international passenger security levy by the same/similar proportion.

Options 1, 2 and 3 recover the same amount of revenue and will return the Authority to financial self-sustainability and provides funding for the Authority to meet its statutory functions and rebuild its reserves. They also all enable the Authority to reduce queuing and meet an average target of 95 percent of passenger being screened within 10 minutes.

However, option 1 is the only option (other than the status quo) that spreads costs across beneficiaries fairly without disproportionately impacting either domestic or international passengers. Option 2 will disproportionately increase costs for international passengers, and does not spread any of the increased costs across domestic passengers. Similarly, Option 3 disproportionately increases costs for domestic passengers, and does not spread any of the increased costs across international passengers. Neither Option 2 or 3 balance cost recovery from the largest number of beneficiaries or risk exacerbators.

Wider economic impacts for all proposed options

The impacts of price changes in the aviation system have no single definitive measure. This section treats the economic impact of all options as the same, so that the analysis applies to all of them compared to the status quo.

Household impacts are low

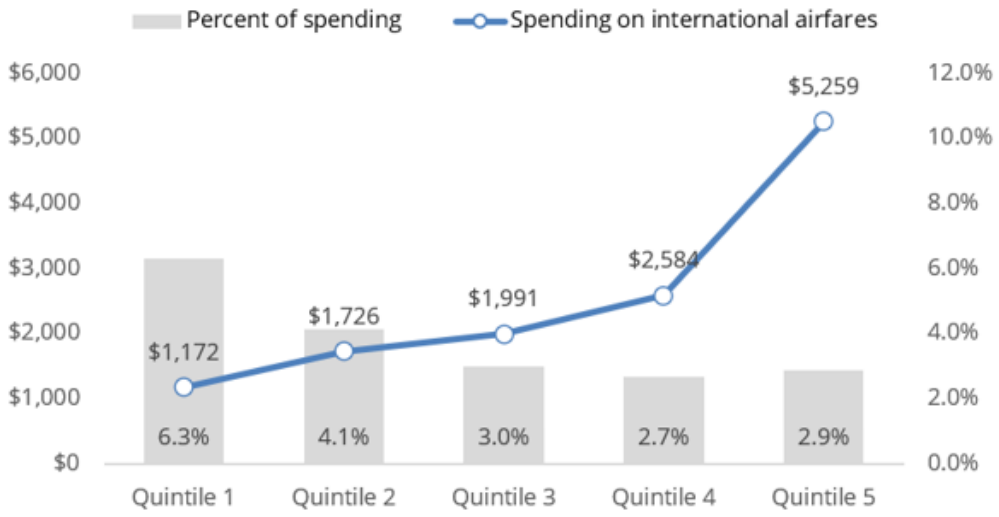
Relative to the composition of household weekly spending, increased costs through higher fees, levies and charges for aviation regulation will continue to form a very small component of weekly household expenditures.

The options would add between roughly 0.2 percent to 2% to the total cost of a trip.

Socio-economic impacts are weighted on higher earners

Overall, financial and economic data strongly implies that New Zealanders who earn more tend to take more flights. This means a disproportionate share of the increased cost associated with higher CAA and AvSec levies will fall on higher income travellers.

The pattern for international flights is even more accentuated, given the higher costs of international travel. The figure below shows the proportion of annual expenditure on international airfares by the highest household income quintile is more than four times that of the lowest income households.



Demand for international travel may be sensitive with increased fees, levies and charges

Increased levies are more likely to be passed through to consumers. The assessment here is limited to passenger levies, and given that these constitute the majority of the Authority's funding under all options, it is reasonable to assume the highest impacts lie from the pricing review.

The Ministry of Transport has provided an analysis of the demand elasticities for various segments of international visitors to New Zealand based on a series of assumptions. Essentially, it gives an indication of the sensitivity of traveller volumes to the increased passenger levies.

The analysis finds that under these levy increases, there would be reductions of:

- 0.33% in international travellers
- 1.08% in domestic travellers.

The Ministry's analysis does not consider the counterfactual impacts on the sector if the Authority does not implement the increased pricing proposals, which are set out on **page 20 – Consequences if funding rates are not increased.**

The analysis is provided in **Appendix 3: Elasticity analysis provided by Ministry of Transport.**

The proposed passenger levies are similar to other levies on travellers

The proposed increased levies remain in line with other government functions that place a cost on travellers.

