

Pricing Review 2024

Quick guide to the consultation document

This quick guide highlights some key content of the consultation document. Page references are included to assist you in navigating the document. This quick guide is not intended to replace the full consultation document, and you are encouraged to read the full consultation document before making a submission.

About this consultation

The 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.

We'd like your feedback on the proposals outlined in the consultation document.

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

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Why we are doing this pricing review

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.

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.

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What happens after the consultation

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.

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How to make a submission

You can make a submission by completing the online feedback form at www.aviation.govt.nz/pricingconsultation. 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.

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Preferred options to recover costs for the Authority (Executive summary)

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%

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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 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

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.

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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.

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%

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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.

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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?

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