FIRST PRINCIPLES FUNDING REVIEW: TERMS OF REFERENCE

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Terms of Reference approved by

Sponsors:

- John Kay, DCE, System and Practice Design
- Mark Davis, DCE, Corporate Services

Background

Pricing review currently in implementation phase

The Civil Aviation Authority of New Zealand (CAA) has just completed a pricing review that restores it to financial self-sufficiency after a period of Crown support since the onset of the COVID-19 pandemic. The pricing review updates pricing set in 2017 (aviation safety) and 2019 (aviation security) and will operate between 1 July 2025 and 30 November 2027 (subject to any delays). It does not change the approach to recovering costs for any functions in CAA.

The Ministry of Transport (Ministry) is currently leading work with the Parliamentary Counsel Office to amend the regulations to reflect the new rates for fees, levies and charges.

First principles review

CAA is commencing a first principles funding review targeted for implementation on 1 December 2027 (subject to any delays). The main distinction with a pricing review is that it will consider significantly wider factors (detailed in this terms of reference), including alternative options for recovering costs and their merits (i.e. not just repricing existing methods). Undertaking a first principles review is overdue, has Ministerial support, and received strong support from submitters during the public consultation on the pricing review.

Legislative authority

Legislation provides scope for different ways to recover costs

The Civil Aviation Act 2023 (Act) provides a variety of ways CAA can recover the costs of delivering its functions.

- Section 415 enables regulations to be made prescribing fees and charges for a range of purposes related to activities under the Act, as well as generally for the purposes of civil aviation.
- Section 418 enables regulations to be made imposing levies on aviation participants to enable the functions in the Act to be carried out.

The Act provides wide discretion for the basis upon which fees, levies and charges can be imposed (fuel, distance, capacity etc). In relation to levies, the Minister can only make a recommendation to make regulations where it has been requested by the CAA and the Minister is satisfied that appropriate consultation has occurred.

Purpose

To ensure the Authority is funded in order to discharge its statutory functions effectively and efficiently under the Civil Aviation Act 2023.

Objectives

The primary objectives of the first principles funding review are to:

1. **Fund CAA to continue to maintain a safe and secure aviation industry**
   - Ensure the CAA is resourced to uphold its responsibility for safety and security and maintain the confidence of the public and international partners.
2. **Develop a principled and transparent funding model**
   - Establish a sustainable funding model that applies and balances the principles for cost recovery used by the Ministry of Transport, the Treasury, and the Office of the Auditor General.
   - Enhance transparency in the costing of functions and performance.
   - Provide any options that enhance CAA's resilience to economic shocks.
3. **Implement savings and efficiency initiatives**
   - Ensure the funding model
     i. Encourages efficiency among both the regulator and industry participants
     ii. Can pass on savings during the term it operates
4. **Supports economic growth**
   - Ensure the funding model takes account of the Government's objectives to support aviation industry and economic growth.

Scope of the funding review

Current state assessment

Present an assessment or description of the:

- current and forecast financial position to 30 November 2027 (or up to any revised implementation date if delayed)
- costs to deliver functions and their economic characteristics (e.g. club good, private good)
- key factors that influence the level of fees, charges, and levies and the level of cross-subsidisation
- CAA's historic cost trends and international benchmarks (to the extent comparable)
- economic value of CAA's functions to triangulate against costs

Incorporate any relevant findings from other financial sustainability and management workstreams

Future state requirements

Specific problems for policy analysis[1]:

1. The basis for the agricultural operations safety levy (Part 137)
2. How unmanned aircraft and other emerging/advanced aviation technologies should contribute to the Authority's costs
3. Options and trade-offs for simplification of the funding model

[1] Production of a concise paper for each for public consultation comprising Background/Problem/Options/Recommendation

4. Alternatives for funding aviation security delivery[2]
5. Consideration of proposals made by submitters during the public consultation on the pricing review
6. Determine the costs of administering the HSWA designation and options for funding it

Forecasts 1 December 27 to 30 November 2030 (or any 3 years based upon revised dates for implementation that occur during the review)

- financial forecasts over the term of the funding review
- analysis and justification for key inputs including workforce and capital requirements

Incorporate any relevant findings from other financial sustainability and management workstreams

Cost recovery options

- Costing each option for fees, levies and charges (both new and existing)
- Present an overall view of the cost recovery framework that best meets the "objectives"
- Make clear where options work as a package (i.e. don't work in isolation)

Public Consultation

- Prepare a public consultation document and CRIS1 and a post-consultation CRIS2

Cabinet Decisions

- Support the Ministry to seek approvals for consultation and implementation of a new cost recovery framework.