International travellers use several different government services when travelling within the New Zealand aviation system and therefore pay several charges in addition to the safety and security levies charged by the Authority. These are considered indicative only, as not all listed charges will apply to all travellers on each occasion.

	Government charge	Amount ($)
Current	Proposal 1 CAA Passenger Safety Levies – currently $1.60	3.94
	Proposal 2 AvSec Passenger Security Levies – currently $6.57 domestic/$13.12 international	10.93/22.54
	New Zealand Electronic Travel Authority	23.00
	International Visitor Levy	35.00
	Customs border processing levy (arriving)[4]	16.59
	Customs border processing levy (departure)	4.52
	Biosecurity border processing levy (arriving)	16.92

[4] These are the Border Processing Levies as published in July 2024 on https://www.customs.govt.nz/personal/travel-to-and-from-nz/border-processing-levies/ . These levies are currently subject to consultation and may change.

The proposed charges are proportionate when compared to international peers

International comparisons are difficult because each agency has different functions and responsibilities and operate within different regulatory frameworks.

For example, the United Kingdom CAA (CAA UK) is responsible for consumer protection which is not within the New Zealand Authority's mandate; CAA UK and the Australian Civil Aviation Safety Authority (CASA) do not have an aviation security delivery function, but both have varying degrees of responsibility for the regulatory oversight of the commercial space sector. The Federal Aviation Administration in the United States has approximately 44,000 staff, most of whom are air traffic controllers because the Federal Aviation Administration is responsible for the provision of air traffic management.

There are also important sector characteristics limiting the value of these comparisons across national aviation authorities – such as the amount of activity undertaken and the types and size of operators.

Furthermore, cost recovery methods vary significantly. Some national aviation regulators operate on a user-pays cost recovery model like New Zealand. Many others are partially or almost entirely funded through taxation mechanisms rather than fees, levies and charges. For example, in 2022-23, approximately 39 percent of CASA's income was from government appropriations and 52 percent was from aviation fuel excise.[5]

Despite the limitations, the table below shows that our costs are not disproportionate to those of other states. New Zealand has more pilots and aircraft per capita than the United Kingdom or Australia. Our regulatory cost per aircraft is the lowest of the three, but our regulatory cost per person is marginally higher than Australia. The number of CAA employees per aircraft is aligned with the other states.

[5] Civil Aviation Safety Authority Annual Report 2022-2023 page 20 https://www.casa.gov.au/sites/default/files/2023-10/casa-annual-report-2022-2023.pdf.

	New Zealand (CAA NZ) 22/23	Australia (CASA) 22/23	UK (CAA UK) 22/23
Regulated aircraft and pilots			
Licensed pilots	30,061	32,849	52,395
Licensed pilots per 100,000 population	586.76	127.9	77.8
Number of aircraft on register	5,419	16,279	19,072
Aircraft per 100,000 population	105.72	63.4	28.3
Aircraft per CAA staff member	15.01	18.5	13.75
Regulatory cost per aircraft NZD	9,798.86	14,405.1	17,596
Regulatory cost per citizen per annum NZD	$10.37	$9.12	$4.98
General statistics			
Population	5.123	25.69	67.33
Total expenditure NZD	$53.1	$234.5	$335.6
Total staff (non-AvSec)	361	881	1,387

It is also challenging to compare aviation security charges. Aviation security services are delivered in a variety of ways, from the use of centralised state agencies to private for-profit security providers. Many security charges cover more than the provision of aviation security – some are part of a bundle covering airport infrastructure costs or other passenger service costs.

For example, the United States of America Transportation Security Administration charges airlines a passenger fee (or 'September 11 Security Fee') of New Zealand Dollar (NZD) $9.33 per passenger per one way trip. This only offsets about 30 percent of its total aviation security expenses and it receives a large amount of federal funding.[6] The United Kingdom charges airlines per passenger based on the distance of travel and seat class, and the standard domestic rate is NZD$30, with standard international rates varying from NZD$60 to over NZD$400.[7] Canada is similar to the United Kingdom by charging based on distance, with fees ranging from NZD$11.49 to NZD$41.81.[8] Singapore charges a 'passenger service and security fee' of NZD$58.73[9] and Hong Kong charges NZD$25.66 for passengers departing Hong Kong International Airport.[10]

Noting the significant caveats above, the proposed passenger safety levy of $3.94 and passenger security levies of $10.93 for domestic and $22.54 for international are not materially different to those charged in other states.

