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

Aviation Security Service
Kaiwhakamaru Rererangi

Cost Recovery Impact Statement

Civil Aviation Authority of New Zealand

Funding Review for 2025/26 – 2026/27

Contents

Agency Disclosure Statement

This Cost Recovery Impact Statement (CRIS) has been prepared by Civil Aviation Authority (the Authority). It is based on Treasury's Stage 2 Cost Recovery Impact Statement template which is designed specifically for proposals seeking agreement on changes to cost recovery levels.

Scope

The Authority is undertaking a two-stage review of its funding. Current fees, levies and charges were set in 2017 (CAA) and 2019 (AvSec) and no longer reflect the costs of its functions. Crown funding has supported the shortfall. The Minister of Transport has made clear that there will be no further Crown funding from 1 July 2025.

Stage One – Pricing Review

The Minister has directed the Authority to return to financial self-sufficiency by 1 July 2025 through a 'pricing review' (only) as a first stage funding review that does not change the basis of, and is reliant on, funding principles already established and consulted on in the previous funding reviews, linked here:

https://www.aviation.govt.nz/about-us/what-we-do/how-we-are-funded/previous-funding-reviews/

Therefore, this review does **not** propose changes to the current cost-recovery model. No new funding mechanisms are being developed. As a result, we have not undertaken a first principles development of proposals, although how funding options compare with one another align with funding principles is analysed.

The term of this funding review is limited to determining how much funding is needed over the 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, within existing fees, charges and levies. It proposes a limited range of options to amend the current rates for *existing* fees, charges and levies.

Stage Two – First Principles Funding Review

A second stage first principles funding review would commence **after** this pricing review is completed (or well advanced) with implementation planned by 1 July 2027. The second stage is **not** in scope for this pricing review or the subject of this CRIS.

Scaling

We are not consulting on scaled options. Scaling has already been undertaken following a review of proposals by the Ministry of Transport. Through that process, the number of proposed additional FTEs was reduced by 162.6 FTEs.

This CRIS will be updated following public consultation at a date to be agreed by the Minister of Transport.

Dependencies

The implementation of an option set out in this CRIS is dependent on Cabinet decisions and the outcome of public consultation.

Constraints, caveats, or uncertainties concerning the analysis

There are a number of uncertainties which may affect the accuracy of the analysis and modelling, and resulting prices for fees, levies and charges. The main uncertainty relates to the economic conditions (domestic and global) impacting growth in air travel and the rate of

inflation. Passenger volume forecasts are critical because most of the Authority's revenue comes from levies that are charged on a per-passenger basis.

Further work required before any decisions could be implemented

Public consultation on the proposals outlined in this CRIS followed by analysis of submissions to finalise recommendations are the next steps. Once final decisions have been made by Ministers, the process for regulatory amendment will need to be followed. This includes the drafting of amendments to the relevant regulations, in particular the Civil Aviation (Safety and Security) Levies Order 2002.

Climate Implications

The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements do not apply to this proposal, as the threshold for significance is not met.

Glossary and Abbreviations

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's System & Practice Design business group.
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
Funding 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.
Participant	A person or organisation taking part in civil aviation activities for which an aviation document is required. Aviation document holders include organisations that hold certificates to operate, such as airlines, aerodromes, an air navigation service provider, flying schools, and aircraft maintenance

	providers. They also include individual licence holders, such as pilots, aircraft engineers, and air traffic controllers.
Passenger safety levy	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 levy	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).

Executive summary

Since 2020, the Government has been funding shortfalls in revenue to mitigate challenges we faced during the COVID-19 pandemic. The Government is no longer providing financial support to the Authority beyond 30 June 2025, meaning we must return to financial self-sufficiency as soon as possible and no later than 1 July 2025.

The problem we face is that our current costs exceed our income. For this reason, we must identify ways to increase our income so we can continue to provide the regulatory activities that ensure our skies are safe and secure.

The Authority has undertaken a pricing review

Pre-pandemic, the Authority was primarily funded through fees, levies and charges on the aviation sector. The funding rates were set in 2017 (CAA) and 2019 (AvSec). Costs have increased considerably since then, as have a range of funding pressures, and we need to rebuild our financial reserves. In addition, neither international nor domestic passenger volumes have returned to the pre-pandemic levels that the current funding rates are based on.

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 funding rates utilise the existing funding model, and the underlying policy rationale for that model.

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

As the Government's primary civil aviation safety and security regulator, the Authority's 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, 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. Most New Zealanders have interactions with our frontline staff (and detection dogs) who undertake security screening and checks at airports. These core functions are essential in the identification and management of security and safety risks across a large and complex system.

By undertaking these functions, we 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.

Our work is vital as it not only protects life; it also enables travel, recreation and commerce, and it protects the environment. We support and facilitate opportunities for New Zealand's economic growth and enable better social and environmental outcomes for New Zealanders. 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.

There are severe consequences if we do not receive increased funding

Maintaining current funding levels will require a 788 FTE reduction in Authority resourcing. This would have consequences for the aviation sector, the travelling public and the New Zealand economy:

- the Authority will need to reduce in size to a level where it will not be able to undertake its core regulatory functions effectively
- the commercial aviation sector will need to reduce in size to match the reduced capacity and capabilities of the Authority
- passengers will need to arrive earlier at airports and wait longer for aviation security screening
- certification wait times will increase for those in the aviation system, and those wishing to enter the aviation system, particularly in the emerging aviation technologies space.

Preferred cost recovery options for the Authority

We have analysed options to return the Authority to financial self-sufficiency and rebuild the Authority's cash reserves. These options are set out in Part Two of the CRIS.

Our preferred options are:

- **CAA**: all participant fees, levies, and charges inflation adjusted, with funding for residual costs through increasing the Passenger Safety Levy.
- **AvSec**: raise the Domestic and International Security Levy by the same/similar proportion.

The table below outlines the impact of our preferred options on the passenger levies, which make up the majority of our funding. The table does not include the impacts on all of the other fees, levies and charges – this is set out in Annex One.

Preferred options	Current ($)	Proposed ($)	Change ($)	Change %
Passenger Safety Levy	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
- meet substantial cost pressures since last funding reviews
- forecast cost pressures until the end of the term of the funding review in 2027.

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

The proposed funding options continue the existing funding model, with passenger levies comprising most of the Authority's revenue and fees, charges, and the Crown providing a much more limited contribution.

We're not consulting on scaled options. This is because these options have already been scaled through a review of the proposals by the Ministry of Transport, which resulted in reducing 162.6 additional FTE in the proposals.

Implementation process

If the Minister of Transport agrees to take the proposals forward, Cabinet will consider them in August and public consultation will occur September – October 2024. Consultation responses will be analysed and proposals may be amended or adapted based on the feedback we receive. Cabinet considers the final proposals in late 2024 and then the sector is notified to provide a lead time to change airfares. The Parliamentary Counsel Offices prepares the required changes to the regulations and Cabinet approves these being gazetted in time to go live on 1 July 2025.

Introduction – How this CRIS works

This CRIS sets out the funding problem facing the Authority, including the cost drivers and revenue shortfall. The document follows guidance that Treasury set out, adapted for the specific circumstances and context of this review.

This is not a public-facing document and has a technical focus. A public consultation document more suitable for wider sector and public stakeholders is being prepared for that process.

Part One of the CRIS focusses on the cost drivers that are creating the funding pressures.

Cost Drivers	**Structure**
• This section considers the challenge of: 1. Funding the Authority's current operations when Government support ends on 30 June 2025, and 2. Costs of additional capability and capacity the Authority needs through to the end of the funding review term on 30 June 2027.	• A high-level overview of the problem and the consequences of not addressing the problem. • **Table one** describes the major functions of the Authority at a high level and states the problems facing them (without providing detailed evidence or providing solutions) • **Table two** works through the problems stated in Table one at a detailed level, setting out: o The context, evidence, data and arguments for the problems and their effects o Proposed solutions to resolve the problems, including business process improvement o The outcomes and benefits from implementing the solutions.

Part Two of the CRIS focusses on cost recovery – the means through which the Authority secures funding from the aviation sector to recover its costs:

Cost Recovery	**Structure**
• This section considers the options for sector revenue to meet the costs of the accepted drivers	• Considers the legal authority for cost recovery from the sector, including the: o Policy and legal framework o Specific cost recovery settings o Periodic review cycle • Provides the forecast revenue and expenses for the term of the funding review from 1 July 2025 to 30 June 2027 for the safety and security functions • Sets out the options within the existing funding mechanisms and dollar impacts for each • Provides a comparative analysis of the options

	• Provides analysis of the wider economic impacts and also comparative benchmarking with other countries, and measures of reasonableness against other New Zealand Government charges levelled at the border • Sets out the implementation path and monitoring and review processes.

The public consultation document has the same core information, but in a more accessible form with less technical material. Its purpose is designed to elicit submissions from the public and the aviation sector to help confirm whether the options the CRIS identifies account for all relevant information and weigh factors appropriately to arrive at preferred options. This includes introducing new considerations that may, on merit, cause the development of revised options.

Part One: Cost Drivers

The Authority's financial situation

Problem statement:

The Authority's income from fees, levies and charges does not cover the costs of delivering its functions because pricing rates are significantly out of date. Rate settings last updated in 2017 (CAA) and 2019 (AvSec) do not reflect inflation, additional safety and security costs driven by the international system that we need to maintain access to, or lower domestic travel volume since COVID-19 (currently at 88 percent of levels 5 years ago for CAA).

Government has subsidised the difference since 2020 but fiscal pressures mean it cannot continue this subsidy beyond 30 June 2025. Without an increase in sector 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, bringing major impacts throughout the aviation sector and New Zealand economy that are set out in detail in Table Two of this CRIS.

Altogether, these factors are driving a need to increase the passenger safety levy by 146 percent, the domestic passenger security levy by 66 percent, and the international passenger security levy by 72 percent, as set out in the table below with a summary of the impact of the major contributing cost pressures:

Components	**CAA**		**AvSec**	***Dom***		***Int***
Current Levy Rate	$1.60	*Increase*	$6.57	*Increase*	$13.12	*Increase*
CPI/Wage inflation to FY27	$0.69	43%	$1.75	27%	$3.59	27%
Restoring reserves	$0.21	13%	$0.58	9%	$1.20	9%
Cost pressures to FY25	$0.93	58%	$1.47	22%	$2.75	21%
Cost pressures FY26-27	$0.34	21%	$0.35	5%	$0.72	6%
Pax below pre-COVID level	$0.17	11%	$0.21	3%	$0.44	3%
New Security designated Airport					$0.72	6%
Proposed Increased Levies	**$3.94**	**146%**	**$10.93**	**66%**	**$22.54**	**72%**

The composition of the levy increases attributable to existing cost structures and legislative requirements is 118% of the 146% increases for the CAA levy (ie. CPI/wage inflation to FY25 + Restoring reserves + Cost pressures to FY25 + pax still being below levels forecast in the 2017 CAA and 2019 AvSec funding reviews, and in fact pre-COVID levels), or more than three quarters of the increase. The equivalent for AvSec's Domestic levy is 53% of the 66% increase. In both cases this means existing cost pressures comprise more than three quarters of the increase. The equivalent for AvSec's International levy is 54% of the 72% increase, or more than seventy percent of the increase being existing cost pressures.

Business process improvements detailed further in this CRIS and deferrals can only mitigate a limited amount of the cost increases when a funding review has not been completed for this duration and the Authority has little control over the impacts of inflation, the imposition of schedule and destination changes in the market, or continuing increases in security requirements in the international aviation system.

As a result, the Authority needs to raise levies in this pricing review by larger amount than usual, and the majority of this will be required to maintain the status quo functions, capability and performance.

Relationship between passenger volume and FTEs

Aviation passenger numbers overall, remain below pre-COVID 19 levels and by FY27 are forecast to be 3 million passengers below levels forecast in the previous funding reviews (at 14.4 million versus 17.4 million passengers that the security levy applies to). This means that for any given activity level in the Authority, costs are divided among fewer passengers, all else equal, making the passenger levies higher than they would otherwise be.

However, this also begs the question about the relationship between FTE growth and passenger volume. Table Two in the body of this CRIS provides extensive detail on cost drivers, few of which are related to passenger volumes across major areas of the Authority's statutory functions. For this Problem Statement, the table below provides a summary of the non-passenger volume related drivers behind the FTE growth in CAA and AvSec since the last funding reviews were completed:

Entity	Area	Item	Driver
CAA	Frontline Inspectorate	Certification Wait Times	Aviation is entering a new era of innovation. This is leading to increasing applications with increasing complexity, and resource challenges processing them (backlog now at 270 days up from 130 at last funding review)
		Emerging Tech	Increasing entrants (up 100% from 80 to 160 in 3 years), increasing complexity – applicants wanting to do things never seen before in New Zealand (or in some cases, anywhere else)
	New legislative requirements	Civil Aviation Act 2023	New legislation introducing Drug and Alcohol Management regime, requiring CAA to ensure sector compliance and undertake drug testing where appropriate.
	Regulatory Stewardship	Outdated regulatory system that creates inefficiencies and increases burdens on the sector	A backlog of policy and Rules work not keeping pace with international standards and technical developments. Some 76 alone just related to alternative propulsion activities (e.g. rocket powered planes). A quarter of Advisory Circulars are out of date.
		International engagement and responsibilities	In 2023, we received 15 ICAO state letters setting out proposed or finalised amendments to international standards, that need to be incorporated into our rules. This is increasing. By July 2024, we have already received 20 letters for this calendar year. These can be significant – one proposed amended has added hundreds of new standards and is over 160 pages long. We need to undertake a full review of over 800 safety protocol questions and

			evidence lodged prior to the next ICAO safety audit.
AvSec	Frontline aviation security service	Enhanced Security	Threats to aviation security are continuing to evolve and have required enhancements to threat detection (AIT, NPS etc)
		Activities outside of passenger volume	A third of activities are undertaken irrespective of passenger volumes (e.g. perimeter patrols), so even with volume down, these can stay up. A third of activities are staff and workforce size related (training etc) so that as the workforce grows for non-passenger volume related reasons, some other areas of staffing grow too.
		Scope and service level changes	There have been a number of changes in scope and service levels since levies were set in 2019 that AvSec has been required to establish or grow. This includes the Behavioural Detection function, the Explosive Detector Dog unit, and an increase in the length of frontline operations (standards introduced in 2019/2020 that require security screening to open two hours prior to departure, meaning AvSec need to provide international screening at earlier times in the morning), and additional airports with flights that require screening functions
		Other costs that scale with increased FTEs rather than directly with passenger numbers	Increased operational management requirements at airports for supervision, change implementation, and risk evaluation – additions to date Increased workforce management and rostering capacity to efficiently assign five million duties on shifts per annum (AvSec employee duties change frequently within shifts to maintain vigilance and effectiveness) Increased intelligence capability to harness available business information with joint airport partners
CAA and AvSec	Core enabling functions	The Authority employs 1,951 FTE (budgeted as at 30 June 2025). Given this increased scale since the last	To support growth noted above that has been driven by non-passenger volume related drivers, this in turn drives additional FTE requirements for core enabling functions that themselves are not related to passenger volumes, to support

		funding review, core functions have had to grow to support that.	the smooth operations of a large operational and dispersed workforce, covering business areas such as: • Information system and technology support • Finance and procurement • Legal • Regulatory intelligence and system risk • People (HR) operations • Health and Safety • Payroll • Recruitment

AvSec FTE Growth

AvSec's workforce comprises 80 percent of the Authority's overall workforce, and the majority of its absolute growth in FTEs. In addition, it is more intuitively driven by passenger volume than CAA as regulator. However, as the table above shows, that connection is less direct than intuition, and made more so by increasing demands on AvSec by international partners that increase the workload and require more personnel to handle any given number of passenger volume than in the past. In addition, the COVID-19 pandemic played havoc with that proportion of AvSec's workforce that is volume related, and the recruitment for, and ramp up of key functions, relative to where the last funding review had scheduled them.