Out of scope for the review

- Changes to legislation or purpose of CAA.
- Change processes in CAA: the purpose of the review is to cost functions and create options for cost recovery. Cost recovery options may drive or inform some related changes to systems, processes or incentives (e.g. processing times, flight schedules), but the funding review is not itself an organisational change process and cannot be a vehicle for one.

Budget and resourcing

Establishment of a funding review team

A first principles funding review requires an intensive amount of work and some dedicated SMEs. There is also a level of variability – for example delays on key external decisions are common and contingency is required to 'catch up' timelines. For the first principles review, this means a funding review team is required to undertake the task, comprising 4.5 FTEs:

- Programme/project lead (1 FTE)
- Principal and senior policy adviser (2 FTEs equivalent – can be matrixed as parts of several FTEs)
- Financial analyst (1 FTE)
- Contractor (capacity for peak management/catch up) (0.5 FTE)

In addition, there is a lot of enabling activity to support the funding review required from both many staff within CAA (SMEs) and external dependencies (Ministry, FPP implementation, Minister, advanced aviation reform work, ICAO audit). This will be managed from within BAU capacity but the draw on the business should be noted.

External advice

From experience, it would be prudent to budget for 2 reasonably significant pieces of external advice during the funding review. These are to be determined but in the pricing review as an example, there was an economic analysis of the value of CAA's functions and the cost of delays on the sector, and a report on CAA's

[2] Assumption that function still undertaken by CAA until advised otherwise. This item responds to the former Minister's interest in revisiting the pros and cons of the current network charge against differentiated charging that better reflects costs to service (e.g. after-hours flights).

aviation security business rules (effectively, a process that validated whether AvSec activity could be undertaken any more efficiently within the security constraints it operates under).

Budget

The timelines for the work of this funding review are expected to take 2.5 years excluding any delays.

On a fully costed basis the indicative project budget would be $2m over 2.5 years. How much of this is incremental cost versus secondments and the backfill mix is to be confirmed. . For this reasons we are not seeking approvals at this stage – we will in due course if incremental costs look to be over $1m

Key deliverables and milestones	**Indicative Dates**	**Comments**
Terms of Reference approved by Minister of Transport	June 2025	
Funding review team stood up	July 2025	
Current state assessment (NB. Timing for actioning some items within the current and future state will overlap)	July – Oct 2025	Economic value and international comparisons components don't need to be completed in this window.
Future state assessment	Oct 2025 – May 2026	Including CRIS/RIA panel – but step that adds risk of delay
Approval to consult	Jun - Jul 2026	(Board, Ministry, Minister, Departments, Cabinet)
Public consultation process	Aug - Sept 2026	
Submissions analysis, revision of funding model	Oct – Feb 2027	Incl Board, Ministry review, engagement with Minister to gauge acceptability and support
Final CRIS process with revised model	Mar 2027	
Cabinet approves final model for implementation	Apr – May 2027	Notify sector (minimum)
Regulations/orders in council approval processes	May – Nov 2027	Incl required Gazetting time
Implementation in Authority systems	May – Nov 2027	
New funding system go live	1Dec 2027	

Note: timings are contingent on significant factors outside of the Authority's control, including the interval for Cabinet consideration and consideration by the RIA panel of the CRIS, which can significantly impact implementation.

Roles and Responsibilities

Role & responsibility	**Person and Title**
The Minister is responsible for the primary legislation that establishes user funding, and the secondary legislation that sets the actual fees, charges, or levies. The Minister needs to have visibility and comfort with the review ToR	The Associate Minister of Transport
Governance authority for the Crown Entity *Accountable for the review overall*	CAA Board
Board Steering Group delegated by Board for engagement with the development of the funding review and issues arising (substantive decisions still to go to full	Darin Cusack, Mark Darrow, Mike Schubert, Peter O'Regan

Board), and ensuring alignment with the LoE, SPE and statutory compliance	
CAA Sponsors *Responsible for governance and oversight of the review*	CAA John Kay, DCE, System and Practice Design Mark Davis, DCE, Corporate Services
Industry engagement	Stakeholder engagement with key sector representative bodies
Authority Funding Review Team *Delivers the review*	TBC