[6] https://tinyurl.com/5ddusczw
[7] https://tinyurl.com/4445btbt
[8] https://tinyurl.com/mvh9k775
[9] https://tinyurl.com/y8e9s8hh
[10] https://tinyurl.com/5etuvp7c

Questions on the cost recovery options

1. **Which option to recover costs for both CAA and AvSec do you prefer, and why?**

2. **Do the preferred options (option 1 for both CAA and AvSec) raise concerns for you and if so, why?**

3. **Do you have any other feedback on these proposals or information that you think the Authority should be aware of?**

Please provide your answers as part of your submission form by **5pm, 8 October 2024.**

You can submit your form:

- online at https://www.aviation.govt.nz/about-us/what-we-do/how-we-are-funded/funding-review-2024
- by email to pricingconsultation@caa.govt.nz.

Part 5: Appendices

Appendix 1: Key definitions and abbreviations used in this document

Authority	The Civil Aviation Authority of New Zealand as a whole.
AvSec	The Aviation Security Service, a business group within the Authority.
CAA	The remainder of the Authority excluding the AvSec business group. This includes both the safety and security regulatory oversight functions as well as corporate support functions for the whole Authority.
Core enabling functions	The teams that support the whole Authority. They ensure the smooth and effective operation of regulatory functions, ensure we have the right people, technology, and workplace arrangements, as well as meeting employment and statutory obligations. They include teams delivering statutory and regulatory functions (such as education and enforcement), and our intelligence functions.
Crown funding	Base funding provided by the government for public goods.
Crown liquidity funding	Funding provided by the government since 2020 to support the Authority due to the impact of border restrictions and lockdowns on its income.
ETU	Emerging Technologies Unit, a team within the Authority.
Frontline inspectorate	The teams that provide safety and security regulatory oversight of the aviation system, including entry to the system through licensing and certification, monitoring of the system, and investigation, response and enforcement.
FTE	Full time equivalent
Pricing Review term	This is intended to be for two years from 1 July 2025 to 30 June 2027. However, this may vary depending on decisions by the Government.
General aviation	Parts of the aviation sector that are not airlines such as tourism or agricultural operators.
ICAO	The International Civil Aviation Organization, a specialised United Nations agency responsible for setting global aviation standards.
MIQ	Managed isolation and quarantine.
NPS	Non-passenger screening.
Other fees, charges, and levies	Revenue other than the passenger safety and security levies. This includes fees for specific activities like the grant of a licence or the registration of an aircraft, as well as the hourly charge for certification activities. It also includes other activity-based levies charged to the commercial aviation sector.

Passenger safety levies	The domestic passenger levy and the international passenger levy charged to airlines on a per passenger basis that funds CAA functions, as set out in the Civil Aviation (Safety and Security) Levies Order 2002.
Passenger security levies	The domestic passenger security levy and the international passenger security levy charged to airlines on a per passenger basis that funds AvSec functions as set out in the Civil Aviation (Safety and Security) Levies Order 2002.
System and Practice Design	A business group within the Authority whose teams ensure the overall regulatory system is fit for purpose, that regulatory tools, training and practice are up to date, and that the sector and inspectorate have the necessary guidance.
Status quo	In the context of sector funding: sector revenue at existing fee, levy and charge out rates i.e. Authority income excluding Government liquidity support scheduled to end 30 June 2025. In the context of FTEs: the established level of FTEs as at 30 June 2025 (i.e. those that are funded by sector revenues and Crown funding in the 2024/25 year).

Appendix 2: Assumptions about key inputs or provisional numbers used in modelling

CAA and AvSec share several assumptions around key inputs, or provisional numbers, used in the modelling. The main assumptions are:

- Shared services / back office assumptions are based on a historical 12 percent of expenses rate for AvSec and $58k per new 'frontline' FTE for CAA.
- Reserves rebuilt to 75 percent of seven and a half weeks expenditure for CAA and 100 percent of seven and a half weeks expenditure for AvSec over two years – but currently no interest costs associated with any potential offsetting loan assumed.
- Domestic passenger volumes at 95 percent pre-COVID-19 pandemic (currently circa 91 to 93 percent).

