

## Authority pricing review 2020 – sector meetings feedback and responses:

The following is a summary of the sector feedback that was recorded over the course of the 12 public meetings held during January 2020, along with the CAA's responses.

The feedback has been sorted into two groups – those that relate to the pricing review and other issues raised that are outside of the scope of the review. The feedback has then been sorted into general 'themes' with a list of 'questions and answers' in each area.

### Themes inside the scope of the pricing review

#### EMPIC financing and implementation

Concerns expressed at the cost of the EMPIC solution and the long-term nature of those costs causing uncertainty.

*The whole of life cost of the proposed system is \$16m, over 10 years, although it can be expected to last longer than that. Because it is 'software as a service' (SAAS), there is a higher maintenance cost, but with the benefits of ongoing user-lead upgrades.*

*The EMPIC system that CAA is proposing is a modular 'out of the box' system (similar to a Microsoft office product) that means it does not require customisation or configuration (which can prove very costly both up front and later on when changes or upgrades are required).*

Concerns expressed that the process being used for selection and procurement of the preferred product is not sufficiently transparent to the sector, nor has the sector been engaged in the selection or procurement process.

*Initial work to replace the system commenced in 2014. Since then, CAA went to market, following appropriate government procurement processes, identified and trialled several options. A decision was subsequently taken to cease the trial of the preferred option due to high risk and financial risk. CAA then, with permission from Government Procurement directly engaged with EMPIC.*

*The replacement of technology is an internal matter which would not normally involve sector engagement.*

Concern expressed that the impact of the costs of EMPIC are being unevenly spread across aviation participants.

*The proposal is to spread the costs of the proposed EMPIC system, along with other cost pressures across all of CAA's fees, levies and charges via a 4.3% price increase. This cost recovery model was approved by Cabinet to consult on and follows central agency guidance for the setting of charges.*

Concern expressed that the CAA has not found the most cost-efficient funding mechanism.

*CAA explored several different funding mechanisms including a capital injection. The preferred Crown loan option had the lowest interest rate.*

Concern expressed that EMPIC will not lead to significant efficiency gains within the CAA, and that associated savings will not be passed back to the sector through reduced fees, charges and levies.

*The primary driver is for CAA to replace its bespoke, 30-year-old platform which is largely unsupported, relies on a single resource and is at increasing risk of failure. Whilst it is expected there may be some benefits/improvements, this is primarily a replacement rather than an efficiency initiative.*

Questions raised as to whether EMPIC would allow for internet or web enabled interfaces for the sector to access and provide information more efficiently.

*The system will provide for some web-based interfaces allowing more efficient interaction between the sector and CAA*

Questions asked about what a regulatory business system is.

*EMPIC will replace CAA's Aviation System Management System (ASMS) which is where all of the CAA's regulatory information is held including sector information such as licencing data. In other words, it is what we use to perform our function as a regulator.*

Questions asked why action has not been taken before now given the state and associated risks of the existing systems

*As noted above, CAA has been working on this replacement for six years. Whilst the trial, at a cost of around \$1.2m may not seem ideal, it was prudent for CAA, following issues identified during due diligence, to stop and re-consider its options rather than going down a more costly and risky path. We have had the benefit of learning from CASA who spent significant millions (do we want to cite?) pursuing a bespoke option before landing on the 'out of the box' option that CAA is now proposing.*

Is CAA sure that EMPIC is a robust product/company

*EMPIC has been adopted 26 other countries in various parts of the world, including by CASA and Papua New Guinea.*

*Because EMPIC development is client-lead, it remains very up to date.*

### Passenger volume forecasts

Concern expressed that the CAA's passenger volume forecasts were historically inaccurate and continue to be 'too' inaccurate.

*CAA's forecasts have been within approximately 1% of actuals over the last 10 years and even less recently. Whilst we are aware of the large airports forecasting significant growth, we are not seeing that in actual numbers.*

*Note that domestic numbers dropped significantly in the last half of 2019 against the previous year.*

*We need hard data to support any changes to forecasts.*

Concern expressed that the CAA's forecasts used in the consultation document are overly conservative and do not align with either aviation sector or tourism sector forecasts.