This has meant that AvSec has only grown to its forecast FTE level for 21/22 in 2024, where it now sits. In other words, the FTE growth to date shown in this CRIS is:

- majority driven by non-passenger volume related factors, many of these outside of AvSec's control
- only now meeting its total FTE count approved through the last funding review and
- net FTE growth beyond FY25 for the term of the funding review (FY26-FY27) is limited to 193 FTEs

The table below shows FTE growth by specific drivers, highlighting the proportion that are not related passenger volume, and the FTEs level approved through the previous funding review:

Cumulative FTE increases by year	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27
Enhanced Security - non-metallic threat detection	30.5	127.4	104.1	150.5	178.6	178.6	178.6	232.9	232.9
Demand increase - passenger volumes	51.2	67.8	-38.5	43.8	123.1	136.3	136.3	170.8	192.2
Demand increase - flight schedule timings	47.2	62.6	-84.2	5.0	72.5	83.3	83.3	111.5	129.1
Enhanced Security - NPS insider threats	0.0	44.8	24.4	42.1	96.2	96.2	96.2	119.0	119.0
Enhanced planning, training	13.0	23.0	31.5	41.3	52.5	50.5	50.5	52.5	52.5
Scope increase - behaviour detection for USA	11.0	24.0	27.0	18.0	24.0	25.0	25.0	29.0	29.0
Scope increase - explosive detector dogs	9.0	14.0	9.0	8.0	11.0	12.0	12.0	24.0	24.0
Support functions - operational management	6.6	14.8	18.1	19.1	22.3	22.3	22.3	22.3	22.3
Service level increase - 2hr check-in for int pax	0.0	8.8	5.8	9.1	9.8	9.8	9.8	12.0	12.0
Scope increase - new operating locations	0.0	4.8	0.0	9.8	11.9	11.9	11.9	37.9	37.9
Support functions - rostering centre capacity	2.0	2.0	0.0	3.0	7.0	9.0	9.0	9.0	9.0
Scope increase - intelligence function	0.0	0.0	0.0	4.0	4.0	4.0	4.0	4.0	4.0
Service level increase - stakeholder coordination	0.0	12.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Enhanced security - specialist image analysts	0.0	0.0	26.0	0.0	0.0	32.0	32.0	0.0	0.0
COVID response - MIQ & national security	0.0	0.0	155.0	156.0	0.0	0.0	0.0	0.0	0.0
Increases	170.5	405.9	278.0	509.7	612.9	670.9	670.9	824.9	863.9
TOTAL FTE Establishment	**1,039.5**	**1,275.0**	**1,147.1**	**1,378.8**	**1,481.9**	**1,539.9**	**1,539.9**	**1,694.0**	**1,733.0**
2019 Funding Review Consulted (Approved) FTE Level				1,540.0	1,540.0	1,540.0	1,540.0	1,540.0	1,540.0
Comparison Actuals to FY25, and FY26-FY27 FTE Levels				**-161.2**	**-58.1**	**-0.1**	**-0.1**	**154.0**	**193.0**

Cost drivers AvSec faces mean its 'cost to serve' has been increasing

A key implication of the extent of the non-passenger volume related cost drivers is that AvSec's "cost to serve" each passenger has been increasing through this period, not reducing, and that this is caused by numerous external factors that AvSec does not control, such as behavioural detection requirements from the US, or screening requirements commencing at additional airports. The nature of the cost drivers undermines AvSec's ability to achieve scale efficiencies and emphasizes the importance of understanding that passenger volume is one factor among many others driving cost growth that needs to be addressed in this pricing review.

The Authority is New Zealand's aviation safety and security regulator

The Authority is a Crown Entity established under the Civil Aviation Act 1990. The Authority includes AvSec, which is a business group within the Authority.

The Authority has a statutory obligation to promote civil aviation safety and security, and to contribute to an integrated, safe, responsive, and sustainable transport system[1]. We are responsible for controlling and authorising entry into the civil aviation system, for providing assurance that the overall system and the participants within it are functioning safely and securely, and for identifying and addressing situations of risk and non-compliance.

AvSec is a business group within the Authority that is responsible for delivering aviation security services according to defined standards and balancing that with an efficient passenger experience and facilitation.

Together, these regulatory activities ensure that New Zealand's aviation system provides a safe and enabling environment for the sector. This means that people are safe, and feel safe, when they fly.

The Authority currently has 1,804 FTE[2] and will have 411 FTEs in the safety function, and 1,540 FTEs in the security function at 30 June 2025. 84 percent of the Authority's employees work directly on the frontline, either in security-designated airports or as part of the regulatory safety and security function.

The Authority has traditionally been almost entirely funded through fees, levies and charges paid by aviation sector participants, with a small amount of Crown funding to contribute to the costs of public good.

We have compared ourselves to other regulators to confirm that our cost structures are not out of line or unreasonable. Within New Zealand, our levies are broadly in line with other border and visitor levies. While international comparisons are particularly difficult due to the different range of functions and regulatory frameworks, total costs and staffing levels appear proportionate to the size and scale of the system when compared to similar aviation regulators. These findings are reinforced by recommendations that have been made through various reviews of the Authority's resourcing.

Current funding settings are out of date

Our current funding rates were set in 2017 (CAA) and 2019 (AvSec). We were in the process of reviewing our pricing when the COVID-19 pandemic began. To protect the aviation sector from pricing increases, the Government placed a moratorium on funding and pricing reviews.

Reduced aviation activity and outdated pricing rates meant that the Authority has not been able to recover enough funding from current fees, levies and charges to cover the increased costs of delivering its functions. The Government has been funding shortfalls in revenue since 2020 – fiscal support that will total almost half a billion dollars by 30 July 2025.

Now that the aviation sector has largely recovered from the steep decline in activity levels during the COVID-19 pandemic, the Government has confirmed that it is not able to continue funding shortfalls and the Authority needs to return to financial self-sufficiency by 1 July 2025. The Government has also directed the Authority to begin restoring its reserves, which it exhausted at the onset of the pandemic at the direction of the Ministry of Transport.

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1 Civil Aviation Act 1990 section 72AA.

2 Actual FTE (rather than number of positions) as of 31 May 2024.

In practical terms, the majority of this funding (pricing) review is focussed on purchasing the current levels of capability and capacity. A small number of FTE increases are included where there are higher demand pressures.

There are two main cost pressures

- Significant cumulative inflationary pressure since 2018/19 through to 30 June 2027 is forecast to be 43 percent. Even if there had been no other cost increases, income from fees, levies and charges would therefore need to increase by 43 percent simply to meet inflationary pressures.
- The costs and complexity of maintaining safety and security have increased through new security technologies and increased screening needed to meet international standards. As passenger demand has rebounded post-COVID, an inability to fully grow staff resourcing to the level required has resulted in unacceptable wait times experienced by the aviation sector and passengers. To address the wait times, FTEs have to increase by 193by 30 June 2027.

Failure to address this problem will result in significant impacts on the aviation sector, travelling public and the wider New Zealand economy

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 also import and export high-value cargo by air.

Domestically, we rely heavily on the aviation system for emergency services, critical transport links when extreme weather renders roads and ports unavailable, as well as transport for agriculture, tourism, freight, and personal air travel.

If Government financial support ended without the Authority increasing its fees, levies and charges, the Authority would need to reduce FTE levels by 788. This level of reduction would have a significant impact on the Authority's ability to deliver its statutory functions, namely could not provide any assurance that the civil aviation system is safe and secure.

The immediate impact would be significantly increased wait times for certification activity and for aviation security screening, which would have flow on economic impacts. Over time, safety and security risks will emerge, exacerbating those economic impacts.

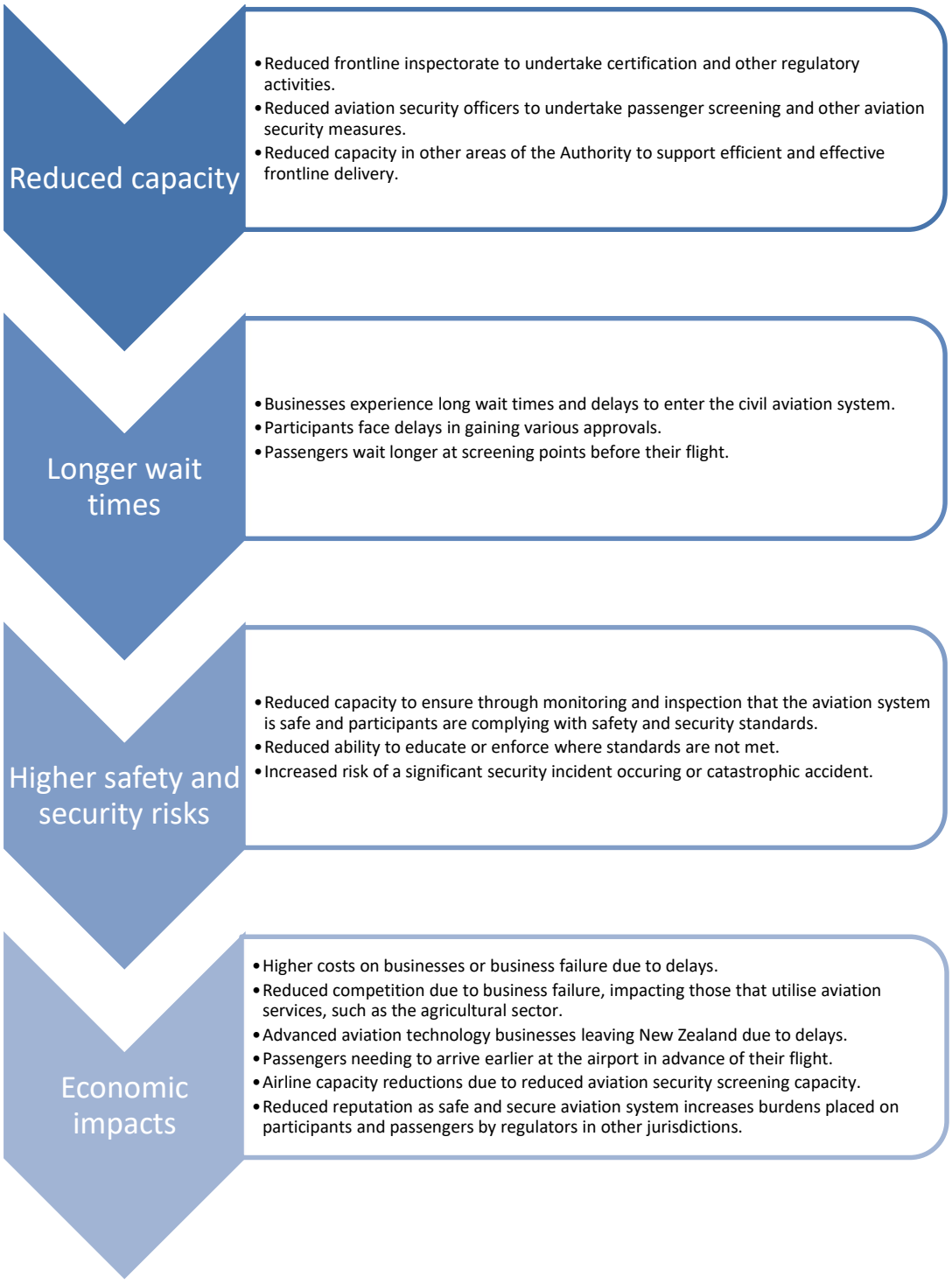
Reduced capacity
• Reduced frontline inspectorate to undertake certification and other regulatory activities.
• Reduced aviation security officers to undertake passenger screening and other aviation security measures.
• Reduced capacity in other areas of the Authority to support efficient and effective frontline delivery.
Longer wait times
• Businesses experience long wait times and delays to enter the civil aviation system.
• Participants face delays in gaining various approvals.
• Passengers wait longer at screening points before their flight.
Higher safety and security risks
• Reduced capacity to ensure through monitoring and inspection that the aviation system is safe and participants are complying with safety and security standards.
• Reduced ability to educate or enforce where standards are not met.
• Increased risk of a significant security incident occuring or catastrophic accident.
Economic impacts
• Higher costs on businesses or business failure due to delays.
• Reduced competition due to business failure, impacting those that utilise aviation services, such as the agricultural sector.
• Advanced aviation technology businesses leaving New Zealand due to delays.
• Passengers needing to arrive earlier at the airport in advance of their flight.
• Airline capacity reductions due to reduced aviation security screening capacity.
• Reduced reputation as safe and secure aviation system increases burdens placed on participants and passengers by regulators in other jurisdictions.

Table One: Overview of Problems Driving Increased Costs

High level description of regulatory function area	Statement of the problems (refer Table 2 for detailed analysis)
Frontline inspectorate – safety and security regulatory oversight – CAA Our frontline inspectorate currently comprises 161 FTE. These are mainly technical and specialist resources, and they deliver our core statutory functions. These teams are primarily responsible for: • controlling the entry of people and organisations into the aviation system (through licensing and certification processes) and making sure that they have the skills, qualifications, and systems to operate safely and securely • controlling which aircraft, equipment, and flight systems can be used in New Zealand, ensuring they are airworthy • monitoring compliance with safety and security standards • investigating and analysing accidents and incidents, and carrying out corrective action and enforcement Our inspectorate also supports regulatory policy and rules development, operational policy, guidance, training materials, and sector engagement. They represent New Zealand internationally on aviation safety and security matters. The Authority also administers the provisions of the Health and Safety at Work Act 2015 (HSWA) for aircraft in operation. Our inspectorate carries out our designation to regulate under HSWA for work onboard aircraft or for the imminent preparation of flight.	**Status quo rates only fund $20.4 million of the budget of $35.1 million** • If sector funding is not increased, then from 1 July 2025 when Government funding is removed, frontline regulatory roles will need to save $14.7 million budget through a reduction in staffing of 92 FTEs. This will have severe consequences for safety and security oversight. **Certification wait times are too long** • Frontline regulatory roles have remained relatively static, with only small incremental increases. However, certification has become more complex due to the use of more advanced technology in both the emerging technology sector and the traditional aviation sector, along with more complex operations. This means that certification activities take longer. This has led to backlogs and unacceptable wait times for applicants. • Emerging technology certification is particularly onerous for SMEs, pulling them away from traditional aviation certification. • There are some new functions in the Civil Aviation Act 2023 for the frontline inspectorate. • The pressure on regulatory frontline means SMEs can't support a range of statutory, international, and other obligations without negative impacts on certification wait times. Without appropriate SME input, the various international engagement, policy and rules work, training and certification improvements cannot go ahead which further reduces certification efficiency.
Frontline aviation security service – AvSec Staff numbers will be 1,540 FTE at 30 June 2025, with the majority of that growth being frontline Aviation Security Officers. These resources are responsible for the delivery of aviation security, and are located across six security-designated aerodromes, head office, national training and rostering functions. AvSec is responsible for: • screening and searching passengers, crew, airport workers, baggage, aircraft, and cargo, • undertaking security patrols and escorts, • managing the airport identity card system, • collaborating with other domestic and international security and border agencies (including providing elements of the above capabilities to Police, Customs, Maritime and others, i.e. screening, explosive detector dogs (EDDs)).	**Status quo rates only fund $144.5 million of the budget of $230.7 million ($243.5 million if include the cost of rebuilding reserves)** • If sector funding is not increased, then from 1 July 2025 when Government funding is removed, frontline security roles will need to reduce by the equivalent to 580 Aviation Security Officers to achieve budget. Table 2 provides further information on why it is predominantly the Security Officer workforce that would need to be reduced. AvSec aims to process at least 95% of passengers with a wait time of 10 minutes or less for security screening. Present staffing levels have prevented this level of service from being reached at multiple airports: Percentage of passengers processed through AvSec screening points within 10 minutes in past 12 months Domestic 	Location	Jul23	Aug23	Sep23	Oct23	Nov23	Dec23	Jan24	Feb24	Mar24	Apr24	May24	Jun24
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Auckland	81%	83%	97%	77%	90%	95%	83%	83%	83%	97%	90%	87%
Wellington	87%	80%	90%	97%	83%	85%						
Northern Domestic							100%	90%	93%	100%	97%	93%
Southern Domestic (LiDAR)							97%	97%	97%	98%	96%	98%
Christchurch	97%	97%	97%	97%	100%	90%	100%	92%	93%	83%	70%	90%
Queenstown	93%	83%	87%	90%	100%	95%	100%	93%	60%	80%	80%	87%
Dunedin	90%	70%	80%	80%	87%	85%	90%	83%	83%	63%	83%	73%
Invercargill	*Refer to note below*											| International | Location	Jul23	Aug23	Sep23	Oct23	Nov23	Dec23	Jan24	Feb24	Mar24	Apr24	May24	Jun24
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Auckland	82%	93%	87%	83%	80%	75%	90%	90%	73%	83%	77%	77%
Wellington	77%	75%	53%	47%	57%	81%	90%	66%	63%	73%	80%	100%
Christchurch	97%	93%	97%	97%	93%	80%	97%	93%	90%	100%	93%	93%
Queenstown	80%	57%	80%	80%	70%	75%	72%	66%	47%	67%	60%	60%	 **Notes** - Queue times are not externally reported - 95% of passengers processed within 10 minutes was the former target. - Invercargill wait times are not monitored as a minimal viable operation screening 1 departure 4-5 days a week. - As a non-security metric, queue times are not all continuously monitored with full-coverage data, but are mostly sampled. - From Jan24, full-coverage data is available - courtesy of WIAL - for the Southern Domestic screening point in Wellington. - Manual capture (from CCTV footage) is still used for all other locations, but is labour-intensive so sample sizes are small. This is why many reported percentages are lumpy - 10 samples were historically taken for each, upped to 30 recently. - Depending on exactly when samples are taken, results may not be available for every location every month, and no data is available in some cases (e.g. if no international departures, or CCTV footage expires). A large capacity reduction will have severe consequences for passengers and airlines. This would see much longer queues occurring frequently at the four