	Pre-COVID	FY25	FY26	FY27
Pre-COVID %		**90%**	**93%**	**95%**
Pax (ANZA)	2,364,526	2,128,073	2,199,009	2,246,300
Pax (non-ANZA)	11,542,396	10,388,156	10,734,428	10,965,276

- International passenger volumes use the assumptions from the Border Executive Board June 2024 'moderate' forecasting published online at https://www.customs.govt.nz/about-us/border-executive-board/released-Information/border-forecasting/.
- Depreciation included – this should enable the re-establishment of capital asset replacement reserves from FY25 onwards.

Forecast volumes and sector's capacity to absorb cost increases

- The Authority's revenue from the sector is based on levels of sector activity, such as passenger numbers, flight hours, agricultural product dispersed, and the number of certification or licensing applications received. Recovery after a once-in-a-century pandemic including flow on supply chain disruption, inflationary effects and central bank responses to inflation (economic tightening) have posed a unique set of challenges with forecasts.
- We worked with the Ministry of Transport to develop forecast volumes to model the required Crown funding, fees, levies, and charges in outyears. This work will also help us to assess the sector's capacity to absorb cost increases. Due to the uncertainties, volumes pose a material risk to the review producing under or over recoveries compared to previous reviews.

CAA Specific Assumptions

- Crown and Ministry revenues fixed at FY25 for base year.
- Inflation:
    - to FY25 based on actual (Reserve Bank of New Zealand) since last funding review to present, Budget Economic and Fiscal Update (BEFU) 2024 to FY25, and BEFU 2024 for the term of the funding review (FY26-FY27), which amounts to a cumulative total of 43 percent based on the CAA's split of CPI and wage inflation cost structures.
- Aerospace strategy funding approved in Budget 2023 is time-limited and finishes in 2025/26 ($0.436 million).

- No capital charge.
- No additional funding for capex (routine business as usual asset replacement funded through resumption of depreciation recovery as noted above).
- 44 new frontline regulatory roles (specialised skill sets)) and system and practice design roles, at an average payroll cost of $168k.

AvSec Specific Assumptions

- Inflation:
    - to FY25 based on actual (RBNZ) since last funding review to present, BEFU 2024 to FY25, and BEFU 2024 for the term of the funding review (FY26-FY27), which amounts to a cumulative total of 27 percent based on the AvSec's split of CPI and wage inflation cost structures
- No Capital charge will be levied on $88 million, AvSec's component of the $113.2 million capital appropriation approved in Budget 21. The impact of charging capital charge at 6% would be an additional $5.28 million per annum in costs.
- Cost pressures ramped up over two years in line with forecast growth in frontline FTE.

Appendix 3: Elasticity analysis provided by Ministry of Transport

Potential passenger demand responses to an increase in Passenger Safety and Security Levies

Background

The CAA is considering increasing passenger safety and security levies. Their proposal includes raising:

- the International Passenger Security Levy, charged to airlines on a per departing international passenger basis, by $9.36,
- the Domestic Passenger Security Levy, charged to airlines on a per departing passenger basis, by $4.33 (for all passengers travelling on aircraft with 90+ seats, i.e. jet aircraft),
- the Passenger Safety Levy by $2.34 per passenger (for virtually all passengers).

An economic analysis conducted by the CAA assumes that the impact on passenger volumes would be negligible because the levies make up a small proportion of the total cost of travel.

The purpose of our analysis is to assess how passenger demand might respond to changes in the levies. Passenger demand responses are modelled by applying previously published tourism demand elasticity estimates to recent data on air travel.

Method

For any market segment of travellers, the expected change in passenger numbers, ΔQ, is determined using the following formula based on the responsiveness of demand to travel costs:

$$\Delta Q = e\frac{\Delta P}{P}Q$$

where *e* denotes the price elasticity of demand associated with that segment, $\frac{\Delta P}{P}$ is the percentage change in price resulting from the increase in levies and *Q* represents the initial number of passengers in the segment (prior to the price increase).

Data

Price elasticities of demand for various segments of international visitors to New Zealand were estimated by Schiff & Becken (2011).[11] Their visitor segments are defined by combinations of country of origin, travel type and purpose of visit as dictated by data availability.

