



Funding Arrangements for the CAA's Regulatory Functions 2016-19

Phase Two Consultation: Proposals For Change
Consultation Workshops

Agenda

- Why change things?
- Key proposals
- Impacts
- Where to from here?
- Feedback

Improvement is necessary to

- Address inequities in the funding of safety oversight of aviation operators
- Encourage participants to improve safety performance and security
- Establish a framework that is consistent with Government policy and guidance on fees and charges
- Fund additional activities such as the Aeronautical Information Service and implementation of NSS and SMS etc., the costs of which we have absorbed to date

But

- Not to collect additional revenue in excess of what would be collected if these proposals were not implemented

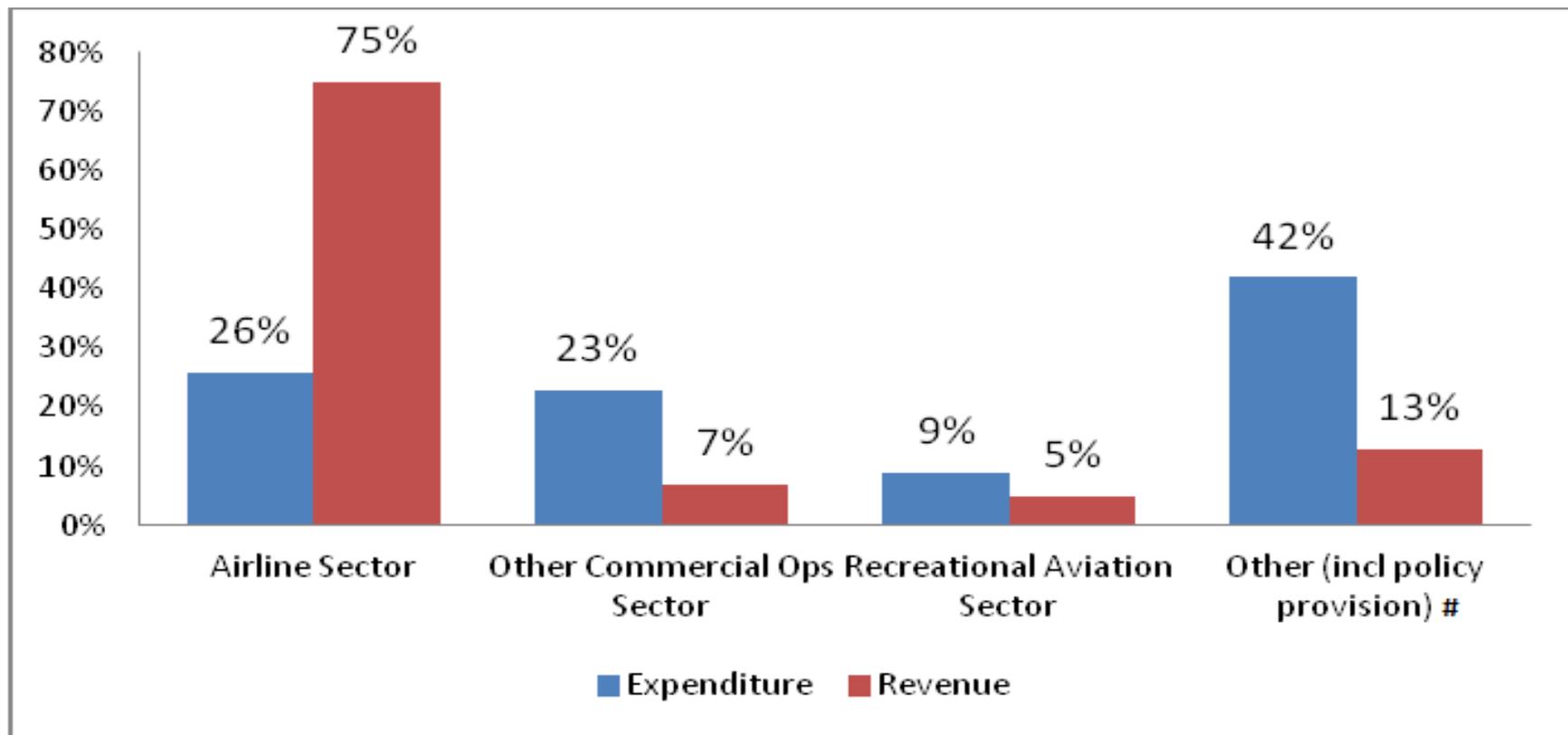
The underlying problems are:

- An imbalance between the cost of oversight and the revenue sourced from different sectors of the aviation system. This has ultimately resulted in what has been described as “revenue cross-subsidisation”
- The current framework does not always incentivise willing compliance by aviation operators, which has an impact on safety of the system as a whole

The 2012 funding review and Phase One consultation referred to our intention to address the imbalance during the 2015 funding review

The imbalance should be mitigated to the extent possible without imposing an unreasonable burden on those with a limited ability to pay

Revenue vs Oversight Cost



Note: The 'Other (incl. policy provision)' category consists of the following functions and activities: oversight of Airports, Airways, Metservice, Aircraft Maintenance Organisations, etc. ; policy and regulatory strategy; international liaison, regulatory investigations; safety intelligence, investigation and promotion; security oversight; legal services; and corporate business services. These are funded by a mix of levy revenue, Crown funding via Vote Transport, and other (e.g. interest).

Four key change proposals

- Fund surveillance (inspection and monitoring) activity from levy revenue rather than from fees as at present
- Reduce the aviation medical certification fee
- Standardise currently different passenger levy rates
- Establish operator and operations safety levies

Fund surveillance from levy revenue



- Surveillance is predominantly a club/public good, rather than a private good
- Recovering the cost from levy revenue would incentivise better behaviour by aviation operators and the Authority, because:
 - operators would no longer be driven by a desire to minimise the time they engage with the Authority (and hence minimise the size of the invoice they get)
 - the Authority would be driven to be more efficient and would be denied the opportunity to generate more revenue through performing more hourly charge activity
- Hourly charges for follow-up surveillance
- Overseas surveillance will continue to recover travel and accommodation costs

Change passenger levy rates

- Equalise domestic and international passenger safety levies at a rate between the current rates
- Set ANZA passenger safety levies at a rate 2% below that of the domestic passenger safety levy

Fee, charge or levy (all GST inclusive)	Current	Years 1-3
Domestic Passenger Levy (per passenger carried)	\$1.97	\$1.92
International Passenger Levy (per departing passenger)	\$1.50	\$1.92
ANZA Levy (per passenger carried)	\$1.78	\$1.87

Establish Operators and Operations safety levies



- The cost of safety oversight required by 'Other Commercial' operations:
 - is not met by the current levy and fee/charge structure in place, and
 - is supported by passenger levy revenue
- Proposed changes to monitoring and inspection, medical certification, and passenger levies would require revenue to be gathered from other sources
- Proposals would ensure that 'Other Commercial' operations move towards meeting their fair and equitable portion of total oversight costs
- The proposed levy rates do not yet reflect full cost-recovery
- The Authority already collects most of the relevant data required to implement these levies

Establish Operator Safety levies

- Operator-related safety oversight requirements vary according to the operator's fleet size and diversity, irrespective of the activity undertaken by those aircraft
- Applies to:
 - § Any adventure aviation flight operation using New Zealand registered aircraft;
 - § Large- and medium-sized commercial aircraft operations, excluding freight-only operations & passenger transport operation;
 - § Small-sized commercial aircraft operations, excluding freight-only operations & passenger transport operation;
 - § Operations applying agricultural product from the air; and
 - § Freight-only operations, by NZ registered aircraft.
- Levy base would be fleet based (number and size (MCTOW))

Other Commercial Operator safety levies



Fee, charge or levy (per aircraft) (all GST inclusive)	Participation Levy Current	Operator Safety Levy Years 1-3
Heavy (exceeding 100 000 kg)	\$13,685	\$13,685
Medium heavy (exceeding 13 600 kg but not exceeding 100 000 kg)	\$3,335	\$3,335
Medium (exceeding 5 700 kg but not exceeding 13 600 kg)	\$1,380	\$1,380
Medium light (exceeding 2 730 kg but not exceeding 5 700 kg)	\$552	\$552
Light (exceeding 1 000 kg but not exceeding 2 730 kg)	\$115	\$115
Very light (not exceeding 1 000 kg)	\$80.50	\$80.50

Operations safety levies

Category	Rule Part(s)	Parameters	Basis of the Rate
A	115	Any adventure aviation flight operations using New Zealand registered aircraft, other than those involved in parachute deployment operations.	Hours flown pa
B	115	Any launch or descent operation (including tandem parachute, paraglider or hang glider operations)	Number of launches or descents pa
C	121 & 125	Large- and medium-sized commercial aeroplane operations, excluding freight – only operations & passenger transport operation of > 20,000 passengers pa.	Hours flown pa
D	135	Small-sized commercial aeroplane or helicopter operations.	Hours flown pa
E	137	Agricultural operations (application of both solid and liquid material)	Weight of material applied
F	121, 125 or 135	'Freight only' flights in international, domestic -scheduled and domestic-unscheduled operations	Payload carried

