

### Funding an Effective Civil Aviation Authority

#### Agency Disclosure Statement

This Regulatory Impact Statement has been prepared by the Ministry of Transport with assistance from the Civil Aviation Authority of New Zealand.

It provides an analysis of options to develop the capability, effectiveness and performance of the Civil Aviation Authority, with associated funding implications. It is also intended that the design of the underlying funding arrangements for the Civil Aviation Authority be changed to better align with the government's cost-recovery principles. Accordingly, all capability and performance options assume these changed funding arrangements.

In establishing the impact of the options, the analysis is constrained by the lack of clearly measurable links between changes in the Civil Aviation Authority's capability and performance and safety and economic benefits. For safety, this is in part due to the large number of factors (other than the Civil Aviation Authority) that affect safety, and the disproportionate adverse impact of a single aviation accident on safety outcome targets. For economic benefits, it is dependent on the degree to which sector participants take advantage of increased commercial opportunities and limited by commercial sensitivity. As these expected benefits cannot be quantified precisely, the comparative benefits in this paper are based on qualitative assessments and international best practice.

The Regulatory Impact Statement sets out the possible impacts on the aviation sector of the Civil Aviation Authority's proposed option. This proposed option will affect the level of civil aviation fees, charges, and levies that are the predominant (86 percent) form of funding for the Civil Aviation Authority.

Although detailed analysis has been done on typical costs for organisations in different aviation sectors, the cost impacts on individual operators are not known with any degree of specificity because of the lack of financial and other information relating to such operators. Moreover, the proposed move to risk-based targeting of the Civil Aviation Authority's regulatory activity means that in the future the financial impact of the proposed funding changes on specific aviation sector participants will, in part, vary according to their safety performance.

As civil aviation fees, charges, and levies have not been adjusted substantively for 15 years, the proposed option will impose extra costs on most aviation businesses and users of the aviation system, including passengers. There would, however, be a slight reduction in the domestic passenger safety levy. The additional revenue collected is necessary to fund the enhancement of the organisational capability and safety regulatory activities of the Civil Aviation Authority as it moves to become more effective and efficient, and better meet the needs of the rapidly changing aviation sector.

The proposal will not impair private property rights, market competition, or the incentives on businesses to innovate and invest, or override any of the fundamental common law principles.

The proposal is consistent with commitments in the Government statement *Better Regulation, Less Regulation*.

John Macilree  
Principal Adviser  
Ministry of Transport  
23 July 2012

## STATUS QUO AND PROBLEM DEFINITION

### STATUS QUO

#### **Capability and performance**

Aviation is a fundamental driving force in the New Zealand economy. Annual industry revenue has been estimated to be in the order of \$10 billion and comprises over 1000 organisations employing over 23,000 personnel.

New Zealand generally has one of the safest and most advanced aviation systems in the world. The safety performance of large airlines, which account for 96 percent of travel on New Zealand aircraft, is on a par with that of international counterparts based in developed countries. There has not been a fatality in the New Zealand airlines sector since 2004/5. The overall trend in the general aviation sector (the smaller commercial operators and non-commercial operators) points to declining numbers of fatalities and aircraft accidents (per 100,000 hours flown). There are, however, some commercial parts of the general aviation sector where safety outcomes need to improve.

The integrity of the regulatory oversight provided by the Civil Aviation Authority is a key part of ensuring safety and the on-going contribution of aviation to New Zealand's economy.

There are however some current performance issues facing the Civil Aviation Authority. In brief, there are continuing operating deficits from a shortfall in revenue, the Civil Aviation Authority's approach to regulatory and safety oversight has slipped behind modern practices, the organisation is lacking in key capabilities and staff, and it is not responsive enough to the needs of the aviation sector. The Civil Aviation Authority has developed plans, as part of a major Change Programme, to address these issues and has already made good progress to effect improvements to its regulatory approach and organisational performance. However, embedding the improvements is at risk because the Civil Aviation Authority is currently running operating deficits due to a revenue shortfall and has insufficient cash reserves to complete the Change Programme and fund the desired level of ongoing improved performance.

#### **Design of funding arrangements**

The Civil Aviation Authority also considers that the design of underlying funding arrangements needs changing to better align these with cost-recovery principles. Currently, there is an over-reliance on levy funding that has arisen because fees, charges, and levies have not been reviewed substantively since the mid-1990s and because some fee- and charge-funded activities are being cross-subsidised by levy revenue.