In total, Schiff and Becken estimate a price elasticity for 11 visitor segments associated with arrivals from 7 countries. Depending on the segment, the price elasticity of demand may be defined with respect to airfare price, on-the-ground (OTG) expenditure in NZ or total price (consisting of airfare and OTG expenditure). The top panel of table 4 in the Appendix reproduces the elasticities from Schiff & Becken (2011).

Data on international visitor numbers and mean OTG spending by country of residence, travel type and purpose of visit are from the International Visitor Survey (IVS).[12] In addition, for Australia and the Pacific,

[11] Schiff, Aaron and Susanne Becken. 2011. "Demand elasticity estimates for New Zealand tourism." *Tourism Management*, 32: 564-575.

[12] https://nzdotstat.stats.govt.nz/wbos/Index.aspx?DataSetCode=TABLECODE7571#

we also consider NZ resident traveller arrivals. For the domestic component of the analysis, we apply domestic passenger volumes forecasted by CAA and AvSec.

Passenger volumes for all visitor segments have been scaled up from the IVS survey to reflect the most recent forecast for total number of passengers in the June 2024 Draft moderate Border Executive Board. The scaled numbers are shown in the final row of table 1.

Average one-way airfares to NZ by country of origin and average NZ domestic airfares are sourced from Sabre.

In general, information on passenger numbers pertains to the pre-COVID period, whereas airfare prices are based on more recent data. All prices have been converted to 2023 NZD using relevant foreign exchange rates and the NZ CPI.

Results

Table 1. Estimated change in number of visitors to NZ by country of residence

Country of origin	Visitors	Percentage responding	Estimated change	Percentage change
Australia	**1,403,191**	**97%**	**-9,618**	**-0.69%**
UK	**229,144**	**45%**	**-67**	**-0.03%**
USA	**343,242**	**92%**	**-175**	**-0.05%**
Japan	**90,998**	**37%**	**-98**	**-0.11%**
South Korea	**84,031**	**100%**	**-309**	**-0.37%**
China	**405,836**	**70%**	**-702**	**-0.17%**
Germany	**100,269**	**100%**	**-272**	**-0.27%**
Rest of World	**903,865**	**0%**	**n/a**	**n/a**
Total	**3,560,577**	**86%**	**-11,241**	**-0.32%**

Percentage responding reflects the proportion of visitors with an available elasticity estimate – other travellers are assumed to not change behaviour in response to price changes.

Table 2. Estimated change in trips made by NZ travellers to Australia and the Pacific

Destination	NZ travellers	Percentage responding	Estimated change	Percentage change
Australia	1,288,769	79%	-8,472	-0.66%
Pacific	484,513	82%	-2,297	-0.47%
Rest of World	1,379,628	0%	n/a	n/a
Total	3,152,911	45%	-10,770	-0.34%

Table 3. Estimated changes in domestic trips

Scenario	Travellers	Percentage affected	Estimated change	Percentage change
Domestic passengers on a jet service – low scenario	7,053,843	100%	-107,941	-1.53%
Domestic passengers not on a jet service – low scenario	5,833,238	100%	-31,316	-0.54%
Domestic passengers on a jet service – high scenario	7,053,843	100%	-162,255	-2.30%
Domestic passengers not on a jet high – high scenario	5,833,238	100%	-47,073	-0.81%

Key assumptions and caveats

Our analysis is based on several key assumptions starting with the validity of price elasticities estimated by Schiff and Becken.

Definition of traveller segments

Where possible, we apply their estimates for specific visitor segments to other travellers of the same country and a similar purpose of visit. (For example, Schiff and Becken estimate the elasticity of fully independent Australian travellers on holiday as -0.26. We apply this value to all Australian travellers who reported their purpose of visit was *holiday/vacation* or *other*). This enables us to model the behaviour of a larger percentage of travellers from Australia and the USA.

International and Domestic passenger volumes

International passenger volumes are based on the average of the estimated figures for FY25-27 as per the June 2024 Border Executive Board passenger forecasts. Domestic passenger volumes are based on the average of the estimated figures for FY25-27 as per CAA's internal forecasts.