*Given passenger levies comprise the CAA's largest funding source, the CAA needs to be reasonably careful in not over-estimating passenger growth numbers, as this could create a funding shortfall prior to its next review (or precipitate a need for a more urgent review) if they don't eventuate. This should not be interpreted that the CAA is therefore trying to be overly conservative in its forecasts, but it is an acknowledgement that the CAA is more responsive to short term changes in trends, whereas for other public forecasts (such as MBIE's inbound tourist projections) that are more medium and long term focussed, there is less onus on them to be as 'up to date' in reflecting emerging trends, as they don't have funding streams directly tied to the accuracy of these forecasts.*

*CAA's forecasts consider recent patterns such as both international and domestic passenger numbers dropping against previous years, and also market indicators such as reductions in flights and operators such as Jetstar ceasing some routes.*

### Hazardous Substances and New Organisms activity and funding

Concern expressed that the funding mechanism proposed is unfair and is inconsistent with the funding mechanisms used for other HSNO regulatory activities.

*Yes, there are other mechanisms in place across government. Whilst the Crown initially funded the CAA's expanded HSNO responsibilities for two years, the CAA has been asked to consult with the sector on the proposal that this be levy funded from this year.*

Concern expressed that the proposal that 90% be recovered from the agricultural aviation sector is simply unfair and will have material impact of agricultural operators that may force some out of business.

*This is why we are consulting – to elicit your feedback. We need hard data in order to be able to propose alternatives i.e. what would be the material impact on your business in dollar terms.*

Questions about what CAA does around HSNO vs the Regional Councils

*CAA investigates a small but growing number of complaints. The activity ranges from resolution of a complaint through a few phone conversations through to intensive investigation. We are obliged to look into every complaint we receive regardless of whether it may be 'spurious' or unjustified.*

*The CAA's role is specifically related to aviation dispersal of HSNO whereas the Regional Councils responsibilities related to environmental issues.*

### CAA Reserves — levels, use and replenishment

Reserves have not been maintained at appropriate levels to support actions such as the purchase of EMPIC.

*The purpose of the CAA's reserves is for it to have sufficient funds to respond to a 'shock' in the short term (75% of 6-9 weeks of operating expenditure which is around*

*\$10m). Reserves could potentially be used for a sudden unexpected drop in passenger numbers.*

*Given the high current level of our reserves, we are able to utilise \$4m to partially fund EMPIC, but it would be inappropriate and unfair to hold excessive funds to fund a future initiative – in essence meaning previous levy payers would fund future initiatives.*

Some respondents believed that the Authority had mismanaged its finances.

It was suggested that the CAA had spent levy funding imprudently.

*In fact, the increase in expenditure over the period FY 17-19 reflects an increase in personnel costs arising from: increased Crown funded responsibilities, increased headcount in areas such as helicopter and drone regulatory activity, and increased industry demand for certification and licensing. There was also unforeseen expenditure related to the 2016 Kaikoura earthquake (and the need to increase its resiliency) during this period.*

It was suggested that the CAA had over-recovered income.

*The increase in revenue in FY17-19 compared to projections was primarily due to a higher growth in passenger volumes than assumed in the previous funding review. Crown funding was also increased for HSN0, HSWA, new technology certification and support to Pacific countries.*

Some people believe that the information technology project had already been paid for in the past.

*There was c\$850k incurred in the FY2017/8 for preparatory work, including a trial, on the regulatory technology platform replacement programme.*

It was also suggested that there was a lack of financial controls in place.

*In addition to the Board's scrutiny over the Chief Executives management of financial controls, the Office of the Auditor-General audits the accounts annually. For the FYs between 2016/7 to 2018/19, the CAA's control environment (both financial and general management – refer extract in Table 1 below from the most recent one) was assessed as very good by the OAG. The Ministry of Transport also provides oversight and scrutiny as part of its monitoring role, for example through the quarterly reporting process.*

**Table 1: Environment, systems and controls (ESCO)**

The ESCO grades are unchanged from prior years.

| Aspect                         | 2019      | 2018 (last year's grade) |
|--------------------------------|-----------|--------------------------|
| Management control environment | Very good | Very good                |

|   |           |           |
|---|-----------|-----------|
| Financial information systems and controls                  | Very good | Very good |
| Performance information and associated systems and controls | Very good | Very good |

### Basis of the Agricultural Operations Safety Levy

Significant advocacy for change in the proxy used to set the levy from tonnes dropped to hours flown.