	largest airports to an extent that domestic and international travellers' plans would be disrupted, and airline schedules would need to be substantially altered or cut. **Security screening queues are increasing due to a range of factors** • Enhanced security requirements require increased frontline resourcing (enhanced screening technology to meet directed requirements has added 211 FTE between 2016/17 and 2024/25, and increased Non-Passenger Screening (NPS) has added 96 FTE.) • Generally rebounding passenger volumes have returned to pre-covid levels at the narrow peak periods that drive total staff needs (adding 168 FTE equivalent up to 2024/25), with capacity under-utilised at other non-peak times and more higher cost types of demand such as very early or late international departures due to airlines optimising schedules outside of New Zealand – meaning disproportionate costs that cannot always be fully recovered (83 FTE equivalent). • Scope and service level changes such as a new airport or airport layout changes have added a further 144 FTE up to 2024/25. • Since the scope and standard of most security duties is regulated, the passenger demand component is the primary one AvSec would be able to reduce in practice.
System and Practice Design – CAA System and Practice Design comprises teams that are responsible for ensuring that the wider regulatory system is fit for purpose and our regulatory frontline has the tools to deliver their functions, now and in future. This includes: • developing regulatory policy and rules to maintain civil aviation legislation, providing aviation policy advice to other agencies, delivering ministerial servicing to the Minister's Office, and leading the Authority's international functions (19 FTE) • developing operational policy and training to support robust, consistent, and transparent regulatory decision--making, providing guidance to the sector on compliance with standards, managing the statutory exemptions process (14 FTE) • delivering specific regulatory interventions to fix high risk problems (3 FTE) • delivering the Emerging Technologies Programme (7 FTE) Leading our international statutory functions and international Treaty obligations includes the following activities: • ensuring New Zealand meets its international Treaty obligations to remain in the international aviation system (such as undertaking continuous monitoring of compliance with ICAO's Standards and Recommended Practices, filing differences to international standards and responding to State Letters), • engaging directly with other states in New Zealand's best interests (such as negotiating MOUs and mutual recognition procedures), • providing support and advice to Pacific island countries, the Pacific Aviation Safety Office and the provision of specialist aviation security equipment and training, • leading activities relating to aviation meteorology and volcanic obligations. The Emerging Technology Unit (ETU) delivers the Authority's Emerging Technologies Programme, and provides the interface between our regulatory function and emerging technologies aerospace and aviation stakeholders to enable the safe and effective integration of emerging technologies into the civil aviation system. The ETU is focussed on technologies that have not previously been certified by the Authority, or by any other aviation regulator worldwide, including unmanned aircraft, Artificial Intelligence, sustainable fuels and high altitude and space launch vehicles.	**Status quo rates only fund $5.1 million of the budget of $8.8 million** • If sector funding is not increased, then from 1 July 2025 when Government funding is removed, System and Practice Design will need to save $3.7 million budget through a reduction in staffing of 21 FTEs. This will further increase exacerbate inefficiency and burdens on the sector. **An outdated regulatory system creates inefficiencies and increases burdens on the sector** • The standards participants must meet are becoming out of date, less aligned with international standards and can create barriers for new technology. This creates additional burdens for participants and inefficiencies for our inspectorate. • The sector is required to work within an overly prescriptive rule set that is difficult and time-consuming to maintain. They rely on tools like exemptions, where the rule set has not kept pace with technology or more efficient means of achieving the same outcome. • As rules are updated, guidance and operational policy need to be updated too. More flexible, performance-based rules require increased levels of guidance for both the sector and the inspectorate. • The aviation sector, ICAO and partner states expect us to be engaged in international matters of importance to New Zealand, to meet our international obligations, and ensure New Zealand standards align with international standards. The sector also expects us to maintain a strong reputation as a regulator in order benefit from reduced burdens or compliance measures placed on them by other States.

Core enabling functions – CAA and AvSec Our core enabling functions currently comprise 206 FTE. The Authority is a relatively large organisation which requires a wide range of functions to support the smooth and effective operation of our regulatory functions, along with ensuring we have the right people, technology, and workplace arrangements. These functions also ensure we're meeting a range of obligations to our employees and as a Crown Entity. Some of these functions provide core statutory activities (such as education and enforcement) that support delivery of our intelligence-led and risk-based regulatory model. • Legal • Finance • Engagement and communication • Regulatory Intelligence and System Risk • People, Capability and Health, Safety and Wellbeing • Information and technology • Workplace and sustainability • Strategy, planning and reporting • Governance and executive leadership Core enabling functions support all of the Authority. However, the costs for the core enabling functions are reflected in the CAA costs due to requirements in the Act and the structure of our 'shared services' model across the CAA and AvSec. **Other costs** Various information technology Opex pressures, and implementation of an enterprise regulatory management system (i.e. EMPIC) that replaces a 30-plus year-old system that is no longer supported. Wider system modernisation.	**Status quo rates only fund $18.7 million of the budget of $32.3 million** • If sector funding is not increased, then from 1 July 2025 when Government funding is removed, Core Enabling Functions will need to save $13.6 million budget through a reduction in staffing of 95 FTEs. This will have severe consequences across the Authority with limitations on legal and enforcement activity, system risk, IT, HR, sector engagement and communications. **Reduced core enabling functions will be a barrier to operational performance with insufficient capacity to support the frontline.** Roles here are funded through 'overheads' of roughly 12% of AvSec's operating costs and $58,000 for each additional proposed role. This means that they increase or decrease proportionately. • The core enabling functions require more FTEs to maintain and underpin improvements in functions required by the rest of the Authority. • We are implementing a new enterprise regulatory management system (EMPIC) that replaces the existing information technology aviation safety management system dating from the early 1990s, which no longer has vendor support. This is a critical project for the CAA and a 'cost of doing business' (and also brings higher depreciation costs).

Table Two: Evidence to Support the Problem, Proposed Intervention, Expected Outcomes and Benefits

Frontline inspectorate – safety and security regulatory oversight – CAA				
After 1 July 2025, funding the Authority at the Status quo rates will result in a reduction of 92 FTE. **Certification wait times are too long**	**Certification wait times** The wait times associated with obtaining relevant aviation certification is a major problem and the backlog of applications in the system is increasing over time. The number of applications in backlog have grown from 60 in FY2017/18 to over 100 in FY2022/2023. The average backlog time of each application waiting to be closed has also increased. In FY2017/18, the average time in backlog was approximately 130 days. In FY2022/23, wait time has doubled to 270 days. This trend is also apparent in the amount of time the average application spends in the pre-certification process (and not considering the lengthening processing times). The average age of applications has increased by over 70 percent in the last six years While wait times are increasing for aviation sector participants, total staff hours for frontline staff assessing the applications are also increasing, indicative of increasing complexity. This has grown from 5,000 total staff hours in 2017/18 to 8,335 in 2022/23. Longer queue times impact those operators seeking to enter the aviation system, those trying to remain inside it, and those looking to change how they operate inside it. This has significant business and competition impacts for operators as it constrains entry into, change, and innovation in the aviation system. For example, a small tourism or forestry helicopter business that requires certification in a timely manner (responding to market variabilities) could lose customers while waiting for certification or be at risk of insolvency where certification delays make business untenable. Although their larger capacity means larger commercial passenger operators are less at risk from certification delays, such delays can still represent a significant cost to the operator. Where CAA's certification wait times place a constraint on operators in the aviation system, wider costs in competitive effects are created. Fewer operators in any part of the system results in less competition and less innovation for customers,	There are three proposed interventions: **Cost Recovery increase** Funding through options discussed on page 45 onwards should be increased from sector recoveries to meet existing resourcing levels and support resourcing growth to improve on current performance. **Business operations** We are examining opportunities for efficiencies in the way we operate; for example, the extent that certification can be more risk based. However the realities of being in a global system with obligations to other countries, and that aviation is among the most heavily controlled of all industries means there are barriers to how far we can get from these measures. In reality, there is no way around the fact that speeding up the existing system processing through increased resourcing has more scope to improve certification times than any operational change within our discretion. We can become more effective and efficient by changing how we do things. • We are changing our regulatory approach to become better informed about the risks in the aviation system and using resources more efficiently to achieve good safety and security outcomes. • To do this means extracting insights from our data and information the Authority holds (referred to as being 'intelligence-led'), and then focussing our resources on those risks (referred to as 'risk-based') that are likely to lead to the greatest harms (as set out in our regulatory safety and security strategy). **Resourcing frontline inspectorate** Increase the number of FTEs from 161 to 195, bringing on an additional 34 frontline regulatory roles in these areas: 24 FTE spread across the regulatory frontline, focussed on reducing wait times. Resource is focussed on where wait times are the greatest, as well as ensuring wait times are not impacted by the need for staff to: • undertake training; for example, to maintain their own currency and keep pace with technological developments	The most significant benefit of increased sector funding is maintaining the current resourcing levels when Government support ends on 1 July 2025. This avoids the need for the Authority to undertake significant redundancies to meet a significantly lower budget and averts a range of serious consequences for the sector. Retaining the current resourcing levels would prevent redundancies of 92 frontline inspectorate FTEs (a 57% reduction to the current frontline inspectorate) and a reduction in budget of $14.8 million. It would mean that the Authority could continue to deliver its regulatory functions in the same way that it is now. While it would not improve certification wait times, it would avert the significant safety and security risks arising due to lack of regulatory oversight, and the impacts of those heightened risks. **Benefits include preventing:** • An extensive increase in wait times and processing times for applicants wanting to enter the aviation system or participants seeking to amend their certification (such as changing their operation). Resource will be focussed on ensuring that participants already in the system are operating safely. • Significantly increased wait times for emerging technology and unmanned aircraft applications. Emerging technology businesses would leave New Zealand and operators could not adopt low or zero emission propulsion systems. • Reduced competition economy wide and significantly increased prices from incumbents who would have very high levels of protection from new entrants. • Extensive time, direct and economy wide costs rebuilding capability and capacity if that option was subsequently pursued – noting many of the personnel have to be recruited from overseas and this can take 18 months. • Significant reputational losses in New Zealand and internationally with impacts on engagement and the cost of doing business. • A failure to deliver statutory functions relating to monitoring, investigation or enforcement in any meaningful way, and therefore risks not being identified or addressed. • Inspectors from being unable to undertake the necessary training to stay up to date in their roles. They would not be able to improve their	**Certification** • Quality meets internal CAA criteria. • Timeliness of **new applications** for all certification types – certification for applications processed within: – 20 working days from receipt of application (>30%) – 40 working days from receipt of application (>55%) – 120 working days from receipt of application (>80%) • Timeliness of **amendments** for all certification types – certification for applications processed within: – 20 working days from receipt of application (>30%) – 40 working days from receipt of application (>55%) – 80 working days from receipt of application (>80%) **Licensing** >90% of licences for complete applications processed within 10 working days of receipt (excluding printing and shipping time)

	leading to higher prices or the eventual unavailability of those services.	• represent New Zealand internationally on aviation safety and security matters • support the development or amendment of policy, rules and guidance • develop approaches to certification and re-certification that are risk-based and more efficient.	processes or adopt a more flexible, responsive regulatory approach driven by risk and intelligence. • Policy and rules projects from largely ceasing due to unavailability of subject matter experts. • Increased expenditure on contractors and consultants where there are no inspectors trained or qualified in certain fields. • Implementation failures of new functions in the Civil Aviation Act 2023. In terms of outcomes and benefits from the effect of achieving funding to maintain and add to existing resourcing levels, certification backlogs would reduce through the increase of frontline inspectorate roles in the specified areas resulting in: ○ Shorter and more acceptable wait times for those people seeking to enter the system for traditional and emerging technology sectors. ○ The ability to support policy and rules projects, and a range of statutory, international, and other obligations. ○ Training and certification improvements to increase efficiency in certification. ○ New functions in the Civil Aviation Act 2023 are implemented without drawing on existing certification resource. • Current FTEs: 161 • Proposed FTE increase: 24 • Current cost: $25.7 million • Cost of increased FTEs: $3.8 million p.a.	
	Emerging technology and unmanned aircraft Over the past six years, there has been a marked increase of unmanned aircraft operators in New Zealand. Between January 2020 and September 2023, over 80 new operators have obtained certification, bringing the total number of unmanned aircraft operators to nearly 160. These range from relatively standard unmanned operations to very complex operations and aircraft that are 'world firsts' with no existing standards on which to base safety assessments. As a result, there is a 100 percent increase in demand for staff hours needed for unmanned aircraft certification. From FY2017/18 to FY2022/23, staff hours required to close raised certifications increased from just under 600 to 1,390. These only capture chargeable time. Actual staff time is significantly higher than these figures because significant components of certification involve work that is difficult to attribute to applicants (for example, research for novel technologies that cannot wholly be charged up to one company when others may benefit from that in future).	Increasing 6 FTE to focus on emerging technology. This work would span new aircraft and new types of operations, particularly advanced unmanned aircraft, carbon zero aircraft, the use of AI aircraft, and aircraft designed to travel to high altitudes and space. The work would also consider how these new aircraft and operations will integrate into the traditional aviation system, specifically air traffic management and infrastructure.	• Proposed FTE Increase: 6 • Cost of Increased FTEs: $1 million p.a.	• Percentage of emerging technology participants surveyed reporting that the Emerging Technology Unit gateway process has met or exceeded their expectations. • Timeliness of **new applications for Part 102 applications** – certification for applications processed within: – 20 working days from receipt of application (>30%) – 40 working days from receipt of application (>55%) – 120 working days from receipt of application (>80%) • Timeliness of **amendments for Part 102 applications** –

				certification for applications processed within: – 20 working days from receipt of application (>30%) – 40 working days from receipt of application (>55%) – 80 working days from receipt of application (80%) • Percentage of Part 102 applicants surveyed who report that CAA has met or exceeded their expectations for timeliness processing their applications. (>70%)
	New legislative requirements Specific new requirements need to be resourced. The Civil Aviation Act 2023 introduces a new Drug and Alcohol Management regime with which the CAA needs to ensure sector compliance, including undertaking drug testing where appropriate. The new Act also provides the ability for the Director to approve threat mitigation in relation to unmanned aircraft.	4 FTE are needed to carry out new functions under the new Civil Aviation Act and address specific ICAO security audit findings	• Proposed FTE Increase: 4 • Cost of Increased FTEs: $0.6 million p.a.	• The Civil Aviation Act 2023 is implemented in accordance with agreed transitional arrangements

Problem	Evidence and data to support the problem	Proposed intervention	Expected outcome/s and benefits	Performance measurements
Frontline aviation security service - AvSec				

After 1 July 2025 funding the Authority at the Status quo rates will result in a reduction equivalent to 580 aviation security officers.
 	
Passenger queues for aviation security screening are increasing due to a range of factors.
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	Enhanced Security
	Threats to aviation security continue to evolve and require ongoing enhancements to threat detection. Regulatory requirements change to provide that threat detection. Some enhancements are driven by international standards, where New Zealand is obliged to comply to remain part of the global aviation system. Some enhancements are driven by domestic regulatory requirements, such as upgrading technology to provide for more advanced threat detection.
	
	AvSec has been required to implement enhanced security measures since the last funding review that have very heavy frontline resourcing requirements and cost impacts. These are 'effectiveness against threat' measures that by their very nature are designed to add 'friction' and 'inefficiency' for people
		Cost Recovery increase
		Funding through options discussed on page 45 onwards should be increased from sector recoveries to meet existing resourcing levels and support resourcing growth to improve on current performance.
		
		The technology investment has been made, so the proposed intervention is entirely around levies supporting mostly existing FTE costs, and a small number of additional FTEs still to be hired as outlined below.
		
		Resourcing
		Implementation of enhanced screening technologies and practices has added 211 FTE to AvSec's staff requirement through to 2024/25. As it has already been fully rolled out, most of
			The most significant benefit of increased sector funding is maintaining existing security standards and capacity when Government support ends on 1 July 2025.
			