Travellers excluded from the analysis

For visitors with no suitable elasticity estimate, we assume that demand is completely inelastic. That is, such travellers are assumed to not respond to price changes. This assumption applies to specific visitor segments from some of the origin countries included in table 1, and it also applies to all visitors from the rest of the world.

The analysis effectively excludes these travellers. The 'Rest of World' row and 'Percentage responding' column are included in table 1 and table 2 to convey the size of the population not captured by the analysis. As the analysis does not model the responses of a significant proportion of travellers, we consider our results conservative.

Airfares

Data on average airfares is not broken down by travel type and purpose of visit. We therefore assume a uniform price across all visitor segments associated with a country. More price sensitive types of travellers are likely to purchase airfare at below average cost, making the impact of the levy increase proportionally higher. Consequently, for these travellers, the demand response could also be expected to be higher than we estimate.

Our analysis also assumes the costs associated with the levies are fully passed on by the airlines, and it ignores any potential impacts resulting from changes in the foreign exchange rate.

Price responsiveness of NZ overseas travellers

Data on the price responsiveness of New Zealanders travelling internationally was not available. Based on presumed similarities in trip distances and travel behaviour, we applied airfare prices and price elasticities associated with Australians visiting New Zealand to NZ travellers visiting Australia with a similar purpose of visit. Further, we applied these same prices and elasticities to NZ travellers visiting the Pacific. As shown in table 2, these two destinations represent 45% of all international trips made by New Zealanders. Table 4 also reproduces the elasticities used for this part of the analysis.

Domestic levies

The domestic analysis in table 3 considers an increase of $6.67in the price of jet travel (corresponding to the combined change in the Passenger Safety Levy and the Domestic Passenger Security Levy). It also considers an increase in the price for passengers who do not travel on a jet service/aircraft with 90+ seats, and therefore, are impacted by the increase in the passenger safety levy only. The split of domestic passengers on a jet service vs not on a jet service is based on CAA & AvSec's passenger volume forecasts. Due to a lack of data on domestic demand elasticities we consider two scenarios.

NZ domestic scenarios

The low scenario for both sets of domestic passengers assumes that 2/3 of total passengers have low price responsiveness, while 1/3 have high price responsiveness (based on the range of elasticities estimated for Australian travellers visiting NZ).

We expect the price elasticity of domestic travel to be higher than that of international travel and consequently consider the low scenario conservative.

The high scenario assumes that 2/3 of total passengers have high price responsiveness, while 1/3 have low price responsiveness.

Conclusion

In its analysis, the CAA assumed that the impact of the increase in levies on passenger volumes would be negligible because the levies make up a small proportion of the total cost of travel.

Our analysis indicates that the proposed increase in passenger safety and security levies could lead to a decrease in travel. Specifically, it suggests a drop of approximately 0.33% in international travel and a drop of at least 1.08% in domestic travel based on the low scenario. These estimates are based on conservative assumptions, and we consider them lower bounds on the potential impact.

Appendix

Table 4. Elasticity values used in the analysis

Segment	Elasticity	Type	Source	Segment size
International visitors				
Australia Tour	-0.31	airfare	Schiff & Becken*	159,099
Australia Holiday & Other	-0.26	airfare	Schiff & Becken*	674,543
Australia VFR	-1.05	airfare	Schiff & Becken*	521,079
UK Holiday	-0.52	total	Schiff & Becken*	103,727
USA Tour	-0.78	total	Schiff & Becken*	89,047
USA Holiday	-0.29	total	Schiff & Becken*	226,710
Japan Tour	-1.55	total	Schiff & Becken*	33,722
South Korea All	-1.75	total	Schiff & Becken*	84,031
China FIT	-1.65	total	Schiff & Becken*	222,485
China Tour	-1.09	OTG	Schiff & Becken*	62,155
Germany All	-0.87	airfare	Schiff & Becken*	100,269
NZ overseas travellers				
Australia Holiday and Other	-0.26	airfare	assumption	500,620
Australia VFR	-1.05	airfare	assumption	523,537
Pacific Holiday and Other	-0.26	airfare	assumption	293,754
Pacific VFR	-1.05	airfare	assumption	102,833
NZ domestic travellers				
Low elasticity (Low scenario)	-0.26	airfare	assumption	2,351,281
High elasticity (Low scenario)	-1.05	airfare	assumption	2,351,281
Low elasticity (High scenario)	-0.26	airfare	assumption	4,702,562
High elasticity (High scenario)	-1.05	airfare	assumption	4,702,562

*Segments marked with an asterisk have been increased proportionally to reflect the average total passengers for FY25, FY26 & FY27.