Current Levy Comparisons



20,000 passengers



20,000 drops



20,000 tonnes of freight



20,000 tonnes of fertiliser



approx \$40K



approx \$4K



approx \$4K



approx \$4K

Other Commercial Operations Safety Levies



Fee, charge or levy (all GST inclusive)	Current	Year 1	Year 2	Year 3
Adventure aviation flight e.g. warbird. Per flight hour	\$0	\$2.88	\$6.47	\$14.38
Adventure aviation – per tandem parachute descent, hang-glider or para-glider flight	\$0	\$0.58	\$1.30	\$2.88
Large- and medium-sized commercial aeroplane operations, including passenger transport operation (<20,000 pax PA) but excluding freight – only operations Per flight hour	\$0	\$1.27	\$2.85	\$6.33
Small-sized commercial aeroplane or helicopter operations Per flight hour	\$0	\$1.50	\$3.37	\$7.48
Agricultural product dispensed from the air Per tonne applied	\$0	\$0.20	\$0.67	\$1.00
Freight only flights Per tonne freight carried	\$0	\$0.69	\$1.55	\$3.45

Note: Fees and charges no longer apply for initial surveillance.

Other

- Reduce Application for Medical Certification application fee
- Hold most fees and charges at current rates

Fee, charge or levy (all GST inclusive)	Current	Years 1-3
Inspection and monitoring (per person hour)	\$284	\$0
Certification and other	\$284	\$284
Medical Certificate application fee	\$313	\$210.45

The Minister of Transport has declined to introduce a fuel levy or fuel excise.

Other Certificated Operators

- Other certificated operators (including Airports, Airways, Metservice, Aircraft Maintenance Organisations, etc.) incur no surveillance fees, unless:
 - Surveillance is follow-up, or
 - Surveillance activity is overseas, in which case travel and accommodation costs are recovered

Impacts: *on small to medium sized aviation businesses*



- Impacts vary based on size, nature and complexity of the aviation operation
- There are about 280 Other Commercial aviation businesses of which
 - about 56% would pay more than they do under the current cost recovery framework; and
 - about 44% would pay the same or less than they currently do
- Operations safety levies would be phased in over three years (20%, 45%, 100%)
- The proposed levy rates do not reflect full cost-recovery to ensure that the levies are affordable

Impacts: *on airlines and the travelling public*



- Domestic airlines pay less than what they pay at present
- International airlines and ANZA certificated airlines pay more
- Australian airlines operating in New Zealand under ANZA privileges would pay more per passenger (but they would still have a 2% discount compared with a New Zealand domestic airline)

The proposed reduction in the Avsec International Passenger Security Charge results in a decrease in international charges that would more than offset the effect of the increase in the International Passenger Safety Levy.

Border Clearance Levy

- On 1 January 2016 a new border levy to recover the costs of providing customs and biosecurity services at the border will come into effect
- The border levy is unrelated to both the passenger safety levy and the passenger security charge