			In addition to maintaining existing standards and service levels, retaining current and planned resourcing would prevent the costs associated with redundancies equivalent to 138 aviation security officers (or 23.9% of AvSec total FTE reduction). Growing to the level planned by 30 June 2025 would allow AvSec to more consistently meet existing wait time targets, but may not reduce longer queues, entirely as volume and demand increases). AvSec would continue to have adequate mitigations in place to reduce the risk of a catastrophic aviation security incident and be able to meet international security standards.
				• Regular non-passenger screening risk assessments performed and mitigation actions implemented
				  • Annual risk assessment performed
				  • Annual risk assessment recommendations implemented
				• Compatibility of equipment and technologies deployed within the New Zealand aviation security system with directed standards (100% of all equipment deployed)

	who would cause harm through the aviation system. Particular measures include: ○ Implementing enhanced screening technology (body scanners) to deal with increased non-metallic threats (e.g. printed weapons) that were not detectable by existing technology and require male and female staff, generate increased complaints with significant resourcing impacts, and slow throughput at screening with wider resourcing impacts. The Director of Civil Aviation required AvSec to implement body scanners from 2018 based on developments in the international security environment. Body scanners are is an addition to AvSec's previous suite of security measures, which then also continues to grow proportionately with passenger demand, as it requires more staff whenever screening points are in operation. ○ Greater insider threat mitigation measures involved in increased NPS e.g. airport workers.	the increased staff requirement is already incurred - or about to be – with step changes in demand anticipating an additional screening lane for Auckland International Airport, with a further 45 FTE envisaged through to 2026/27. Resourcing to implement NPS to the directed level– a combination of staff (116 FTE) and equipment – was included when existing levies were set in 2019. NPS is strongly focussed on international operations so was impacted by pandemic border disruptions. Tracking of rostered NPS effort since has shown 119 FTE is needed to undertake NPS to the required standard, 96 of which are funded as at 2024/25.	Benefits of retaining the current resourcing levels for AvSec include preventing: • Significant reputational losses in New Zealand and internationally, resulting in increased burdens being placed on airlines and passengers by other States (i.e. they will have to meet costs regardless). • Failure to meet screening targets with existing volumes or any increased volume (noting international continues to grow) • Significant additional wait times for passengers at airports. Passengers will be required to arrive at the airport much earlier than they are currently required to – potentially hours earlier for international. (The extended waits and processing time cannot be reduced through any reductions to service or screening, as the Authority and AvSec cannot compromise on safety and security levels). • Extended wait times quickly evolving from a matter of inconvenience for travellers to impacting operational decision making for border agencies, airports, and airlines, leading to the realistic likelihood of reduced service levels or even the cessation of some international routes to New Zealand. • Losses to routes from non-performance of functions including to the US, and to and from regional airports • Impacts on the economy (particularly tourism) through reduced travellers to New Zealand and reduced domestic flights while in the country (commercial and tourism). • Impacts on New Zealand's business and social connectivity to the rest of the world through reduced routes and options for travel. • Reduced freight options and higher costs for high value exports which go in the hold of commercial passenger flights, due to reduced activity levels The outcomes and benefits of funding to maintain existing resourcing of 367 FTE already deployed for enhanced security an additional increase of 45 FTE are: • Increased security outcomes for passengers through improved screening detection and insider threat mitigations. • Improved screening times and the achievement of current targets of <10-minute wait times 95 percent of the time. Due to the volumes involved across New Zealand daily, this would have significant public benefits akin to savings justified in billion-dollar motorway spending (refer impacts section). • New Zealand would maintain a reputation for strong aviation security measures	

Passenger volume and schedule demand *Increased capacity pressures from passenger volumes and new locations and flight timings* AvSec needs sufficient resources to process passengers in a timely way. Traditionally about one third of AvSec resource effort is driven by passenger volumes. With increased attention recently to reduce queue wait times, 37% of rostered effort for frontline Aviation Security Officers has been passenger-related in the last 12 months. However, the cost of that resource has increased since the funding rates were set in 2019. This means that, as passenger volumes have recovered post-pandemic (strongly for domestic and more slowly for international), it costs more to process those passengers than it did prior to the COVID-19 pandemic. Furthermore, the way that demand is configured significantly impacts resourcing costs. For example, more international flights are departing New Zealand very late at night or very early in the morning. This extends the hours that AvSec needs to provide a full contingent of resources to run a screening lane, and other required activities such as hold-baggage screening and NPS. When only one or two flights are causing these extensions to operating hours for multiple staff, the costs become disproportionate, and the resulting reduction inefficiency costs more than managing passenger flow for an equivalent amount of passengers during 'normal' hours when AvSec resources can be more fully and efficiently utilised. As an example, Singapore Airlines is planning a 1:20am departure from Christchurch from November 2024. Depending on day of the week, this is 3-7 hours later than the existing last daily international flight, which – with shift and leave coverage added – requires an additional 48 staff equivalent to 17 to 40 FTE depending on frequency, for a single flight of 250 passengers. The costs generated by servicing these examples are not covered by the levy revenue they generate. Another third of AvSec resource is required to undertake activities that are not driven by passenger volumes, but by hours of operation, such as perimeter patrols. These activities must be undertaken irrespective of passenger volumes. Early and late flight departures, or new operating locations, extends the hours per day that these schedule-dependant activities need to be resourced. The remaining third of AvSec rostered frontline effort is staff-related. This is a combination of substantial training effort for new officers to become	There are two proposed interventions: **Cost Recovery increase** Funding through options discussed in Part Two of this CRIS should be increased from sector recoveries to meet existing resourcing levels and support resourcing growth to improve on current performance. **Resourcing** There are significant system constraints on AvSec that limits efficiencies available (e.g. we cannot stop screening) and involve functions that are very people heavy. For that reason, addressing volume and demand requires more people (just as maintaining existing resourcing requires more funding), and the increase in the extra staff required is not proportionate to passenger volumes. 102 more frontline FTEs are required to meet the projected increased demand for AvSec services due to passenger volume and airline scheduling.	The most significant benefit of increased sector funding is maintaining the current resourcing levels when Government support ends on 1 July 2025. This avoids the need for the Authority to undertake significant redundancies to meet a significantly lower budget and averts a range of serious consequences for the sector. Benefits include preventing: • Redundancies equivalent to 323 aviation security officers and a reduction in budget of $36.7 million. • Significant reputational losses in New Zealand and internationally. • Failure to meet screening targets with existing volumes or any increased volume (noting international continues to grow). • There will be significant additional wait times for passengers at airports. Passengers will be required to arrive at the airport much earlier than they are currently required to – potentially hours earlier for international. • Extended wait times will quickly evolve from a matter of inconvenience for travellers to impacting operational decision making for border agencies, airports, and airlines, leading to the realistic likelihood of reduced service levels or even the cessation of some international routes to New Zealand. • The extended waits and processing time cannot be reduced through any reductions to service or screening, as the Authority and AvSec cannot compromise on safety and security levels. • However, as workloads pressure on staff increases, the possibility of lapses in safety and security increases. The outcomes and benefits of funding to maintain existing resourcing, and increasing resourcing by 102 FTE to meet passenger volume and demand changes are: • Screening times would improve and AvSec would be able to achieve <10-minute wait times 95 percent of the time. Due to the volumes involved across New Zealand daily, this would have significant public benefits akin to savings justified in billion-dollar motorway spending (refer impacts section) • Current FTEs: 859 • Current Cost: $97.6 million • Proposed FTE Increase: 102 • Increased cost of FTEs: $11.6 million	• < 5% of time periods where screening capacity was insufficient to meet passenger demand (95% of lane capacity exceeded). • <5% Time periods where average wait time exceeds 10 minutes. • <10% Time periods where a screening lane was open but not required<2 complaints upheld against the Aviation Security Service per 50,000 screened.

qualified, recurrent training for existing officers, supervisors, leave and break entitlements.			
Scope and service level changes *Under resourcing of new requirements* There have been a number of changes in scope and service levels since the levies were set in 2019 (FTEs provided as net increase): • Introduction of a jet service at Invercargill in 2018 required AvSec to start a new team of aviation security officers at this new location to service a single daily jet service on 5 non-consecutive days per week. AvSec began operation with a skeleton staff of 4.8 FTE working short shifts on flight days only, which proved to be unworkable to attract or retain staff or cater to short-notice changes to flight days resulting from schedule disruption. The minimum viable operation requires 12 FTE. • A Behavioural Detection function was established to meet United States of America Transport Security Administration (US TSA) requirements for additional last point of departure checks applied to direct flights destined for the USA. As a separate specialist frontline function at Auckland and Christchurch airports (where US-bound flights originate from in NZ), providing this capability has required significant resources, growing from 0 to 24 FTE currently with 25 FTE planned by June 2025. Funding this function within AvSec is effectively an industry good. Otherwise, carriers would have to bear the cost of such additional US-imposed checks themselves via a similar function or passenger interviews, or else face fines of approximately $20K per day. Having the industry bear all these costs could make these services unviable financially. • Another specialist frontline capability currently operated by AvSec is an Explosive Detector Dog (EDD) unit. Dogs have superior detection capabilities to humans or equipment. They can perform searches of suspected explosives in aircraft or terminal areas much quicker than a large number of people that would otherwise be needed to conduct such searches, so form a crucial part of the aviation security suite in terms of efficiency and minimising disruption/downtime in the system. They are also used in times of emergency to assist Police to clear public spaces. The EDD unit operates nationwide from bases at the four biggest airports and has been established for several years. AvSec has planned to make wider use of the EDD function in response to being directed in	There are two proposed interventions: **Cost Recovery increase** Funding through options discussed Part Two of this CRIS should be increased from sector recoveries to meet existing resourcing levels and support resourcing growth to improve on current performance and meet the increased requirements imposed by partner countries and ICAO. **Resourcing** There are significant system constraints on AvSec that limits efficiencies available (e.g. we cannot stop screening) and involve functions that are very people heavy. For that reason, addressing volume and demand requires more people (just as maintaining existing resourcing requires more funding), and the increase in the extra staff required is not proportionate to passenger volumes because of the way the constraints and volume interact. Planned increases beyond 30 June 2025 through to 30 June 2027 for these functions are: • A potential additional security-screened airport AvSec would be required to undertake the full range of security tasks associated with screening to meet international requirements for these services, requiring 26 additional FTE for this new operating location. • A further 4 FTE for Behavioural Detection to ensure capacity meet US mutual recognition requirements – a recent audit by TSA required some changes to AvSec's deployment of this function to comply. • A further 12 FTE for the EDD unit to grow long-term capacity to meet previously directed scope expansion • During 2023 data collected by Customs and analysed by AvSec showed many passengers for international flights (those bound for the US in particular) presenting up to 5 hours prior to departure for afternoon flights. Whilst this itself does not increase AvSec staff demand due to longer operating hours, it did significantly alter previous demand patterns through the day, requiring additional screening lanes to be open to avoid queues building up. So future resource pressures due to these changes in passenger behaviour during existing operating hours are hard to	The most significant benefit of increased sector funding is maintaining the current resourcing levels when Government support ends on 1 July 2025. This avoids the need for the Authority to undertake significant redundancies to meet a significantly lower budget and averts a range of serious consequences for the sector. Benefits include preventing: • Redundancies equivalent to 32 aviation security officers and a reduction in budget of $3.6 million. • Significant reputational losses in New Zealand and internationally including with the TSA. • Increased burdens placed on airlines and passengers by other States. • Losses to routes from non-performance of functions including to the US, and to and from two regional airports. • Impacts on the economy through reduced travellers and New Zealanders from impacts on options for travel. The outcomes and benefits of funding to maintain existing resourcing, and increasing resourcing by 44 FTE to meet scope and service level changes are: • Passengers and airlines do not face increased security requirements. • AvSec maintains a full suite of existing security layers, including specialist frontline functions. • Current FTEs: 84 • Current Cost: $9.5M • Proposed FTE Increase: 44 • Increased cost of FTEs: $5.0M	

2017 and 2018 respectively to deploy EDD into international check-in areas, to check passengers/baggage and personal items. Despite this wider requirement, long training timeframes for dogs and handlers has meant planned numbers of 49 FTE by June 2025 are still some way off. • In the funding review undertaken to set levies from 2019, an increased service standard was included to open security screening two hours prior to departure. This change meant AvSec had to provide international screening sooner - particularly in early mornings – thereby increasing the length of frontline operations. This service standard has been in place since 2019/20 in conjunction with other border agencies. It has already added 10 FTE equivalent for AvSec, increasing to 12 FTE going forward as international schedules continue to expand.	predict and are effectively included in the demand and volume increase amounts under the staff demand modelling process used by AvSec. • However, a further 2 FTE is required for maintenance of the current service standard for screening to be available for international passengers from 2 hours prior to departure.		
Other costs • Effective frontline functions require sound systems and processes to ensure they are deployed as efficiently as possible, staff can perform their jobs easily to the required standard, and use business intelligence to reduce risks or drive improvements. The vast majority (95%) of AvSec staff are frontline, with the remainder performing functions to support frontline operations. Shared Corporate services are also provided for the whole Authority as described earlier. Ensuring continuing effective operation for a nationwide frontline workforce on the scale of AvSec cannot be done without maintaining ongoing enabling functions. These functions have increased proportionately as the whole workforce has grown remaining at around 10% of AvSec's total. These functions include enhanced planning and training requirements to keep pace with the larger workforce – additions to date: 51 FTE, with more planned out to 30 June 2027. • Increased operational management requirements at airports for supervision, change implementation, and risk evaluation – additions to date: 22 FTE, • Increased workforce management and rostering capacity to efficiently assign five million duties on shifts per annum (AvSec employee duties change frequently within shifts to maintain vigilance and effectiveness) – additions to date: 9 FTE • Increased intelligence capability to harness available business information with joint airport partners – additions to date: 4 FTE.	There are two proposed interventions: **Cost Recovery increase** Funding through options discussed in part two of this CRIS should be increased from sector recoveries to meet existing resourcing levels and support resourcing growth to improve on current performance. **Resourcing** There are 2 additional FTE proposed to be added to these enabling functions through to 30 June 2027.	The most significant benefit of increased sector funding is maintaining the current resourcing levels when Government support ends on 1 July 2025. This avoids the need for the Authority to undertake significant redundancies to meet a significantly lower budget and averts a range of serious consequences for the sector. Benefits include preventing: • Redundancies equivalent to 87 FTEs and a reduction in budget of $9.8 million • Challenges effectively and efficiently deploying a much-reduced workforce (particularly for airports outside of Auckland) In terms of outcomes and benefits from the effect of achieving funding to maintain but add to existing resourcing levels: • Current FTEs: 230 • Current Cost: $26.12M • Proposed FTE Increase: 2 • Increased costs: $0.2M	

Problem	Evidence and data to support the problem	Proposed intervention	Expected outcome/s and benefits	Performance measurements
System and practice design - CAA				
After 1 July 2025, funding the Authority at the status quo rates will result in a reduction of 21 FTE. **An outdated regulatory system creates inefficiencies and increases burdens on the sector**	**Regulatory stewardship and new legislation** *We have a backlog of policy and Rules work. The Civil Aviation Rules are not maintained to a level where they keep pace with international standards and technical developments.* There are over 2,000 pages of highly technical and interconnected rules and over 4,000 pages of associated advisory circulars that provide even greater detail and specificity. Along with the Act, these provide the overarching regulatory framework for the aviation sector. In a highly technical sector, these standards change and respond to new risks and developments. • There are 77 general issues that have been raised about the Rules (as of 27/05/2024) that require assessment. • Additional to the above, there are 76 specific issues identified with the Rules which may unnecessarily inhibit the deployment, development, or uptake of alternative propulsion technologies (such as hydrogen or electric aircraft) in New Zealand. Supporting Air New Zealand and other operators in their efforts to reduce aviation carbon emissions is a top priority for the Authority. • Changes to international standards are key drivers of rule amendments. In 2023, we received 15 ICAO State Letters setting out proposed or finalised amendments to international standards. In 2024, we have already received 20 letters setting out finalised amendments to international standards (as of 27/05/2024). Each of these changes require careful consideration in the New Zealand context before they are adopted into New Zealand legislation. These can be significant; for example, one proposed amendment to Part IV of Annex 6 will add hundreds of new standards relating to unmanned aircraft and this standard is over 160 pages long. The ICAO security audit of 2022 made findings in relation to rules that require significant updating, particularly relating to cybersecurity and cargo. We're obliged to resolve these issues. • Roughly a quarter of Advisory Circulars are out of date and require updating and	This approach has three interventions: **Cost Recovery increase** Funding through options discussed on page 45 onwards should be increased from sector recoveries to meet existing resourcing levels and support resourcing growth to improve on current performance. **Business operations** • We are focussed in ensuring regulatory design and associated operational policies are fit for purpose, so they are both effective with respect to their intent, and efficient with respect to their operationalisation. • We are seeking to make Civil Aviation Rules flexible and enduring, using (where appropriate) performance-based design. This means that Rules are more flexible and resilient and will reduce the number of rule amendments required to keep the Rules up to date. • We are also utilising new tools, such as Transport Instruments, where prescriptive detail can be included in instruments that are more easily kept up to date. • We've invested heavily in engaging with other states to learn lessons. This has included sharing platforms for managing compliance more efficiently. These are all long-term efficiencies that need investment up front to reduce effort in the longer term. **Resourcing** • 2 FTE for policy and rules work. These will focus on resolving findings from the security audit, specifically the cargo findings. They will also focus on high value areas like amending the regulatory framework to enable advanced aviation technology and alternative propulsion systems to support emission reduction in aviation. • 4 FTE for operational policy and guidance work. This will focus on improving processes and operational policy so that	The most significant benefit of increased sector funding is maintaining the current resourcing levels when Government support ends on 1 July 2025. This avoids the need for the Authority to undertake significant redundancies to meet a significantly lower budget and averts a range of serious consequences for the sector. Benefits include preventing redundancies of 21 FTEs (47 percent) and a reduction in budget of $3.7 million. Such significant reduction in FTE for these functions will result in: • No Emerging Technologies Unit (ETU) to resolve complex challenges relating to certification of emerging technology, and no interface between the sector and the frontline inspectorate. This will shift back the pressure on frontline inspectorate to meet the 'pre-certification' demand, and result in increased wait times for both the traditional aviation sector and the emerging technology sector. • Realistically, it could bring an end to the rollout or testing of many technologies in the emerging technology sector because firms' commercial and investment horizons are already under pressure at existing resourcing levels. • Inability to support the Transport Rules Programme beyond the small amount of contract funding received from the Ministry of Transport, which has not increased for over 10 years. • The limited policy and rules work will see the Civil Aviation Rules become more out of date and misaligned with international standards. This will result in increased burdens on the sector and extend certification wait times, as both the sector and frontline inspectorate will be operating within an outdated rule set. • An increase in exemption requests. • No updates to Advisory Circulars or regulatory interventions to solve resolve specific aviation safety risks. • Significant reduction in operational policy and regulatory learning to support the frontline inspectorate to be more efficient through a risk based and intelligence led approach. • Significant reduction in ministerial servicing which will not meet the needs or expectations of ministers. • Significant reduction in advice to other agencies	• We develop and maintain rules in accordance with the Minister's agreed programme (100%) • We assess current and emerging issues in the aviation system, and develop appropriate responses (100%) • We respond to requests for policy advice from government departments and agencies on issues affecting aviation safety and security (100%) • We implement new legislation, including development of supporting guidance and operational policy (100%) • We support the Airspace Integration Trials programme in accordance with the terms of reference with MBIE.