Appendix 4: Authority financial forecasts

Financial forecasts for CAA – FY2023, and FY2024-FY2027

This table summarises CAA's budgeted expenditures and revenue for FY2023, and forecast expenditure and revenue for FY2024 to FY2027. This data uses current cost recovery rates.

Projected Statement of Surplus/(Deficit)	2024/2025	2025/2026	2026/2027
Revenue			
Levies Revenue	32,151	33,301	33,798
Revenue from Other Services	5,211	4,966	4,966
Crown Funded Income	34,344	3,259	2,823
Ministry Contract Revenue	2,128	2,128	2,128
Interest and Other Revenue	240	485	485
Total Revenue	**74,074**	**44,139**	**44,200**
Expenses			
Personnel Cost	68,576	73,971	78,818
Other Operating Costs	5,498	7,156	8,345
Depreciation & Amortisation	3,680	4,465	4,360
Total Expenses	**77,754**	**85,591**	**91,523**
Net surplus/(deficit)	**(3,680)**	**(41,452)**	**(47,323)**
Reserves rebuild	-	7,407	2,493
Total Funding Required to cover deficit and rebuild reserves		**48,859**	**49,817**

Financial forecasts for AvSec – FY2023, and FY2024-FY2027

This table summarises AvSec's budgeted expenditures and revenue for FY2023, and forecast expenditure and revenue for FY2024 to FY2027. This data uses current cost recovery rates.

Projected Statement of Surplus/(Deficit)	2024/2025	2025/2026	2026/2027
Revenue			
Passenger Levies	135,550	140,547	141,983
Other Fees & Charges	1,948	1,395	1,395
Other revenue	840	1,098	1,098
Crown Funding	55,120	-	-
Total Revenue	**193,458**	**143,040**	**144,476**
Expenses			
Frontline Operations	176,229	196,977	206,609
Shared Services Charge	23,126	23,634	24,107
Capital Charge	-	-	-
Total Expenses	**199,355**	**220,611**	**230,716**
Net surplus/(deficit)	**(5,897)**	**(77,572)**	**(86,239)**
Reserves rebuild	-	19,167	12,778
Total Funding Required to cover deficit and rebuild reserves		**96,738**	**99,017**

Appendix 5: Other fees, levies and charges under preferred option

The information below sets out the impacts of the preferred CAA option on other fees, levies and charges.