Figures cited in this Regulatory Impact Statement are exclusive of Goods and Services Tax (GST), unless stated otherwise. This approach differs from the related Cabinet paper, which is seeking policy approval for specific changes to various fees, charges, and levies, many of which are prescribed in law as GST inclusive; but is more appropriate for a discussion of financial and business impacts.

## PROBLEM: THE CIVIL AVIATION AUTHORITY IS NOT MEETING THE NEEDS OF THE AVIATION SECTOR

The aviation sector is very dynamic. The Civil Aviation Authority is struggling to keep pace with guidance, technology change, and the increasingly diverse demands for regulatory approvals. Consequently, the Civil Aviation Authority is increasingly becoming a drag on innovation in the sector – for example, delays in implementing performance-based navigation which has clear economic, safety and environmental benefits.

## PROBLEM: THE CIVIL AVIATION AUTHORITY'S SAFETY OVERSIGHT IS NOT AS EFFECTIVE AS IT NEEDS TO BE

The Civil Aviation Authority's approach to regulatory oversight has slipped behind modern practices and there are gaps in related organisational capability. The problems include:

- Lack of an effective regulatory approach, including:
  - Lack of a clear view of regulatory purpose and objectives
  - Shortcomings in surveillance and certification roles, including inconsistencies in approach
  - Risk analysis is insufficiently embedded in the approach to, and conduct of, safety oversight
  - The regulatory approach is too focused on inputs and outputs at the expense of outcomes
  - Insufficient understanding of the effectiveness of regulatory interventions
  
- Insufficient governance and capability, including:
  - Lack of strong and effective leadership
  - A strong and pervasive technical and operational orientation, which is not sufficiently complemented by management and strategic capabilities
  - Ineffective performance management and governance
  - Gaps in safety analytical and intelligence capabilities
  - Legacy systems, including the core safety information system, are impeding safety analysis,
  - Ineffective quality and risk management systems.

The consequences of these problems include:

- Ineffective use of resources because the right regulatory interventions are not being deployed in the right way
- Over-reliance on rules, and too little use of other regulatory tools that would give the aviation sector more flexibility in how they meet their safety obligations and that would help to reduce regulatory compliance costs
- An approach to surveillance (audits and inspections) that is not sufficiently targeted which means too much attention on participants with a good safety record and too little on those that pose a higher risk
- Inability to undertake core regulatory functions due to loss of technical expertise and capacity (for example, many audits are being delayed, advisory circulars

- are not being produced in a timely way and some airspace incidents are not being analysed)
- Organisational inefficiency because of lack of clear view of strategic purpose and systems for monitoring, and providing incentives for, performance
  - Insufficient traction in addressing risk because of the lack of core analytical capabilities and effective supporting systems.

## PROBLEM: INSUFFICIENT FUNDING AND ISSUES WITH THE DESIGN OF FUNDING ARRANGEMENTS

The Civil Aviation Authority is funded predominantly on a user pays basis; total revenue comprises fees and charges (currently about 12 percent), levies (currently about 74 percent) and the rest is from the Crown (including a contract for rules development with the Ministry of Transport), interest, and miscellaneous income.

Existing fees, charges, and levies do not generate sufficient revenue to cover costs, and have not been reviewed substantively in 15 years. During that period, the Cost Price Index has increased by between 41 and 44 percent. The Civil Aviation Authority incurred an operating deficit of \$1.9 million in 2010/11 and is expecting an operating deficit in 2011/12 of around \$5 million (a large part of which reflects one-off costs from implementing the Change Programme). Based on current strategic and business intent, and with no change to revenue levels, the Civil Aviation Authority will incur an operating deficit of around \$6 million for each of 2012–15 and will deplete its cash reserves in 2012/13.

The design of existing funding arrangements is also not appropriate as:

- Levies provide 74 percent of current income and the level of fees and charges (12 percent of current income) has not been reviewed substantively for 15 years. Consequently, levy revenues are cross-subsidising operating shortfalls for fee- and charge-funded activities
- There are some activities, principally in the area of medical certification, which should be funded by user fees but are currently funded by levies. The current arrangement means that those who apply for medical certificates (and who benefit from their provision) are not meeting the related costs. This is inconsistent with the government's cost-recovery principles
- An existing aeronautical information services levy (which generates income of about \$0.6 million per annum) is complex to administer and does not align well with the above cost-recovery principles
- There are two forms of passenger safety levy, one of which relates to domestic passengers (\$1.78 per passenger per sector flown) and the other which relates to international passengers (\$0.89 per passenger departure). Although the two forms of passenger safety levy have been in place for many years, there is no particular basis for the differing levy rates. Both domestic and international passengers benefit from, and rely upon, the effective operation of the New Zealand regulatory system. Accordingly, both should contribute equally to the costs of the system
- Australian operators within New Zealand operating under their Australian certificates currently pay a reduced domestic passenger safety levy (currently a 17 percent discount). This is referred to as the Australia New Zealand Arrangement levy. The discount arises because those operators are already

paying the Australian government for its safety oversight of their operations. As a portion of domestic passenger levy income is used to cross-subsidise the cost of the Civil Aviation Authority's oversight activities in New Zealand, it is inappropriate for these Australian operators to also contribute to these costs. The Civil Aviation Authority intends seeking the removal of the Australia New Zealand Arrangement levy once the cost of New Zealand surveillance activities are fully cost-recovered from fees and charges (and the cross-subsidy from levies is, therefore, removed).

## OBJECTIVES

### Capability and performance

The Civil Aviation Authority Board (the Board) seeks to lift the Civil Aviation Authority's performance, address the problems described above, and ensure that the Civil Aviation Authority is a modern, effective and sustainable regulator and organisation. During 2011, the Board has developed, and is now in the process of implementing, a major Change Programme that involves changes to regulatory approach (including implementing the internationally-mandated safety management systems approach), making better use of the Civil Aviation Authority's tools, and fostering more effective strategic management and leadership within the organisation.

The Change Programme is guided by the Civil Aviation Authority's Strategic Framework<sup>1</sup> and its overarching outcome of "*safe flight for social connections and economic benefits*".

The primary objectives underlying changes to how the Civil Aviation Authority operates as a regulator are to:

- Be more responsive to the needs of the sector and to be an enabler of aviation sector innovation and growth
- Be risk-based and outcomes-focused, consistent with modern regulatory practice; and, to this end, to be proactive and focused when identifying and managing safety risk
- Have more effective engagement and collaboration with the aviation sector to better understand where the issues, risks and examples of best practice lie
- Be internationally influential, so that regulatory developments in the international arena are fit for purpose within New Zealand and maintain access to international markets
- Use a broader regulatory toolkit to making better decisions on the choice of regulatory intervention, including reducing the reliance on rules-based solutions
- Achieve more consistent interpretation and application of core regulatory tools, particularly in the areas of certification and surveillance
- Achieve more timely and effective services and performance of regulatory functions

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<sup>1</sup> Refer page 4 of the Civil Aviation Authority's Statement of Intent for 2011—14.

- Better enable the introduction of new aviation technology.

The impacts the Civil Aviation Authority expects from achieving these objectives include:

- More timely regulatory responses to opportunities and developments within the aviation sector, thus enabling innovation and growth
- More flexibility for sector participants in how to meet their safety requirements
- Opportunities to deregulate or implement regulatory reform, thus reducing the regulatory burden on the sector
- Targeting regulatory focus to areas of greatest safety risk - participants with a good safety record can expect fewer audits
- Improved detection of safety failures before these contribute to loss,
- Greater assistance to sector participants to address deficiencies in their safety management systems.

The safety and economic benefits that are expected to flow from these impacts include:

- Maintaining New Zealand's reputation as a safe place to fly and the related economic benefits
- A greater contribution to New Zealand's economic growth
- The aviation sector getting new products to market quickly
- Better safety outcomes
- Reduced economic and social costs associated with aviation accidents through enhanced safety oversight and operations
- Fewer audits, thus lowering costs for participants who have good safety systems and demonstrate good safety performance
- Operational efficiencies and reduced compliance costs for the aviation sector through efficient and effective management of the Civil Aviation Authority.

### **Design of funding arrangements**

The key objectives are to implement arrangements that are consistent with the government's cost-recovery principles<sup>2</sup>, including that costs should be recovered from those that give rise to them and who benefit from the provision of the underlying service; the level of recovery should reflect the full associated cost, provided that cost is efficient; and if costs are not fully recovered, any cross subsidy should be transparent.

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<sup>2</sup> As set out in the Treasury's *Guidelines for Setting Charges in the Public Sector* and the Controller and Auditor-General's *Good Practice Guide for Charging Fees for Public Sector Goods and Services*.