	amending. • There are four aviation safety risks identified for which a specific regulatory intervention is required but there is no resource to carry out the work. • The Director has granted 79 exemptions in 2023. This includes exemptions from Rules that require review and amendment where there are known issues (such as portable electronic devices and use of satellite phones).	we can be more internally efficient and make things easier for the sector. It will also address backlogs in keeping guidance documents (Advisory Circulars) up to date. • 1 FTE is to develop 'regulatory interventions', where we work with the sector to mitigate risks in the aviation system.	in their policy development (such as MBIE on HSWA regulations or space-related policy, Ministry of Transport on Drone Integration and Unmanned Traffic Management), responding to or engaging with agency consultations (impacting the assurance value of consultations because of the risk that major impacts were not properly surfaced). • We will have limited opportunity to influence international standards or keep up to date with key developments. This will have negative impacts on our international standing and our long-term work to maintain safety and security standards. This will have a particular impact on the Authority's ability to support the Government priority areas (such as emerging aviation technology). The 7 additional FTE will help to generate efficiencies and reduce burdens on the sector by: • addressing key areas in the Rules that are a priority for the sector's operations – providing clearer certification pathways to frontline inspectorate, and • improving operational policy to support frontline inspectorate to be more efficient through an intelligence-led, risk- based regulatory approach. • Improve aviation safety and security through policy, rules, guidance and regulatory interventions on high priority risks identified by the sector and ICAO. • Current FTEs: 45 • Current cost: $8.0m • Proposed FTE increase: 7 (2 FTE for policy and rules work, 4 FTE for operational policy and guidance work, 1 FTE is to develop 'regulatory interventions) • Cost of increased FTEs: $1.3 million	
	International engagement and responsibilities The New Zealand civil aviation system sits within a wider international system. The Authority administers New Zealand's international civil aviation obligations and interests within the delegations of the Minister of Transport. As a Member State of ICAO and a signatory to the Chicago Convention, New Zealand has a range of obligations relating to adopting international standards and maintaining our Continuous Monitoring Approach. Through attendance at ICAO events the Authority influences the development of these international standards to ensure that those standards work for New Zealand. *Shortage of capacity to meet demand*	**Resourcing** 3 FTE contribute to high value international engagement. This resource will initially focus on preparing for the upcoming ICAO safety audit in 2025. They will then ensure that we maintain the Continuous Monitoring Approaches well as enable New Zealand to better participate in the National Aviation Authority (NAA) partnership with the US, UK, Canada, and Australia.	The 3 additional FTE will help to generate efficiencies and reduce burdens on the sector by: • Ensuring that New Zealand is well prepared for the safety audit and demonstrates a high level of compliance with international standards, indicating a strong aviation safety oversight. • Maintaining high compliance scores (which are publicly available) is a factor considered by other jurisdictions when entering into aviation-related agreements and can have an impact on the procedures that an airline must follow when flying into or out of a low-scoring nation. Significant drops in our EI score may lead some aviation services to New Zealand being reduced or cut entirely. • Meeting our continuous monitoring obligations in an ongoing way, as required by ICAO.	• The Authority's international activities are consistent with ICAO's global priorities for aviation safety and security. • Our activities to influence ICAO are consistent with the goals of the Authority's international strategy (100%) • Our international relationships (including with Pacific countries) are consistent with the goals of the Authority's international strategy (100%) • We provide regulatory support and assistance to Pacific Island

	We were audited against our compliance with international security standards in 2022, and are due to be audited against international safety standards in 2025. Significant work needs to be done to prepare for these audits and maintain the Continuous Monitoring Approach on an ongoing basis. For example: • In 2023, we managed 81 State Letters from ICAO headquarters and 210 State Letters from the regional Asia Pacific ICAO office. We need to review these and demonstrate compliance in advance of the audit and continue to review and update regulatory settings on an ongoing basis. • There are 1,460 Protocol Questions that must be kept up to date in an online portal, along with compliance evidence, which New Zealand will be audited on. We need to undertake a full review of over 800 safety protocol questions and evidence lodged prior to the safety audit. This includes amending all responses to the questions to align with the new Civil Aviation Act 2023. • There are approximately 12,000 Standards and Recommended Practices (SARPs) that we must monitor our compliance with and file official Differences where New Zealand does not wholly comply. We need to review these before the audit, and keep them up to date on an ongoing basis. New Zealand is represented on many working groups and task forces in order to influence the international standards in New Zealand's best interests. • The Authority represents New Zealand in over 50 technical and strategic panels and working groups for ICAO or other industry bodies. We need to maintain this level of engagement so that we can work with other States on complex issues and share information on the certification of new technology. • We are part of a number of informal partnerships working on specific issues to influence ICAO as a group. This includes the National Aviation Authority partnership with UK, USA, Canada and Australia. We need to increase our participation in high value partnerships in order to better influence global developments in the best interests of New Zealand and our aviation sector. We are not a member of the ICAO Council or involved in as many ICAO Panels as our key partners, so it's important that we utilise these groups to		• Increasing our participation in the NAA partnership to better influence international standards I the best interests of New Zealand, reducing compliance costs for our sector. • Proposed FTE increase: 3 • Cost of increased FTEs: $0.5 million p.a.	States as agreed with the Ministry of Foreign Affairs and Trade

	increase our influence on important matters that impact New Zealand. • We have formal agreements in place with 16 other States, including Europe, the USA and Singapore. Entering into formal agreements to mutually recognise regulatory approvals has huge benefits for the New Zealand aviation industry, as it reduces the need for approvals to operate, undertake maintenance, manufacture etc overseas. Many of these agreements are becoming out of date and require further work to achieve the benefits for the sector.			

Problem	Evidence and data to support the problem	Proposed intervention	Expected outcome/s and benefits	Performance measurements
Core enabling functions – CAA and AvSec				

After 1 July 2025, funding the Authority at the status quo rates will result in a reduction of 95 FTE.
 	
Funding for core enabling functions is a barrier to operational performance, with insufficient capacity to support the frontline.
	The Authority employs 1,951 FTE (budgeted as at 30 June 2025). We are a relatively large Crown Entity, larger in size than mid-sized public service departments and departmental agencies like Statistics New Zealand, New Zealand Customs Service and the Ministry of Foreign Affairs and Trade. We operate across eight locations. Our core enabling functions are necessary to support the smooth operations of a large operational and dispersed workforce, covering business areas such as:
	
	• Information system and technology support
	• Finance and procurement
	• Workplace and sustainability
	• Legal
	• Engagement and communication
	• Regulatory intelligence and system risk
	• Strategy planning and reporting
	• Governance and executive leadership
	• People operations
	• Capability
	• Health and Safety
	• Payroll
	• Recruitment
		Cost Recovery increase
		Funding through options discussed in Part Two of this CRIS onwards should be increased from sector recoveries to meet existing resourcing levels and support resourcing growth to improve on current performance.
		
		Resourcing
		• There is a ratio 'uplift' built into the Authority's financial model that provides an uplift proportionate to frontline roles for funding core enabling functions.
		• There are no specific FTEs associated with this funding, although recruiting FTEs for core enabling functions may be one element of the way this funding is used.
		• This is because a significant element of the funding goes to non-people (non-salary) cost drivers, such as:
		  ○ 9,000sqm of leasing costs at airports, which are charged at prime retail rates, or carparking costs (without which AvSec cannot employ staff at airports).
		  ○ Recruitment costs
		  ○ Training costs
			The most significant benefit of increased sector funding is maintaining the current resourcing levels when Government support ends on 1 July 2025. This avoids the need for the Authority to undertake significant redundancies to meet a significantly lower budget and averts a range of serious consequences for the sector (including items listed below).
			
			Benefits include preventing redundancies of 95 FTEs (46%) and a reduction in budget of $13.6 million.
			
			Other negative impacts averted include:
			
			• Breaching committed contracts, such as information systems and building 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.
			• A severely limited ability to take enforcement action or prosecution.
			• Significantly reducing or ending key engagement and education mechanisms, such as courses and workshops, Vector magazine and Good Aviation Practice booklets.
			• Inability to recruit or meet employment obligations or processes for a large workforce.
			
			Information and Technology
			• EMPIC is the new core ICT regulatory system for the CAA that will be delivered in late 2024. The original EMPIC Business Case did not
				We maintain appropriate capability[3] for core functions – appropriate resourcing to meet service level requirements
				
				Note: We do not yet have specific performance measures relating to our core enabling functions. We have begun to identify a series of trend indicators through the 2024/25 business planning processes that are directly related to these functions. We will use these trend indicators to develop performance measures over the next 12 months.

[3] 'Appropriate capability' is the minimum level of operational viability which will enable the Authority to deliver its statutory functions and regulatory outputs in accordance with our Statement of Performance Expectations, international obligations and domestic law, regulations, and rules. We are developing workforce plans to inform the capability and capacity required of our people.

			provide for ongoing operational support (), as the business case authors assumed such costs would be considered and consulted on as part of the 2020 Funding Review that the Government stopped due to COVID-19. The existing core ICT regulatory system is over 30 years old and at its end of life. There are no ICT professional employees (or staff who could be re-assigned given the technical requirements of the EMPIC software). • Not able to directly support ICT systems (equipment, servers, CCTV, LiDAR) at AvSec screening points at all 6 security-designated airports across New Zealand. If these ICT systems are not supported, this would result in more manual screening of hold stow and cabin baggage. In turn, this would lengthen screening queues and potentially worsen aviation security outcomes. • Multiple ICT systems and hardware are at their end of life, as the CAA has deferred replacement of key ICT systems and hardware over the last five years as a direct result of the COVID-19 pandemic. A number of these ICT systems and hardware were meant to be considered as part of 2020 Funding Review that the Government stopped due to COVID-19). The ICT team is working on a 'best endeavours' basis to keep key existing ICT systems and hardware operating by reusing spare parts. The cost of maintaining the existing ICT systems and hardware will continue to increase if these are not replaced in the near term. • No ability for the CAA to install and maintain newer systems (such as LiDAR) to improve passenger facilitation. **Finance and Procurement** • With the increase in AvSec staff numbers to undertake new work (such as Non-Passenger Screening), this requires a proportionate increase in support staff such as payroll services. • Directly impacting the ability to issue invoices to participants and collect revenue, follow up with debtors. • Undertake analysis and reporting required by the monitoring agency, Treasury etc. • Limit scope to gain efficiencies from procurement because existing and new agreements will not be resourced for appropriate management (savings, performance, innovation etc). **Workplace and Sustainability** • The majority of CAA and AvSec leases in airport terminals and support facilities have long-term leases in place which cannot be exited (the CAA looked at this option very closely at the start of the COVID-19 pandemic to reduce its cost base) without the CAA incurring significant break-costs (nearly to the value of the full term of the	

			leases). This is further impacted by the high inflation on lease costs. Moreover, AvSec has needed to recruit additional staff to meet additional requirements like Non-Passenger Screening, resulting in the need for more space for staff to meet health and safety requirements. It has also led to the need to lease additional space at aerodromes for Non-Passenger Screening, and more space in terminals given the size of screening equipment has also increased. This means FTE reductions are the only option available to reduce costs. • A reduction in FTE would limit AvSec's ability to issue Airport Identification Cards (used to allow workers to access airside). This would directly affect companies operating at aerodromes (i.e. airline staff, airport staff, Border Agency staff, painters, plumbers, electricians etc). • The existing fleet of CAA and AvSec vehicles are at or near their end of life. Not replacing these would directly impact the ability of AvSec to undertake patrols, and other security regulatory activities. • The replacement, maintenance and installation of AvSec screening equipment at all 6 security-designated aerodromes across New Zealand. **Legal** *Impacts of a reduction in staff:* • The legal team provides immediate advice to front line (and support) activities. The team is already under pressure to provide timely legal support and advice to the Authority. A reduction in numbers would see this pressure intensify and could result in a lack of (or rushed) legal advice, affecting the quality of regulatory decisions and certification activities. • With the change in Act, there will be an increase in advice required as we work through what some of the new functions, responsibilities and obligations of the Act entail, especially in the DAMP and Directors Powers areas. If the team reduces in size, we will be unable to provide comprehensive advice to embed requirements of the new Act. • The level of OIA requests has significantly increased over the past year, and the Legal team's ability to meet the OIA timelines has slipped in some instances. If numbers in the OIA area are reduced, but OIA requests remain at current levels or continue to increase, more timelines are likely to be missed. *Benefits of an increase beyond current staffing levels:* • Timely legal advice will be provided, which will see an improvement in our ability to deliver on our regulatory activities and ensure successful delivery of the new Civil Aviation Act.	

			Engagement and communication *Impacts of a reduction in staff:* • The Education, Engagement and Communication team provides direct support to regulatory activities and outcomes through safety campaigns and educative activities. Education is a key regulatory tool to inform participants about what is required to comply with Rules. If this team reduces in size, it would have a direct impact on our ability to provide timely information to participants and could impact significantly on the safety and security of the system. • Response to media queries, providing online and printed publications would all decline. • Ability to communicate across the Authority in a co-ordinated way would drop off. This would have a negative impact on culture. The Authority's annual Your View survey results clearly show that internal communication is important to our people, and indicate that improvement is required. If the team was reduced in size, improvement would be slower to occur. *Benefits of an increase beyond current staffing levels:* • An increase in the size of this team would have a direct impact on participants within the sector and on the frontline team delivering regulatory activity. Timely, and proactive, education would occur, and would help us to achieve our modern regulatory requirements, particularly in the anticipatory regulatory space. • Proactive communications across the Authority would increase support and wellbeing • Proactive engagement with stakeholders and the wider Aviation sector would increase, having a positive effect on response to regulatory activities. **Regulatory Intelligence and System Risk** *Impacts of a reduction in staff:* • Intelligence products support our frontline activities and ensure correct deployment of resource to have the most impact on safety and security of the system. Our intelligence products inform where risk occurs in the system, which can be participant and/or sector specific. The Authority's frontline teams are becoming more proactive in requesting intelligence reports where they identify potential risk areas. If the intel team was to reduce in size, then our ability to respond more proactivity to risk would decline. • Intelligence reports would not be timely and could lead to unacceptable risk occurring across the sector, as reports are not being prepared which will inform our monitoring and inspection activity.	