Product	Type	Current Price	Proposed	Change	
Various	Hourly Charge	$ 246.96	$ 354.19	$ 107.23	43%
Op Safety Levy Freight only (0 to 10,000 tonne)	Other Levies	$ 3.00	$ 4.30	$ 1.30	43%
Participation Levy - Light Private	Other Levies	$ 100.00	$ 143.42	$ 43.42	43%
Participation Levy - Medium Heavy	Other Levies	$ 2,900.00	$ 4,159.22	$ 1,259.22	43%
Participation Levy - Medium	Other Levies	$ 1,200.00	$ 1,721.06	$ 521.06	43%
Participation Levy - Medium Light	Other Levies	$ 480.00	$ 688.42	$ 208.42	43%
Participation Levy - Very Light Private	Other Levies	$ 70.00	$ 100.39	$ 30.39	43%
Op Safety Levy Part135 Heli & Small Aircraft	Other Levies	$ 6.50	$ 9.32	$ 2.82	43%
Op Safety Levy Part137 Ag (50,001 + tonne)	Other Levies	$ 0.65	$ 0.93	$ 0.28	43%
Op Safety Levy Part137 Ag (0 to 10,000 tonne)	Other Levies	$ 0.87	$ 1.25	$ 0.38	43%
Op Safety Levy Part137 Ag (10,001 to 50,000 tonne)	Other Levies	$ 0.73	$ 1.05	$ 0.32	43%
Op Safety Levy Freight only (50,001 + tonne)	Other Levies	$ 2.00	$ 2.87	$ 0.87	43%
Op Safety Levy Part115 Light Aircraft	Other Levies	$ 5.50	$ 7.89	$ 2.39	43%
Op Safety Levy Part115 Med/Heavy Aircraft	Other Levies	$ 8.50	$ 12.19	$ 3.69	43%
Op Safety Levy Part115 Very Light Aircraft	Other Levies	$ 3.50	$ 5.02	$ 1.52	43%
Op Safety Levy Part115 Launch/Descent	Other Levies	$ 1.60	$ 2.29	$ 0.69	43%
Op Safety Levy Part121-125 Lge/Med Aircraft	Other Levies	$ 5.50	$ 7.89	$ 2.39	43%
Aircraft Registration - Change of Ownership	Fixed Fees	$ 228.70	$ 328.00	$ 99.30	43%
Aircraft Registration - Initial	Fixed Fees	$ 257.39	$ 369.15	$ 111.76	43%
Record of IDERA	Fixed Fees	$ 242.61	$ 347.95	$ 105.34	43%
Aircraft Registration - Change of Registration	Fixed Fees	$ 342.61	$ 491.38	$ 148.77	43%
Aircraft Registration - Allocation of Mark	Fixed Fees	$ 171.30	$ 245.68	$ 74.38	43%
Annual fee for Maintainence of Reg	Fixed Fees	$ 86.08	$ 123.46	$ 37.38	43%
Instructor Rating Category C	Fixed Fees	$ 113.91	$ 163.37	$ 49.46	43%
Instructor Rating Category D	Fixed Fees	$ 113.91	$ 163.37	$ 49.46	43%
Instructor Rating Category E	Fixed Fees	$ 113.91	$ 163.37	$ 49.46	43%
Medical Certificate Application Fee	Fixed Fees	$ 105.00	$ 150.59	$ 45.59	43%
Instructor Rating Category B	Fixed Fees	$ 113.91	$ 163.37	$ 49.46	43%
Instructor Rating Category A	Fixed Fees	$ 113.91	$ 163.37	$ 49.46	43%
Inspection Authorisation Certificate - Part 66	Fixed Fees	$ 231.30	$ 331.73	$ 100.43	43%
Instrument Rating	Fixed Fees	$ 113.91	$ 163.37	$ 49.46	43%
Flight Examiner Rating Issue	Fixed Fees	$ 171.30	$ 245.68	$ 74.38	43%
Flight Testing Biennial - Flight	Fixed Fees	$ 1,199.13	$ 1,719.81	$ 520.68	43%
Validation Of Foreign Pilot Licence	Fixed Fees	$ 171.30	$ 245.68	$ 74.38	43%
Issue Of A Commercial Pilot Lifetime Licence	Fixed Fees	$ 200.00	$ 286.84	$ 86.84	43%
Flight Service Operator Licence	Fixed Fees	$ 171.30	$ 245.68	$ 74.38	43%
Air Trafffic Service Instructor Rating	Fixed Fees	$ 113.91	$ 163.37	$ 49.46	43%
Certificate of maintenance approval	Fixed Fees	$ 231.30	$ 331.73	$ 100.43	43%
Miscellaneous Replacement Of Licence	Fixed Fees	$ 86.09	$ 123.47	$ 37.38	43%
Issue Of A Private Pilot Lifetime Licence	Fixed Fees	$ 200.00	$ 286.84	$ 86.84	43%
Air Traffic Service Examiner Rating	Fixed Fees	$ 113.91	$ 163.37	$ 49.46	43%
Air Traffic Controller Licence	Fixed Fees	$ 171.30	$ 245.68	$ 74.38	43%
Issue Of An Airline Transport Pilot Lifetime	Fixed Fees	$ 200.00	$ 286.84	$ 86.84	43%
Airline Transport Pilot Licence Flight Test For	Fixed Fees	$ 2,399.13	$ 3,440.86	$ 1,041.73	43%
Amendment To A Personnel Licencing Document	Fixed Fees	$ 113.91	$ 163.37	$ 49.46	43%
Aircraft Maintenance Engineer Licence Issue	Fixed Fees	$ 260.00	$ 372.90	$ 112.90	43%
Aircraft Maintenance Engineer Licence Category	Fixed Fees	$ 173.91	$ 249.42	$ 75.51	43%

CIVIL AVIATION AUTHORITY
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Te Mana Rererangi Tūmatanui o Aotearoa

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