## OPTIONS TO IMPROVE CAPABILITY AND PERFORMANCE

The status quo is not sustainable because of increasing and ongoing operating deficits. Three options were considered:

- Option 1 – cut expenditure to fit with projected revenue. Under this option, a small increase in overall revenue is projected from an assumed 3 percent per annum growth in passenger numbers. Given the projected increases in operating expenditure, the Civil Aviation Authority would have to make substantial cuts in output levels (for example, in the order of 20 percent for surveillance and safety investigation activity) and it would not be able to implement fully the changes in regulatory approach or strengthen analytical capability (people and systems) in key areas
- Option 2 (recommended by the Civil Aviation Authority and supported by the Ministry of Transport) – implement the Board’s current strategic direction and business intent (building on that described in the entity’s Statement of Intent for 2011–14). Average annual revenue from fees, charges, and levies for 2012–15 would be increased by over \$4.7 million per year compared to Option 1, and the Civil Aviation Authority would contribute to meeting the increased costs by reducing its cash reserves<sup>3</sup>. The Civil Aviation Authority would complete the Change Programme and strengthen capability (people and systems), output levels would be maintained (with some quality improvements), the organisation would be better placed to manage future demand pressures, and the full benefits expected from the Change Programme would be realised
- Option 3 – partial adjustment to expenditure and revenue levels. Under this option, average annual revenue from fees, charges, and levies for 2012–15 would be increased by around \$3 million per year compared to Option 1, and the Civil Aviation Authority would contribute to meeting the increased costs by reducing its current cash reserves. This would enable the Civil Aviation Authority to complete the Change Programme and strengthen capability (people and systems). However, cuts to output quantity would be needed (for example, a 15 percent reduction in surveillance activities, and a 10 percent cut in safety investigations).

The table below presents the options in more detail and provides a comparative assessment:

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<sup>3</sup> Cash reserves will fall from \$4.3 million to just under \$3.6 million by 2014/15.

	Option 1 No revenue change	Option 2 Recommended revenue increase	Option 3 Partial revenue increase
Overall characteristics	<ul style="list-style-type: none"> <li>Expenditure reduced to fit within projected revenue</li> <li>Change programme not completed</li> <li>Output quantity, quality, and timeliness reduced substantially</li> <li>Less effective regulator</li> <li>Negative safety and economic impacts</li> </ul>	<ul style="list-style-type: none"> <li>Increased expenditure, funded by additional revenue from fees, charges, and levies and a reduction of current cash reserves</li> <li>Change programme fully implemented</li> <li>Output quantity maintained, with quality improved</li> <li>More effective regulator</li> <li>Positive safety and economic benefits</li> </ul>	<ul style="list-style-type: none"> <li>Partial increase in expenditure, funded by additional revenue from fees, charges, and levies (less than Option 2) and a reduction of current cash reserves</li> <li>Change programme fully implemented</li> <li>Output quality improved, but quantity reduced (less than Option 1 reduction)</li> <li>More effective regulator, but reduced capacity</li> <li>Increased risk of adverse safety and economic impacts</li> </ul>
Operating expenditure (average per annum 2012–15)	\$32.9 million	\$37.7 million	\$36.1 million
Capital expenditure (total 2012–15)	\$1.3 million	\$6.9 million	\$6.9 million
Fee, charge, and levy revenue (average per annum 2012–15)	\$28.0 million	\$32.7 million	\$31.3 million
Full time equivalent staff (average over 2012–15) <sup>4</sup>	190	225	210
Scope	<ul style="list-style-type: none"> <li>Reduce outputs levels. Approximate output quantity cuts to surveillance (20 percent), safety investigations (20 percent), enforcement (40 percent), safety education and information (30 percent), with consequential reduced timeliness (including certification)</li> <li>Terminate Change Programme</li> <li>Disestablish planned positions aimed at strengthening analytical capability</li> <li>Retain, rather than replace, existing core safety information and document management systems</li> </ul>	<ul style="list-style-type: none"> <li>Maintain output levels and meet expected levels of demand</li> <li>Complete the Change Programme and embed the changes to regulatory approach and organisational capability</li> <li>Strengthen analytical capability by establishing new positions, primarily in the areas of regulatory strategy and safety analysis</li> <li>replace core safety information and document management systems</li> </ul>	<ul style="list-style-type: none"> <li>Complete the Change Programme and embed the changes to regulatory approach and organisational capability</li> <li>Strengthen analytical capability by establishing new positions, primarily in the areas of regulatory strategy and safety analysis</li> <li>Replace core safety information and document management systems</li> <li>Disestablish positions and approximate output quantity reductions in surveillance (15 percent), safety investigations (10 percent), enforcement (20 percent), and safety education and promotion (20 percent). Consequential reduced output timeliness, including for certification</li> </ul>
Safety and economic impacts	<p><b>Safety</b></p> <ul style="list-style-type: none"> <li>Civil Aviation Authority does not fully transition to a risk-based regulator and could not improve sector safety performance</li> <li>Quality and quantity of safety oversight would fall below levels criticised by the Office of the Auditor-General</li> <li>Fewer audits, inspections and investigations increase the risk of undetected causes of critical safety failures</li> <li>Less enforcement activity undermines incentives for participants to take responsibility for safety</li> <li>Over time, safety performance is likely to worsen</li> <li>Regulatory interventions continue to rely on rules, rather than other more effective interventions</li> </ul>	<p><b>Safety</b></p> <ul style="list-style-type: none"> <li>Civil Aviation Authority becomes a risk-based, outcome-oriented regulator</li> <li>More targeted risk-based interventions leading to sustained better safety performance and embedded safety culture within the sector</li> <li>Improved certification means greater assurance that entry to the aviation system is supported by robust and effective safety systems</li> <li>Office of the Auditor-General's issues fully addressed</li> <li>maintain safety record in the airlines sector, continue the improving trend in the general aviation sector, and lift safety performance in poor performing sectors</li> </ul>	<p><b>Safety</b></p> <ul style="list-style-type: none"> <li>Civil Aviation Authority becomes a risk-based, outcome-oriented regulator</li> <li>More targeted safety interventions</li> <li>Improved certification</li> <li>Concerns raised by the Office of the Auditor General regarding the quality of regulatory interventions addressed</li> <li>Maintain safety record in the airlines sector</li> <li>Less capacity means reduced investigations and surveillance, particularly in the general aviation sector. Resulting greater risk that safety issues are not addressed and, hence, risk of deteriorating safety performance in that sector</li> <li>Reduced enforcement, leading to reduced incentives on the sector to conform with expected standards</li> </ul>