			Benefits of an increase beyond current staffing levels: • More intelligence products to inform where staff are best deployed to address the most severe actual or potential risk, better use of available staff on frontline activities, and better regulatory outcomes to address unsafe behaviour outside of expectations. **Strategy, Planning and Reporting** *Impacts of a reduction in staff:* • As a Crown Entity, the Authority has statutory reporting requirements that provide transparency and accountability to the government and the public. The Strategy, Planning and Reporting cycles overlap, and there are already periods of pressure across the year. If FTE numbers were reduced, it is likely that key reporting requirements would not be met or products will not deliver to expectations – specifically reporting to the Board and the Minister on a quarterly basis; having the Annual Report ready for Audit NZ audit timelines; having an SOI/SPE in place that reflects the current intent and performance of the Authority. There would need to be a trade-off in terms of meeting the statutory timelines and/or producing a report of the required quality. *Benefits of an increase beyond current staffing levels:* • Meeting the Minister's Letter of Expectations to refresh our approach to performance reporting and develop a new suite of performance targets. Our focus on performance reporting will see an increase in both external and internal measures so that we can identify trends in our performance and adjust where required. • To manage in the current fiscal environment, effective business planning will inform efficient resource allocation. The ability to plan for out years will ensure longer term efficiencies by managing staff numbers to ensure delivery of core functions. • Increased business intelligence functionality will inform longer term resource allocation and requirements. • Increased planning functions allow better understanding of changing frontline requirements and allow for modification to work request allocation, prioritisation and procedures, to improve certification and licensing activity quality and timeliness. **Governance and Executive Leadership** *Impacts of a reduction in staff:* • Our ability to ensure there is effective leadership	

			focus on core business and support activities will reduce. • Effective Governance oversight and leadership to manage CAA core business, balance current pressures to implement changes under the new Act, improve delivery of functions such as certification and licencing, ensure a safe and secure aviation system and meet international obligations would reduce. • The ability to provide timely information through to the Board, Minister and MoT would decline. • Need to focus on strategic direction and as opposed to operational matters would reduce. *Benefits of an increase beyond current staffing levels:* • An increase in staff would enhance the work to lift the capability of the leadership teams. • The Enterprise Portfolio Management Office (EPMO) would be able to have fully integrated portfolios of work across the Authority as opposed to a narrow focus on projects. • Our internal assurance activity would be able to proactively target more areas of need rather than let capacity determine the focus. **People Operations** • Impact on core support to ensure legislative compliance as a good employer delivering within good faith requirements across our collective agreement and IEA obligations. • Limit the ability to address employment matters. • Impact recruitment, specifically frontline roles where 80% of our recruitment activity is supporting bulk recruitment and the delivery of pre-employment requirements. • Ability to manage workforce information (data and employment documentation), the flow of information that informs payroll accuracy, external reporting responding to WPQ, OIA and other Government and Employment Authority requirements. **Capability** • Risk to capability development supporting core functions, compliance/regulatory frameworks, technical frontline security requirements, management accountabilities and leadership. • Limit ongoing cultural improvement gains off the back of Ministerial culture review. • Ongoing investment and maintenance of people systems which includes responding to audit outcomes and risks monitored by internal risk and assurance requirements. Ensuring people systems and processes are secure due to the management of personal and sensitive information.	

			Health Safety and Wellbeing • Ongoing investment and maintenance of H&S systems and reporting requirements which includes responding to audit outcomes where recommendations have identified risk and several required improvements. • Managing the critical Health, Safety and Wellbeing requirements across our workforce and our differing environments with a focus on frontline risks within a security environment. For example, managing fatigue in a frontline workforce that works shift patterns and requires attention to detail when delivering screening outcomes. The additional funding here is proportionate to the proposed growth in the rest of the Authority.	

Frontline and direct enabling functions make up most of the Authority's resourcing

The table below provides a summary of FTE changes since 2018/19. It is divided into FTEs across the frontline, direct enabling functions (which carry out regulatory activities or set the overarching regulatory framework) and 'back office'. Notes are provided below.

It is difficult to provide comparable FTE figures through time because the Authority has made organisational changes in response to the evolution of the sector and market conditions (for example, the emergence and growth of unmanned aircraft, or the COVID-19 pandemic).

Frontline and direct enabling functions have made up over 90 percent of total FTEs in 8 of the last 9 years. Due to this very high proportion of frontline FTE in the Authority, if we did not increase our income from 1 July 2025, the scale of the required resourcing reductions would unavoidably fall heavily on the frontline. This would directly impact the sector.

							Forecast	Budget	Budget	Budget
CAA		**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Frontline	AS	122	122	129	128	130	137	137	153	166
	AS&I	17	17	17	17	20	24	24	29	29
	Total CAA Frontline	139	139	146	145	150	161	161	181	195
System, Practice & Design	SP&D	19	19	27	29	36	50	50	56	60
Enabling functions	Intelligence function	4	4	4	4	13	18	18	18	18
	Engagement & Communications	9	9	9	13	13	13	13	13	13
	Total CAA Enabling functions	13	13	13	17	26	31	31	31	31
Whole of Authority 'Back-Office"	Chief Executive Office	2	2	2	2	2	2	2	2	2
	Corporate (Digital/Workforce/Finance)	51	51	65	58	65	92	92	92	92
	People	24	24	32	33	32	45	45	45	45
	Strategy, Governance, Risk & Assurance	20	21	25	24	18	30	30	30	30
	Total Authority Back-Office	97	97	124	117	117	169	169	169	169
Total CAA		**268**	**268**	**310**	**307**	**328**	**411**	**411**	**437**	**454**
AvSec		**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Frontline - Security Operations	Security Officer	785	955	825	1,038	1,119	1,168	1,168	1,287	1,326
	Team Leader 'on-the-floor'	91	120	111	121	119	126	126	143	143
Frontline - Explosive Detector Dog Unit	EDD Team Leader 'on-the-floor'	5	6	4	5	5	5	5	5	5
	EDD Dog Handler	34	36	34	32	33	32	32	44	44
Frontline - Behavioural Detection Unit	BDU Team Leader 'on-the-floor'	1	2	3	3	3	3	3	3	3
	BDU Officer	9	21	23	14	20	21	21	25	25
Frontline Direct Support	On-Airport Managers	22	30	30	31	31	30	30	30	30
	On-Airport Operations	12	12	16	16	19	20	20	20	20
	Nationwide Security Operations	2	3	7	8	5	5	5	5	5
	Nationwide EDD	7	9	8	8	10	12	12	12	12
	Nationwide BDU	1	1	1	1	1	1	1	1	1
	Training	12	15	17	22	23	23	23	23	23
	Rostering	21	21	19	22	26	28	28	28	28
	Total AvSec Frontline	1,002	1,231	1,098	1,321	1,414	1,474	1,474	1,626	1,665
Enabling Functions	Planning & Performance Management	6	7	8	9	13	12	12	13	13
	Compliance & Improvement	13	14	15	19	20	20	20	20	20
	Installation & In-service Management	7	10	15	15	17	17	17	17	17
	Airport Identity Card Issue	5	5	3	3	4	4	4	4	4
	Protective Security	-	-	-	-	2	1	1	2	2
	Intelligence	-	-	-	4	4	4	4	4	4
	Leadership Team & Support	7	8	8	8	8	8	8	8	8
	Total AvSec Enabling Functions	38	44	49	58	68	66	66	68	68
Total AvSec		**1,040**	**1,275**	**1,147**	**1,379**	**1,482**	**1,540**	**1,540**	**1,694**	**1,733**
Total Authority	**Establishment FTEs**	1,434	1,543	1,457	1,686	1,810	1,951	1,951	2,131	2,187
	Frontline	1,160	1,370	1,244	1,466	1,564	1,635	1,635	1,807	1,860
	Percentage of Total FTEs	81%	89%	85%	87%	86%	84%	84%	85%	85%
	System, Practice & Design	19	19	27	29	36	50	50	56	60
	Enabling Functions	50	56	62	75	94	97	97	99	99
	Percentage of Total FTEs	5%	5%	6%	6%	7%	8%	8%	7%	7%
	Back Office	97	97	124	117	117	169	169	169	169
	Percentage of Total FTEs	7%	6%	9%	7%	6%	9%	9%	8%	8%

Notes for the table:

- The CAA and AvSec operate a shared services model where staff in all support functions (such as People and Corporate) are employed through the CAA. The costs of the shared services model are recovered through internal cost recovery mechanisms across all “business units”. The Civil Aviation Act 1990 (and the new 2023 Act) require the Authority to maintain separate accounts for AvSec and CAA, and for each to reflect the full costs of their functions. This means that the FTE numbers for the support functions need to be viewed in relation to the whole Authority, and particularly reflect the growth in AvSec that was set in motion following its 2019 review and enhanced screening requirements (e.g. roll out of AIT scanners and increased non-passenger screening). AvSec’s share of the costs of these functions are recovered by way of a ‘shared services charge’.
- The CAA had a full organisational restructure that commenced in 2019 and went live on 1 July 2020. The restructure fundamentally changed the way in which the regulatory operations (e.g., certification, monitoring and inspection) frontline functions were organised, as well as the ways in which enabling functions were structured. It also introduced new functions such as intelligence and operational policy practice and guidance. Further, a number of capabilities were ‘in-sourced’ (e.g. in digital) where permanent FTE replaced outsourced contracting arrangements, with no net increase in expenditure even though FTE increased. The restructure was initially required to be delivered in a fiscally neutral way (excluding one-off change costs recognised in FY2020), around the same time as the liquidity facility appropriation was first put into place in Budget 2020 (in the early months of the COVID-19 pandemic). In reality, the number of new roles to be introduced were scaled back in response to the reduced revenues associated with the impacts of the pandemic.
- During the COVID-19 pandemic, a significant number of AvSec front-line personnel were re-deployed to support Managed Isolation and Quarantine (MIQ) facilities, for whom the costs were recovered from Liquidity Funding (they remained AvSec employees, and thus appear as frontline staff during the period of the pandemic).
- New teams have also been created through various Budget or re-prioritisation processes, particular within the System and Practice Design Group. This includes the Emerging Technology Unit.

Other growth areas were in response to recommendations made through various reviews (e.g., a Value for Money Review undertaken by PWC) which identified back-office and enabling functions as being too lean (i.e., insufficient to effectively support frontline operations).

Part Two: Cost Recovery

The Authority's Current Cost Recovery Model

Funding of the Authority is built around three fundamental pillars

Pillar	Description
Policy and legal framework	Since 1990, it has been Government policy for the Authority to recover its costs from the aviation sector rather than publicly funding them through general taxation, with a legislative basis for doing so.
Specific cost recovery settings	The specific cost recovery arrangements at any given time enabled by the legislation, are developed against cost recovery principles used across Government, and publicly consulted.
Periodic reviews	The cost recovery arrangements are reviewed regularly at either a first principles level (where significant operational changes warrant) or pricing level (where costs have increased but operations have not materially changed).

Sector cost recovery forms the basis of the Authority's funding

The **policy and legal framework** is critical to funding the Authority's regulatory activities.
In its present form, the Authority has operated under a policy of recovering its costs from the aviation sector since its creation under the Civil Aviation Act (1990) (the Act). This funding policy has been sustained during five different Governments. The new Government has indicated that it supports this policy and has directed the Authority to return to financial self-sufficiency through sector revenue by 1 July 2025.

The policy is justified on the basis that participants in the aviation sector (be they commercial parties, or consumers) are a distinct group relative to the general population, who generate specific risks and receive specific benefits. It would not be fair to fund the costs of regulating the sector to maintain safe and secure operations through general taxation from the wider public.

The only exceptions are a small proportion of costs considered to be 'public goods' where funding could be justified from general taxation (such as preparing advice for the Minister of Transport).

Recovery mechanisms do not have to directly align with cost generation under the Act

There is one crucial distinction between general cost recovery principles applied in Government and the specific statutory context for the Authority. Section 38 and 42A of the Act form the legislative mechanism to provide the Authority with the ability to recover the costs of its regulatory activities through the setting of **fees**, **charges,** and **levies** on the aviation sector. The Act provides broad **flexibility** in the types of fees, charges, and levies that we can establish and the **basis** on which we charge.

Strict alignment between the underlying costs of the Authority's functions, and the level of any given fee, charge or levy are not a requirement of the Act. This is important because it can be difficult to achieve a direct match between costs and funding sources and the Authority's funding settings reflect this (discussed below), and because this is a departure from the general goal of cost recovery principles.

Updated fees, charges and levy settings for the Authority will be prescribed through the Civil Aviation (Safety and Security) Levies Order 2002 and the Civil Aviation Charges Regulations (No.2) 1991 and will continue with this flexibility.

A first principles funding review was undertaken to establish the current cost recovery regime

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. These applied the principles

specified by The Treasury, the Office of the Auditor-General of New Zealand, and the Ministry of Transport[4] ('principles').

In those funding reviews, we determined who should pay, and the most appropriate way for them to pay, against the funding principles. We considered the economic nature of the Authority's activities and what that meant for the appropriate types of charging for public goods, fees, levies and charges.

Type of Good	Recovery Mechanism	**Specific Authority Examples**
Public good	Generally recovering the costs of a public good from the community as a whole via general taxation is appropriate.	The costs of maintaining international relationships necessary for the functioning of New Zealand's aviation system, the preparation of policy advice for the Minister of Transport or responses to Parliamentary Questions.
Club good	Generally recovering the costs of a club good from a specific group of participants through a levy is appropriate	Levies like the Passenger Safety Levy and the Agriculture Operator Safety Levy enables the Authority to carry out its oversight functions, including monitoring, investigation, enforcement, education, and engagement.
Private good	Generally recovering the costs of a private good from the specific participants who benefit from it is appropriate, through a fee (where costs are repeated and relatively standardised) or charge (where costs are quite variable each instance).	Aircraft change of ownership fee, annual aircraft registration fee, air transport pilot license fee, approval for exemption hourly charge, approval of aircraft modification hourly charge

Links to the previous first principles funding reviews that this pricing review relies upon can be found at:

https://www.aviation.govt.nz/about-us/what-we-do/how-we-are-funded/previous-funding-reviews/

Levies provide the majority of Authority income

The effect of the empowering legislation and application of the funding principles to the Authority's functions and operating environment has been that the Authority recovers the majority of its funding from safety and security levies on passenger air transport operations, and this continues in the present pricing review.

[4] Guidelines for Setting Charges in the Public Sector, New Zealand Treasury (2017); Setting and administering fees and levies for cost recovery: Good practice guide, Office of the Auditor General (2021); Transport regulatory system funding principles, Ministry of Transport (2018).

This review is a pricing review

This review is limited to a pricing review covering financial years 2026 and 2027 and constitutes the first stage of a two-stage approach.

The Minister of Transport has made decisions limiting the present funding review to being a **pricing review** based on the cost recovery framework and mechanisms established through the comprehensive first principles process for CAA in 2017 and AvSec in 2019. Accordingly, there is no first principles analysis and development of new funding mechanisms, nor any changes other than adjustments to the pricing of existing fees, charges and levies.

This CRIS does not analyse options against the principles. The options were analysed against each other and against the status quo using a set of criteria. Those criteria are thematically consistent with the principles but have a different emphasis in order to highlight the impacts of each option and the trade-offs across the options.

A second stage first principles funding review is planned to commence once this pricing review is in the late stages of progress, with the intention to be ready for implementation on 1 July 2027 at the end of the pricing review term.

Overview of the Authority's revenue and expenses

The following two tables summarise the Authority's overall revenue sources and expenses. Key features that the tables highlight include:

- The funding deficit for CAA and AvSec once the liquidity facility ends in June 2025.
- The very limited Crown funding that the Authority receives (outside of the temporary Liquidity Facility that will end 30 June 2025).
- Levies make up the overwhelming majority of revenue, and revenue from other sources such as fees and charges are very small.
- AvSec has a much higher revenue and cost base than the CAA due to its larger size and scale.
- The CAA appears to have disproportionately high operating costs; however, this is deceptive because the CAA provides the support and enabling functions for AvSec.

Forecast Revenue and Expenses: CAA

Projected Statement of Surplus/(Deficit)		Status Quo	
	FY25 Budget	FY26 Budget	FY27 Budget
Income			
Levies Revenue	32,151	33,301	33,798
Revenue from Other Services	4,966	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	485	485	485
Total Income	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 movement		7,407	2,493
Total funding required to cover deficit and to rebuild reserves		48,859	49,817

Forecast Revenue and Expenses: AvSec

	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	**(5,897)**	**(77,572)**	**(86,239)**
Reserves Rebuild	-	19,167	12,778
Total Funding deficit**	**(5,897)**	**(96,738)**	**(99,017)**

Cost Recovery Options for the CAA

The table below sets out the cost recovery options we have considered. Options 1, 2 and 3 recover the same level of revenue, but the allocation has been split differently. The proposed options have already been scaled through a review undertaken by the Ministry of Transport. This scaling resulted in 47 fewer FTE than the Authority had initially proposed for the CAA (91 FTE down to 44).

Option	Description	Domestic	International	Other Charges
Status Quo	All participant fees, levies and charges remain the same as set in 2017	$1.60	$1.60 (ANZA $1.57)	$246.96/hr and see Annex One for others
Option 1: BEFU23 Inflation adjustment for all participants with funding for residual costs via the passenger safety levy (preferred option)	All participant fees, levies and charges inflation adjusted with requirements for the balance of funding for increased costs secured through an increase to the passenger safety levy on commercial airline travel	$3.94 +146%	$3.94 (ANZA $3.86) +146%	$354.19 and see Annex One for others +$43%
Option 2: Funding for increased costs sourced evenly across participants	All increased costs including both inflation and areas with additional FTEs met through a common percentage increase in all types of revenue sources, including General Aviation fees, levies and charges	$3.65 +128%	$3.65 (ANZA $3.58) +128%	$563.31 and see Annex One for others +$128%
Option 3: Funding for increased costs all via the passenger safety levy	All increased costs including both inflation and areas with additional FTEs met through an increase to the passenger safety levy only – no increase to General Aviation fees, levies and charges	$4.09 +155%	$4.09 (ANZA $4.01) +155%	$246.96 and see Annex One for others +$0%

Cost Driver Composition Compared Between Cost Recovery Options – CAA

The bar stacks below show how the composition of the cost drivers varies across the cost recovery options. The status quo i.e. the "current levy" is the dark blue base part of each bar. Each part of the bar above that reflects a different cost component. Note summative rounding errors in the decomposition and stacking mean the bar stacks show 1 – 2 cents difference from the levy price in the table above.