Aviation Passenger Security charge



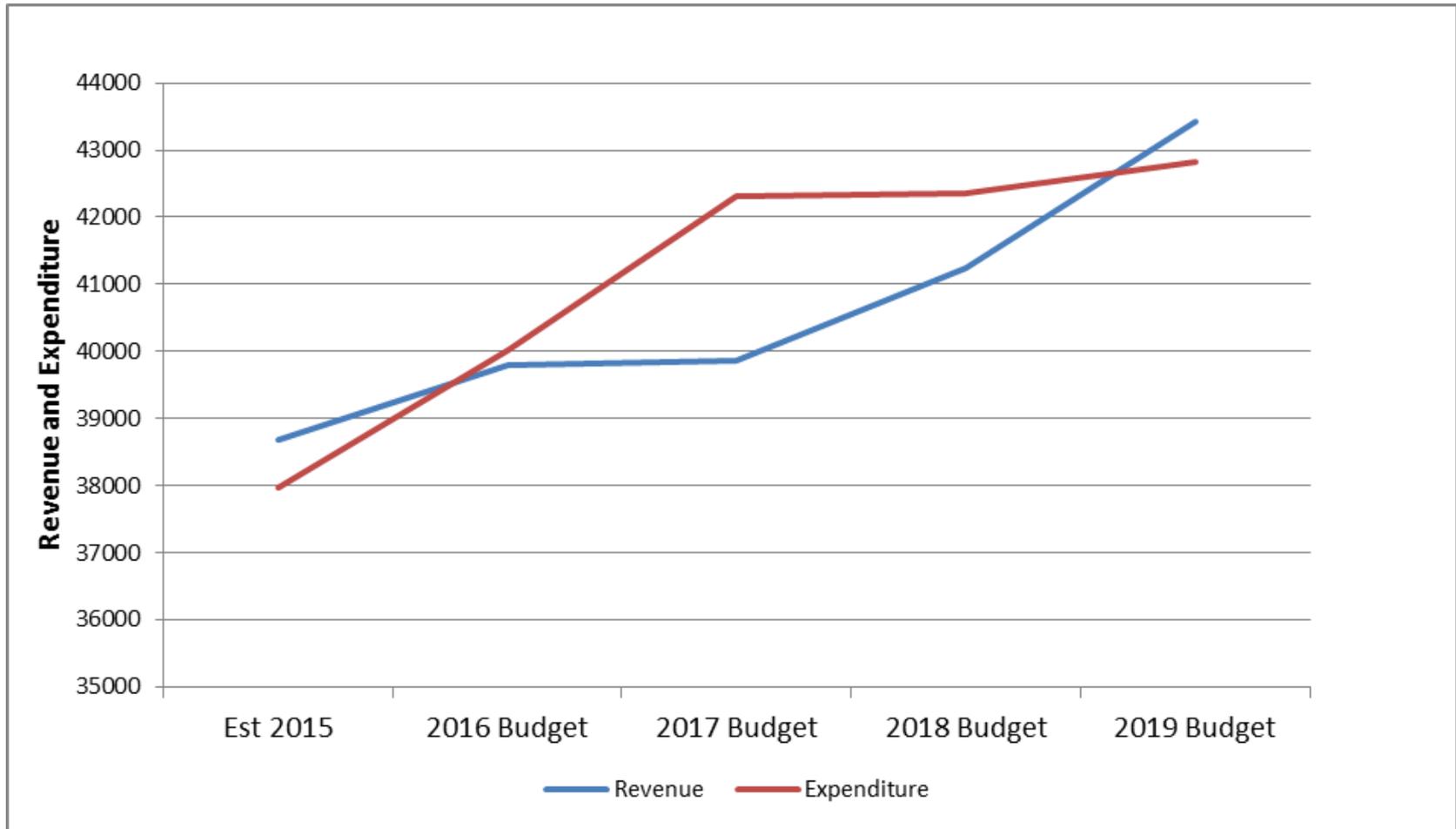
- The charge is scheduled to be reduced in April 2017
- International passenger numbers, and hence revenue, have grown faster than forecast, and Avsec's reserves have reached the reserves policy threshold
- The International Passenger Security Charge should be reduced and the reduction proposed should remove the chance of needing further changes until the next review of Avsec's funding (scheduled for 2018)
- The Domestic Passenger Security Charge is contributing the appropriate level of revenue to the reserves and is therefore not part of the scope of the Avsec charge review

Impacts: *on the Authority*



- The overall impact of the both the regulatory and security funding proposals on the Authority is a decrease of about \$9.5M in revenue over the next 3 years compared with that which would be generated if there were no changes to fees, levies and charges
- This decrease can be attributed to the proposed International Passenger Security Charge reduction, as the regulatory funding proposals would have minimal impact on the Authority's total revenue

Projected Revenue and Expenditure and Reserve Contribution



Impacts: *on recreational aviation*



- Benefits from the reduction in the medical certificate application fee
- Aircraft “Out of Service” pay reduced participation levies
- Other fees and charges remain unchanged

- Otherwise, there is no significant impact on the recreational sector

Where to from here?

- Two stakeholder meetings in each of Wellington, Palmerston North, Auckland, Hamilton, Nelson, Christchurch and Queenstown
- The consultation period is from mid-November 2015 to 19 February 2016
- Develop advice for Minister of Transport (by April/May, 2016) with proposals for change to actual levies fees and charges
- Develop Cabinet Papers and Regulatory Impact Statement
- Minister seeks Cabinet approval
- Promulgate and implement with effect from Date TBA

More Information and Feedback



- A copy of the full consultation document, and a template for your responses is available from:
www.caa.govt.nz/funding
- Written responses to this discussion document are sought by 5pm on 19 February 2016
- The responses are to be sent to:
Project Manager – Funding Framework for Regulatory Services Review
Civil Aviation Authority
P O Box 2165
Wellington
or
Email: consultation@caa.govt.nz

Thank you

Questions and discussion