*CAA is prepared to consider alternatives, however in order to support a different proposal we need hard data to support such a proposal. Whilst we can't guarantee that any alternative proxy would be agreed by Cabinet, we can be sure that there will be no change unless we can make a rational, unemotive case supported by facts and data.*

Argument that hours flown is fairer (primarily promoted by fixed wing operators) and is easier to verify than tonnes flown – pilots are paid hourly rate too.

*Again, we need facts to support this theory. We need to consider the impact across the whole of agricultural aviation and based on our current analysis, changing to hours would flip the burden from some operators onto others.*

*We have noted the point made about verification of hours – something we understand has improved over recent years.*

View expressed that the CAA does not trust the agricultural sector sufficiently, because the consultation document discussion canvasses issues associated with incentives/disincentives.

*CAA considered the alternatives to the current 'tonnes' basis for the levy against a range of factors of which the 'incentives' was only one. Whilst we agree that most operators do and will not deliberately falsify records, unfortunately we have encountered examples of this happening in the past. So, we do need to take this, along with other factors, into consideration. But we remain open to alternatives options – supported by data.*

Concern expressed that proposed rates and proxy (tonnes dropped) are unfair when compared to other aviation sectors on a per hour basis.

*This comparison does not compare 'like for like'. The risks posed across various sectors vary greatly.*

Questions around how many routine audits are conducted

*Information about audits completed across all sectors has been published on our website [here](#).*

### Operational Efficiency and cost savings

Questions asked as to whether the CAA has explicit efficiency programmes to help contain (or eliminate or negate) cost escalation in its operations.

*CAA has constrained spending to the extent it can, bearing in mind that it is mandated to carry out its regulatory activities – this is not optional. We run a ‘tight ship’ and continually review our priorities and re-prioritise work accordingly.*

*We have done studies and are reasonably satisfied that we are reasonably efficient (see benchmarking report)*

Questions asked about a few detailed matters related to the CAAs proposed expenditure in out-years (e.g., remuneration increases, re-prioritisation of activities, etc).

*Much of this information has been published on our website under ‘questions and answers’ or is available in publicly available documents such as annual reports.*

#### AIC — price increase for temporary cards

Concern expressed that proposed increase in temporary ID cards is unreasonable and will have unintended consequences related to security.

*The proposed prices better reflect the actual cost to produce the AICs and it is intended that the combined revenue from permanent and temporary cards solely covers this cost.*

*We are also addressing the real risk of insider threat by incentivising appropriate use of permanent cards with the associated security vetting. Conversely temporary cards do not involve vetting, rather the holder must be escorted, which is both a burden on the operator and a security risk (and we were told during these meetings of multiple instances of non-compliance with this requirement.*

*Essentially we are trading off the risk versus the flexibility – not completed removing the flexibility but improving the security aspect.*

#### Costs associated with the ‘re-organisation’

Questions asked about the impact of the CAA’s re-organisation on the out-year budget, and the desire to see any associated costs explicitly stated.

*Much of the cost of the re-organisation will fall within the current year (prior to proposed price increases). Other cost estimates have been factored into the review.*

#### Keeping Rules, Advisory Circulars, Guidance and other documents current

Concern expressed that Rules, Advisory Circulars and other guidance materials are not being kept current, or up to date with respect to the introduction of new technologies.

*Rules development work is funded under contract by the MoT. Overall Crown funding for the Transport Rules Programme has not increased.*

Concern expressed that proposed budgets for out-years do not appear to prioritise Rules, Advisory Circulars sufficiently.

*The CAA organisation design will implement an operational policy team to produce guidance for the sector and staff, small dedicated team to prioritise tasks.*

#### Consultation period and timing

Concern expressed that the consultation period is poorly timed (over the summer period) and too short to enable participants to effectively engage in the consultation process.