There are not material differences in the composition of each levy option. However, there are significant differences in the impacts of each option on some sector participants and this reflects the asymmetries of scale: put simply the passenger safety levy spread across potentially 20 million passengers per annum dwarfs the amount of recovery that is feasible from other fees, levies and charges.

For example, including the other fees, levies and charges in Options 1 and 2 only reduces the increase on the passenger safety levy from $4.09 (Option 3, all increase on the levy) to $3.65 (Option 2) or $3.94 (Option 1). In other words, the increase in the passenger safety levy is only around 10 percent spread across many passengers, as opposed to much larger increases in fees, the hourly charge and the levies paid by the general aviation sector.

The composition of the preferred Option 1 increases attributable to existing cost structures and legislative requirements (ie. CPI/wage inflation to FY25 + Restoring reserves + Cost pressures to FY25 + pax still being below pre-COVID levels) is 118% of the 146% increases, or more than three quarters of the increase.

Comparison of Cross Subsidy Impacts Between Cost Recovery Options – CAA

The CAA function includes a large number of fees, levies and charges that do not cover their costs. This does not apply to AvSec.
CAA's activities are reported on through 'output classes' that group largely consistent activities together for management reporting purposes and oversight by the Minister of Transport, and Parliament (e.g. select committees). The table below summarises the four output classes these functions sit in against the type of 'good' the output class delivers, the 'natural' funding source for the activity and the actual majority funding source (the passenger safety levy):

Output classes have a predominant character:	**Type of Good**	**Ideal Funding Source**	**Actual major Funding Source**
Output Class One - Systems Design & Evaluation	Public	Crown	Levy
Output Class Two - Outreach	Club	Levy	Levy
Output Class Three - Certification and Licensing	Private	Fee/Charge	Levy
Output Class Four - Surveillance & Investigation	Club	Levy	Levy

Different output classes have a (predominantly) different character e.g. public vs private goods. Therefore, the cross subsidy in some cases is of fees and charges, but in others, of Crown funding. There are various other funding sources (e.g. interdepartmental contracts) but nothing material enough to affect the analysis overall, and as these 'buy' specific services, capabilities or capacities, and are time-bound not permanent baseline Crown funding (and may not always comprise pure Crown funding, e.g. if from levy payer accounts e.g. HSWA), they are not included in the Crown funding calculation.

We confine our analysis to OC1 and OC3 because for OC2 and OC4 the levy appropriately funds the activity and we do not assess any cross subsidy being in place. The table below shows the cross subsidy of each option for recovery against the OC classes. Note the OC % are not supposed to add to 100% as minor other funding sources are not included in this table.

		Inflation adjust - all rest - onto levies		All fees, charges and levies increased same		All increases via Levy	
		Option 1		**Option 2**		**Option 3**	
		$ '000	**%**	**$ '000**	**%**	**$ '000**	**%**
OC1	Crown	1,622	13.1%	1,622	13.1%	1,622	13.1%
Subsidy by	Levy	8,672	69.8%	8,666	69.8%	8,675	69.8%
OC3	Fees/Charges	7,085	12.1%	11,267	19.3%	4,940	8.5%
Subsidy by	Levy	51,013	87.3%	46,802	80.1%	53,172	91.0%

This highlights and triangulates the point noted in the previous section about the impact of the asymmetry of scale between the volume of passenger levies paid against the volume of other fees, levies and charges: Crown funding would need to increase almost seven fold to remove the levy subsidy from OC1, while fees and charges in OC3 would need to rise between around seven and eleven fold to remove the subsidy of the levy there.

Comparative Analysis of Cost Recovery Options – CAA

This is a pricing review. No new funding mechanisms are being developed, and the current underlying model remains in place. As a result, we have not undertaken a first principles analysis of the proposals against the funding principles. A first principles funding review will be undertaken in the second stage of this review. The proposals are based on of *existing* fees, levies and charges.

Options analysis is limited to the relative benefits and trade-offs against each other. Options 1, 2 and 3 recover the same amount of revenue. As a result, assessments against some criteria are deliberately identical to highlight the trade-offs.

Option	Improves aviation safety and security outcomes	Enables successful fulfilment of statutory functions and international obligations and meets wider Government expectations	Enables an increase in financial and resourcing resilience against variability and events, and unforeseen shocks	Balances cost recovery from the largest number of beneficiaries (or risk exacerbators) of a safe and secure aviation system	Wider financial, economic and/or system performance impacts from a levy increase: least negative impacts, most positive impacts
Status Quo - Retain current fees, levies, and charges but minus Crown funding support in place since COVID-19 pandemic. This will lead to a shortfall of $41 million in FY26 and $47 million in FY27 (excluding reserves rebuild).	Severe downsizing will be required across the regulator. This will reduce safety and security outcomes.	The level of downsizing required would mean that the Authority would not be able to meet all of its functions and obligations. Basic solvency would be in question as consistently meeting payroll or building leases would be difficult given no reserves and seasonality in cashflow. Sector capacity would be reduced from constraints on certification. Statutory functions and international obligations such as	Resilience would severely decline because the status quo reduces expenditure by 48 percent at the same time as continuing without reserves or any steps to rebuild them.	'Cost recovery' is not occurring under the status quo from beneficiaries or risk exacerbators, albeit that 'under recovery' is widely spread.	Although averting a levy increase is a 'positive', this is outweighed by profound negative system impacts from the reduction it entails.

		monitoring, auditing, enforcement could not be undertaken.			
Option 1 - Inflation adjustment for all participants with funding for residual costs via the passenger safety levy **(preferred option)**	Enables the Authority to adequately meet the cost drivers set out in Part One of this CRIS above in relation to its operating environment and expectations, including improved aviation safety and security outcomes.	This option funds the Authority at an appropriate level to meet cost drivers, so that statutory functions, international obligations, and wider Government expectations can all be met to a reasonable standard.	This option funds rebuilding the Authority's reserves to 75 percent of the mid-point range in the Reserves Policy. This will provide financial and resourcing resilience.	This option spreads the increase across the sector in a more equitable way than options 2 and 3 in relation to risk and benefits. Commercial airline activity is the highest proportion of all aviation activity, and where the risks and benefits from system performance are greatest - there is the largest potential for harm to occur to the greatest number of people in the airline sector.	This option enables the Authority to better resource core functions, including certification, reducing wait times and bringing wider economic benefits from more market entrants (competition) and innovation. It has a moderate impact on smaller businesses and the passenger safety levies.
Option 2 - Funding for increased costs sourced evenly across participants	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	This option funds the Authority at an appropriate level to meet cost drivers, so that statutory functions, international obligations, and wider Government expectations can all be met to a reasonable standard.	This option funds rebuilding the Authority's reserves to 75 percent of the mid-point range in the Reserves Policy. This will provide financial and resourcing resilience.	This option sources funding from a wide range of participants and contexts in the aviation system. While it appears fair to spread the costs evenly across all participants, it does not equitably spread the costs across beneficiaries because	This option enables the Authority to better resource core functions, including certification, reducing wait times and bringing wider economic benefits from more market entrants (competition) and innovation. However, it hits smaller businesses harder with little real benefit to passenger

	aviation system as a whole.			most of the beneficiaries (20 million) are passengers.	safety levies due to their disproportionate activity levels.
Option 3 - Funding for increased costs all via the passenger safety levy	Enables the Authority to adequately meet the cost drivers set out in Part One of this CRIS above in relation to its operating environment and expectations, including improved aviation safety and security outcomes.	This option funds the Authority at an appropriate level to meet cost drivers, so that statutory functions, international obligations, and wider Government expectations can all be met to a reasonable standard.	This option funds rebuilding the Authority's reserves to 75 percent of the mid-point range in the Reserves Policy. This will provide financial and resourcing resilience.	This option spreads the increase across one specific part of the sector. It is less fair than option 2, because some participants do not contribute to funding the cost drivers. However, this option does recognise 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. and effective relative to the other options for these reasons.	This option enables the Authority to better resource core functions, including certification, reducing wait times and bringing wider economic benefits from more market entrants (competition) and innovation. It protects smaller businesses with little real net impact to the size of increase required for the passenger safety levies due to the disproportionate activity levels.

Preferred option – CAA

Our preferred option is Option 1 – increasing all participant 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 and rebuild its reserves. 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.

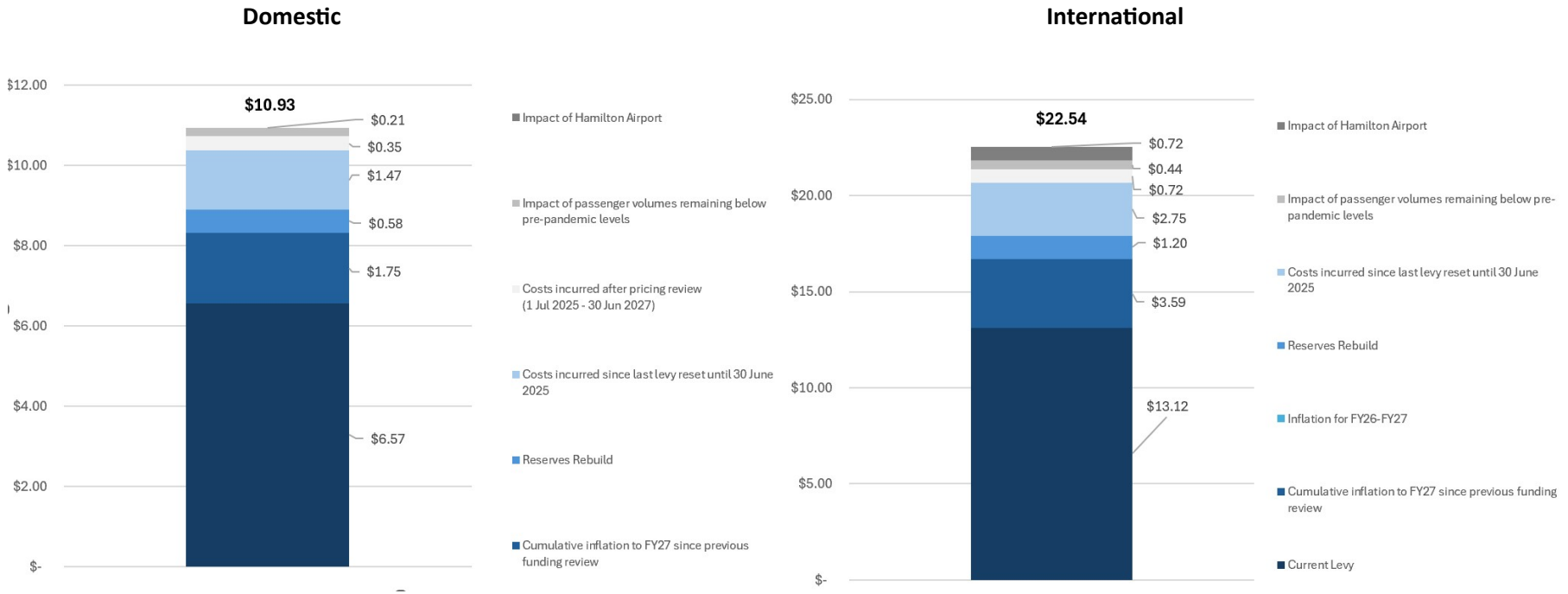
Cost Recovery Options for AvSec

The table below sets out the options we have considered. Options 1, 2 and 3 recover the same level of revenue, but the allocation has been split differently. The proposed options have already been scaled through a review undertaken by the Ministry of Transport. This scaling resulted in 115.6 fewer FTE than the Authority had initially proposed for AvSec (308.6 FTE down to 193).

Option	Description	Domestic	International
Status Quo	All participant fees, levies and charges remain the same as set in 2019	6.57	13.12
Option 1: Funding for increased costs via raising the domestic and international security levy by more or less the same proportion (preferred option)	All increased costs including both inflation and areas where additional FTEs are required met through more or less the same percentage increase to the domestic and international security levy	10.93 +66%	22.54 +72%
Option 2: Funding for increased costs by raising the international security levy only	All increased costs including both inflation and areas where additional FTEs are required met through an increase to the international security levy, while the domestic security levies stay unchanged	6.57 +0%	26.19 +100%
Option 3: Funding for increased costs via creating a new single combined levy	All increased costs including both inflation and areas where additional FTEs are required met through a newly created single passenger security levy that would replace the existing domestic and international security levy	16.36 +149%	16.36 +25%

Cost Driver Composition of Preferred Cost Recovery Option 1 – AvSec

The bar stacks below show how the composition of the cost drivers varies across the preferred domestic and international levy cost recovery Option 1. The current levy rates (the status quo) is the dark blue base of each bar.



Unlike the CAA passenger safety levy, there is no material cross subsidisation in the passenger security levy so the levy pays for the direct input costs involved with providing the security function. The composition of the levy increases attributable to existing cost structures and legislative requirements (ie. CPI/Wage inflation to FY25 + Restoring reserves + Cost pressures to FY25 + pax still being below pre-COVID levels) for AvSec's Domestic levy is 53% of the 66% increase and for AvSec's International levy is 54% of the 72% increase, or more than seventy percent of the increase being existing cost pressures in both cases.

Comparative Analysis of Cost Recovery Options – AvSec

This is a pricing review. No new funding mechanisms are being developed, and the current underlying model remains in place. As a result, we have not undertaken a first principles analysis of the proposals against the funding principles. A first principles funding review will be undertaken in the second stage of this review. The proposals are based on of *existing* fees, levies and charges.

Options analysis is limited to the relative benefits and trade-offs against each other. Options 1, 2 and 3 recover the same amount of revenue. As a result, assessment against some criteria are deliberately identical to highlight the trade-offs.

Option	Improves aviation safety and security outcomes	Enables successful fulfilment of statutory functions and international obligations and meets wider Government expectations	Enables an increase in financial and resourcing resilience against variability and events, and unforeseen shocks	Balances cost recovery from the largest number of beneficiaries (or risk exacerbators) of a safe and secure aviation system	Wider financial, economic and/or system performance impacts from a levy increase: least negative impacts, most positive impacts
Status Quo Retain current fees, levies and charges but minus Crown funding support in place since the COVID-19 pandemic. This will lead to a shortfall of $77.572M (excluding reserves rebuild).	Severe downsizing will be required across AvSec. Aviation safety and security outcomes will reduce. Very long queues and pressure on AvSec staff will increase the risk of a serious security incident occurring.	AvSec unable to meet statutory functions or international obligations across all designated aerodromes due to significant reduction in resource. AvSec would not meet Government expectations due to extended wait times for passengers.	This would have a negative impact on resilience because it entails an expenditure reduction of 35 percent at the same time as continuing both without reserves and without steps to rebuild reserves.	Cost recovery would continue spread across beneficiaries and risk exacerbators however would not be 'cost recovering' nor in accordance with the benefits received and risks that are exacerbated by their activity.	Although no levy increase is a positive, the very significant negative system impacts from the funding cut to AvSec make this a net negative. Impacts range from extensive queueing and missed flights, to reduced scheduling capacity for airlines reducing the size of the commercial passenger sector. Independent estimates of the economic cost of passenger wait times under this option have a mid-point of $320m.

Option 1 - Funding for increased costs via raising the domestic and international security levy by the same proportion **(preferred option)**	Enables the Authority to adequately meet the cost drivers set out in Part One of this CRIS above in relation to its operating environment and expectations, including improved aviation security outcomes.	This option funds the Authority at an appropriate level to meet cost drivers and increased resourcing, so that statutory functions, international obligations, and wider Government expectations can all be mee to a reasonable standard.	This option funds rebuilding the Authority's reserves to 100 percent of the mid-point range in the Reserves Policy. This will provide financial and resourcing resilience.	This option spreads the increase across those who use the aviation system. Differential costs of delivery between domestic and international continue, reflected in the levies. This reflects the existing resource differentiation in domestic and international screening activities.	Enables the Authority to reduce queuing and meet an average target of 95 percent of passenger being screened within 10 minutes. Given the numbers of flyers, this has significant benefits across the economy in terms of ensuring wait times are reasonable and do not have any flow on impacts on flight schedules. The benefits of maintaining reasonable wait times are comparable to recent Motorway builds.
Option 2 - Funding for increased costs by raising the international security levy only	Enables the Authority to adequately meet the cost drivers set out in table two above in relation to its operating environment and expectations, including improved aviation security outcomes.	This option funds the Authority at an appropriate level to meet cost drivers and increased resourcing, so that statutory functions, international obligations, and wider Government expectations can all be met to a reasonable standard.	This option funds rebuilding the Authority's reserves to 100 percent of the mid-point range in the Reserves Policy. This will provide financial and resourcing resilience.	This option disproportionately increases costs for international passengers and does not spread any of the cost drivers across domestic passengers. Therefore, this does not balance cost recovery from the largest number of beneficiaries or risk exacerbators.	Enables the Authority to reduce queuing and meet an average target of 95 percent of passenger being screened within 10 minutes. Given the numbers of flyers, this has significant benefits across the economy comparable to Motorway builds.