*In recognition that the timing was not ideal, CAA made the total period 10 weeks, later extended to 11 – compared to previous reviews and those of other agencies which are typically 4-6 weeks.*

Concern expressed that the timing has been deliberate in order to prevent sector engagement in the consultation process (including the timing of public meetings).

*CAA has endeavoured to engage meaningfully with the sector – we emailed over 30,000 people and allowed a longer than normal time. And we have continued to publish information on our website as it becomes available. We genuinely want to hear from the sector, and from what we heard during public meetings we could possibly re-consider some of the proposals, as long as the data we have requested from the sector is provided.*

Concern expressed that the pricing review consultation in conjunction with other consultation processes being run by the CAA is too much for the sector engage with, and a deliberate ploy to reduce the extent/nature of sector engagement on the matters currently being consulted upon .

*We do acknowledge that there are clashes, but we hope the longer than normal timeframe helps. Others have told us that this timing is preferable to mid-year, and some have asked us just to 'get on with it'.*

## **Themes outside of the scope of the pricing review**

### Impact of SMS Certification and Associated Costs

Concerns expressed the cost of SMS certification exceeds the estimates contained in the RIS that was produced to support the Cab papers when the Rule was proposed.

*We understand that the cost has been higher than expected for some, but on the flip side some of those present at public meetings noted that the costs they had borne for SMS certification were lower than the numbers contained in the RIS and stated that was down to their preparation prior to submission.*

Concern expressed that SMS certification had distracted or displaced monitoring and inspection activity, and this explicitly inconsistent with the arguments extended in the previous funding review for moving to a levies system and removing the hourly charge for monitoring and inspection activity (underlying issue centring on perceptions of value to the participant relative the levy amount paid).

*The SMS certification was a one-off activity that was required to ensure that NZ aviation remains in line internationally. Levies do not only fund monitoring and inspection, rather they fund the range of regulatory activities and support structures that the CAA is responsible for. As a regulator, CAA's role is around public safety and whilst the industry pays the levies to fund this, CAA is not intended to deliver a service to them as such.*

View expressed that SMS is a form of self-regulation for the sector, and that CAA is not adhering to that construct with respect to its monitoring and inspection activities.

*SMS is not intended to be 'self-regulation' – there will always be a need for monitoring and inspection.*

#### CAA 'service delivery'

CAA is too slow, inefficient and 'sloppy' with respect to its service delivery to participants when discharging its regulatory functions.

*Whilst we do have limited resource which sometimes requires prioritising work, we expect work to be carried out efficiently and effectively, so we would appreciate specific examples where performance has been poor, so that we can address the issues.*

#### Cumulative impact of other changes in fees charges and levies from other agencies

Significant concerns expressed about the cumulative impact on the sector of other government agencies increasing (in some cases by over 1,000%) levies, concessions, fees, and charges.

*Whilst, with the exception of the AOSL, the CAA's proposals are relatively modest, we are acutely aware that our proposals are another imposition in the context of other pressures outside of our control, in particular multiple other price impacts either in place or that have been signalled.*

#### State of the relationship between the sector and the CAA — trust and cynicism

*We are hoping that the establishment of a new 'Stakeholder Engagement and Relationships' team within CAA will help to identify issues and develop and implement solutions.*

#### Adequacy of CAA's operational resourcing

*With a fixed level of resource and constantly changing demands, we are frequently reprioritising our work – and there are areas where we struggle to compete in the market to attract and engage some very specialised skill sets.*

#### General lack of understanding of CAA's role and how levies work

*It is evident from discussions and questions asked through the Official Information Act that many in the sector do not fully understand the CAA's role or the nature of levies.*

*The Treasury Guidelines for Setting Charges in the Public Sector state that a levy 'will be charged to a particular party or group, for a specified purpose, but not necessarily for a specific good or service, In this way, a levy might be more akin to a tax'.*

*In the CAA context, many in the sector seem to believe that by paying a levy they should receive a specific service from CAA e.g. audits. In fact, levies are collected to cover a range of activities that may provide some benefit to the participant and are intended to allow the CAA to fulfil its regulatory responsibilities and to ensure aviation safety for the public.*