Option 3: Funding for increased costs via creating a new single combined levy	Enables the Authority to adequately meet the cost drivers set out in table two above in relation to its operating environment and expectations, including improved aviation security outcomes.	This option funds the Authority at an appropriate level to meet cost drivers and increased resourcing, so that statutory functions, international obligations, and wider Government expectations can all be met to a reasonable standard.	This option funds rebuilding the Authority's reserves to 100 percent of the mid-point range in the Reserves Policy. This will provide financial and resourcing resilience.	This option disproportionately increases costs for domestic passengers. Therefore, this does not balance cost recovery from the largest number of beneficiaries or risk exacerbators.	Enables the Authority to reduce queuing and meet an average target of 95 percent of passenger being screened within 10 minutes. Given the numbers of flyers, this has significant benefits across the economy in terms of ensuring wait times are reasonable and do not have any flow on impacts on flight schedules. The benefits of maintaining reasonable wait times are comparable to recent motorway builds.

Preferred option – AvSec

Our preferred option is Option 1 – increasing both the domestic and international security levy by the same proportion. This option will return the Authority to financial self-sustainability and provides funding for the Authority to meet its statutory functions and rebuild its reserves. It is the only option (other than the status quo) that spreads costs across beneficiaries fairly without disproportionately impacting either domestic or international passengers.

Wider Economic Impacts of the Options

There is no single definitive measure of the impacts of price changes in the aviation system. However, we can triangulate the impacts from a number of perspectives to provide an overall assessment. All options other than the status quo raise revenue by the same amount (i.e. we are not comparing options that involve scaling and funding the Authority to a different level), and the options analysis above considers the relative merits *between* the options. As such, for simplicity, this section treats the economic impact of all options other than the status quo funding level as the same, so that the analysis applies to all of them compared to the status quo.

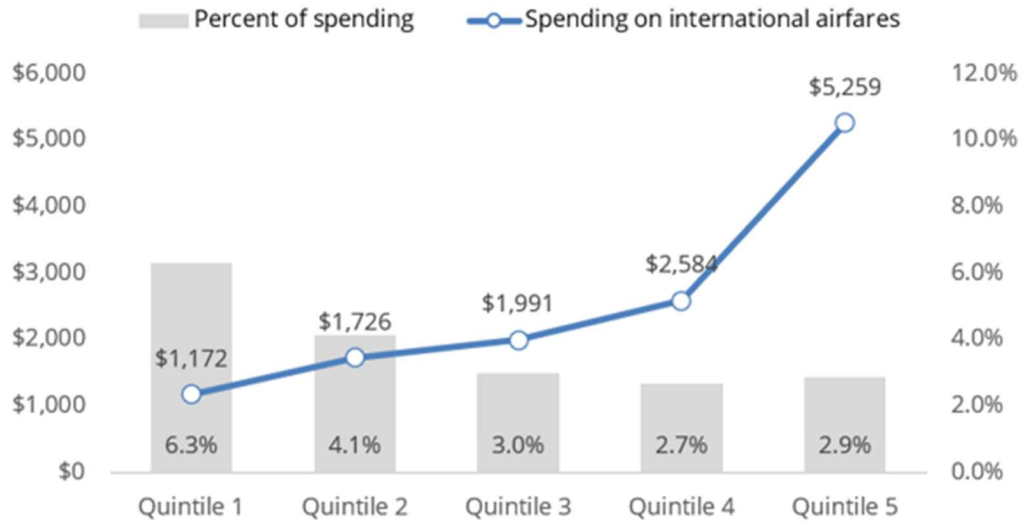
Household impacts are low

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, for example around a hundredth of the spend on fruit and vegetables or hotels and motels. Relative to expenditure on total trip costs where air travel is a major component (e.g. a same-day business trip Christchurch to Auckland or a three-week overseas holiday), the options would add between roughly 0.2 percent to 2% to the total cost of the 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. Accordingly, a disproportionate share of the increased cost associated with higher CAA and AvSec levies will fall on higher income travellers. The highest income households spend almost three times the amount of the lowest income households on domestic airfares.

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.



Sensitivity of international travel demand to increases in fees, levies and charges

Increased levies in particular for airline passengers are more likely to be passed through to consumers. Although some options entail increased fees and charges, or example increasing the cost of a pilot license, these are smaller and less direct, so harder to measure the impact. 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 assumed that this is a reasonable place 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 (essentially, an indication of the sensitivity of traveller volumes to the increased passenger levies).

The analysis finds that 11,240 fewer international travellers would come to New Zealand each year (approximately -0.3%) under these levy increases, while the volume of passengers on domestic flights each year would reduce by between roughly 100,000 and 200,000. Flights by New Zealanders to Australia and the Pacific would reduce by around 10,770 (-0.3%) annually.

The complete analysis is provided in **Annex Three.**

As a gauge for whether this elasticity is 'low' or 'high', we note that the 'all cause' variation in actual observed air travel volume is significantly higher than this month to month or year to year. Monthly variations in total passengers between the same month year to year of 50,000 – 80,000 passengers are common, so it would be difficult to detect and be certain about the elasticity arising from increased aviation levies in the context of all the other factors that influence traveller decisions. We also note that the Ministry's analysis does not consider the counterfactual impacts on the sector if the Authority does not implement the increased pricing proposals, which we cover in detail in Table Two in the CRIS, and below.

Economic benefits of increasing the passenger safety levy over the status quo

As noted in the CRIS, certification queues are growing and the average age of applications has increased by over 70 percent in the last six years. This impacts operators in the aviation system and those wanting to enter the aviation system. Longer queue times impact operators seeking to enter the aviation system, and operators seeking to remain inside the system, or change how they operate inside the system. This has significant business and competition impacts for operators because it constrains entry into, change, and innovation in the aviation system.[5]

Where CAA's activities place a constraint on operators in the aviation system – excluding those constraints validated for safety and order in the system – wider costs in competitive effects are created. Fewer operators in any part of the system results in less competition and less innovation for participants, leading to higher prices or the eventual unavailability of those services.

We have not been able to model the status quo because it assumes a level of funding and dysfunction that would lead to regulatory failure. However, it would be significantly in excess of the value of the options compared to the status quo levies plus the current Crown support, which has been assessed at between $32 million to $51 million.

Economic benefits of increasing the passenger security levies over the status quo

The options will enable AvSec to raise capacity to regain its target of 95 percent of passengers being screened within ten minutes. This will support airline scheduling and improve passenger confidence with respect to the reliability of the security screening process. For example, by reducing the need for passengers to leave home unnecessarily early 'just in case', to navigate a perceived long screening process in time to catch their flights.

Due to the level of dysfunction entailed with the status quo funding level, we have not been able to assess its impact. However, it would be significantly in excess of the impacts of a scenario we did construct, involving approximately one third of the increase of the options in this CRIS. This scenario suggested an economic cost of between $240 million and $414 million per annum over the other options.

From another perspective, the proposal for AvSec will save travellers approximately 27,660 hours per day waiting time beyond the target level (i.e. 95 percent within ten minutes), relative to the one third increase

5 For example, a small tourism or forestry helicopter business with an aircraft that requires certification in a timely manner could lose customers while waiting or end up at risk of insolvency where certification delays make their business untenable.

scenario. This is approximately equal to the gains from 17 Transmission Gully motorways[6]. The status quo costs would be significantly higher than this, as they likely imply a level of ongoing regulatory failure.

6 https://www.beehive.govt.nz/release/transmission-gully-officially-ready-roll

Reasonableness of Options

Other charges by New Zealand Government agencies

International travellers use many different government services when travelling within the New Zealand aviation system and pay various charges in addition to the safety and security levies charged by the Authority. The below table lists a number of these charges. These are considered indicative only, as not all listed charges will apply to all travellers on each occasion.

Travellers to New Zealand who require a visa will be subject to additional charges (not included). The Authority's levies fall within the range of the cost imposed by other Government agencies for their functions, as can be seen below in the table below:

	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)[1]	16.59
	Customs border processing levy (departure)	4.52
	Biosecurity border processing levy (arriving)	16.92

Charges by other aviation regulators globally

International comparisons are difficult because each agency has different functions and responsibilities and operate within different regulatory frameworks. For example, the United Kingdom CAA has responsibility for consumer protection not within the New Zealand Authority's mandate. Neither the United Kingdom Civil Aviation Authority nor the Australian Civil Aviation Safety Authority (CASA) 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. The Singapore Civil Aviation Authority plays a significant role in the operation of the national airport and airline. 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.[7]

The table below demonstrates that 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

7 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.

regulatory cost per person is marginally higher than Australia. The number of CAA employees per aircraft is aligned with the other nation states.

	New Zealand (CAA NZ) 22/23	Australia (CASA) 22/23	UK (CAA UK) 22/23
Regulated aircraft and pilots			
Licensed pilots	30061	32849	52395
Licensed pilots per 100,000 population	586.76	127.9	77.8
Number of aircraft on register	5,419	16279	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 (total expenditure / population)	$10.37	$9.12	$4.98
General stats			
Population	5.123	25.69	67.33
Total expenditure	53.1NZD	215.1AUD	160.8p
Total expenditure NZD	53.1	234.5	335.6
Total Staff (CAA non AvSec)	361	881	1387

There is also limited value in comparing aviation security charges. Aviation security services are delivered in a variety of ways, from the use of centralised state agencies to private or-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.[8] 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.[9] Canada is similar to the United Kingdom by charging based on distance, with fees ranging from NZD$11.49 to NZD$41.81.[10] Singapore

[8] https://tinyurl.com/5ddusczw

[9] https://tinyurl.com/4445btbt

[10] https://tinyurl.com/mvh9k775

charges a 'passenger service and security fee' of NZD$58.73[11] and Hong Kong charges NZD$25.66 for passengers departing Hong Kong International Airport.[12]

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.

[11] https://tinyurl.com/y8e9s8hh

[12] https://tinyurl.com/5etuvp7c

Consultation and Next Steps

Consultation will take place over a 6-week period immediately following Cabinet approval to consult, and assuming Cabinet does not seek changes. This is currently expected to be between late August and early October 2025.

Following consultation, the following key steps occur:

- submissions analysis is undertaken, categorising and considering the weight and quality of points
- adaption of proposals is considered where merited, together with the impacts, including further financial
- engagement with the Minister of Transport to consider the results of the consultation and the options we set out to address them
- Subject to the Minister's preferences and support, revised or confirmed proposals are taking to Cabinet for approval to be implemented

Conclusions and recommendations [to add post-consultation]

Implementation and next steps

Subject to the feedback we receive during this consultation process and final Cabinet decisions, any updates to current cost recovery settings will be targeted to come into force from 1 July 2025.

There are several processes outside of the Authority's control which could impact this timing, including but not limited to:

- decisions that the Government may or may not make
- the significance of any issues raised by submitters requiring additional work
- the workloads and priorities of other parts of Government, such as the Parliamentary Counsel Office

To allow the airline industry to plan for changes, the Authority and Ministry of Transport plan to seek final decisions by 20 December 2024, with required regulatory amendments in place by 20 May 2025.

The forecast costs contain phased growth of FTEs across the safety and security functions. The Authority will monitor operational and sector conditions and adjust the pace of growth to meet budget and eliminate the deficit to the extent that it can still meet its statutory responsibilities.

Monitoring and Review

The Minister of Transport has directed that the Authority undertake a first principles review of all cost recovery settings between 2025 and 2027, for implementation 1 July 2027. This would mean it was completed during the intended term of this pricing review.

As a pricing review, the setting of and reporting on performance standards and benefits realisation is proposed to be through standard prescribed mechanisms, not the creation of special new ones.

Standard prescribed performance reporting and assurance for Crown Entities is managed through Statements of Intent, Statements of Performance Expectations, Letters of Expectations, and Annual Reports. By arrangement with monitoring departments and ministerial preference, this may also include quarterly reporting.

To the extent that any new reporting measurements made sense, we would assess this post-consultation when we understand the public interest and focus and finalise the cost recovery options. The standard reporting mechanisms are flexible enough to incorporate new measurements without the development of new reporting systems or paths being necessary (bringing added back-office cost to the Authority).

Annex One: Other Fees, Levies and Charges for CAA

The information below sets out changes in other fees, levies and charges that the proposed option for CAA impacts:

Product	Type	Current Price	Proposed	Change	
Various	Hourly Charge	$ 246.96	$ 354.19	$ 107.23	43%
Participation Levy - Very Light Private	Other Levies	$ 70.00	$ 100.39	$ 30.39	43%
Participation Levy - Light Private	Other Levies	$ 100.00	$ 143.42	$ 43.42	43%
Participation Levy - Medium Light	Other Levies	$ 480.00	$ 688.42	$ 208.42	43%
Participation Levy - Medium	Other Levies	$ 1,200.00	$ 1,721.06	$ 521.06	43%
Participation Levy - Medium Heavy	Other Levies	$ 2,900.00	$ 4,159.22	$ 1,259.22	43%
Participation Levy - aircraft over 100,000kg	Other Levies	$11,900.00	$17,067.14	$ 5,167.14	43%
Op Safety Levy Part135 Heli & Small Aircraft	Other Levies	$ 6.50	$ 9.32	$ 2.82	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 Part137 Ag (50,001 + tonne)	Other Levies	$ 0.65	$ 0.93	$ 0.28	43%
Op Safety Levy Part115 Very Light Aircraft	Other Levies	$ 3.50	$ 5.02	$ 1.52	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 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%
Op Safety Levy Freight only (0 to 10,000 tonne)	Other Levies	$ 3.00	$ 4.30	$ 1.30	43%
OP Safety Levy Freight only (10,001 - 50,000 tonne)	Other Levies	$ 2.60	$ 3.73	$ 1.13	43%
Op Safety Levy Freight only (50,001 + tonne)	Other Levies	$ 2.00	$ 2.87	$ 0.87	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 Maintenance of Reg	Fixed Fees	$ 86.08	$ 123.46	$ 37.38	43%
Instructor Rating Category A	Fixed Fees	$ 113.91	$ 163.37	$ 49.46	43%
Instructor Rating Category B	Fixed Fees	$ 113.91	$ 163.37	$ 49.46	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%
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 Traffic Service Instructor Rating	Fixed Fees	$ 113.91	$ 163.37	$ 49.46	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%
Air Traffic Trainee Licence	Fixed Fees	$ 171.30	$ 245.69	$ 74.38	43%
Flight Service Trainee Licence	Fixed Fees	$ 171.30	$ 245.69	$ 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%
Air Transport Pilot Licence (ATPL - Helicopter): Issue Flight Test	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%
Aircraft Maintenance Engineer (AME): rating	Fixed Fees	$ 173.91	$ 249.43	$ 75.52	43%
Certificate of maintenance approval	Fixed Fees	$ 231.30	$ 331.73	$ 100.43	43%
Inspection Authorisation Certificate - Part 66	Fixed Fees	$ 231.30	$ 331.73	$ 100.43	43%
Exchange old aircraft Maintenance Engineer (AME) to lifetime equivalent	Fixed Fees	$ 171.30	$ 245.69	$ 74.38	43%
Trans-Tasman Mutual Recognition Agreement - Registration of licences under the Agreement	Fixed Fees	$ 171.30	$ 245.69	$ 74.38	43%

Annex Two: Assumptions

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

- Shared services / back office (~ "overheads" but not exactly) – using around 12 percent for Avsec and $58k per new 'frontline' FTE for CAA.
- Reserves rebuilt to 75 percent of 7.5 weeks expenditure for CAA and 100 percent of 7.5 weeks expenditure for AvSec over 2 years – but currently no interest costs associated with any potential offsetting loan assumed.
- Domestic passenger volumes at 95 percent pre-COVID-19 (currently circa 90 percent).
- International volumes at June 2024 Draft moderate Border Executive Board (work underway to refine).
- 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 funding 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 (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 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.
- Fit-for-purpose rostering schedules (supporting recruitment and retention and HSWA) at 100 percent - over three years = $9.7 million plus $1.2 million shared services with 59.3 FTE in 25/26 and 56.3 FTE in 26/27 (totalling 115.6 FTE). These have now been removed from the base bid following feedback from MOT.
- Cost pressures ramped up over two years in line with forecast growth in frontline FTE.

Annex Three: 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).[13] 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

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

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).[14] In addition, for Australia and the Pacific, 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

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

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

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.