<sup>4</sup> Includes the transfer of 14 Aviation Security Service corporate services staff. Current total staff of 215.

	Option 1 No revenue change	Option 2 Recommended revenue increase	Option 3 Partial revenue increase
Safety and economic impacts	<p><b>Economic</b></p> <ul style="list-style-type: none"> <li>✓ No additional cost to the economy</li> <li>✗ Increased risk of a major loss of confidence in the aviation system and regulator. In a worst case scenario, access to foreign markets may be constrained or denied</li> <li>✗ Slower certification and regulatory approvals and/or less guidance to industry on regulatory requirements mean: <ul style="list-style-type: none"> <li>- Increased potential for missed or diminished commercial opportunities</li> <li>- Risk of higher costs due to increased uncertainty</li> </ul> </li> </ul>	<p><b>Economic</b></p> <ul style="list-style-type: none"> <li>✓ Enhanced ability for regulatory response to opportunities involving more efficient management of New Zealand's airspace, commercial benefits for the sector, and reduced economic costs stemming from accidents</li> <li>✓ Use of broader suite of regulatory interventions enabling opportunities for deregulation and less reliance on rules, resulting in less regulatory burden for the sector</li> <li>✓ More focused risk-based audits lead to fewer audits and lower costs for those with good safety systems and performance</li> <li>✓ Greater collaboration, so the sector understands better what information is needed to enable the Civil Aviation Authority to decide quickly on regulatory issues, thus enabling earlier sector realisation of commercial benefits</li> <li>✓ An influential and effective regulator that ensures international regulatory requirements are 'fit for purpose' in New Zealand and do not impose unnecessary cost on the sector</li> <li>✓ Timely certification and approvals enhances the sector's ability invest in product development and improve profitability</li> <li>✗ Significant additional cost to the economy</li> </ul>	<p><b>Economic</b></p> <ul style="list-style-type: none"> <li>✓ Enhanced capability to monitor developments in the sector and assess the nature of the required regulatory response</li> <li>✓ Use of broader suite of regulatory interventions enabling opportunities for deregulation and less reliance on rules as the main regulatory intervention and, hence, less regulatory burden for the sector</li> <li>✓ Risk-based approach to audits (fewer audits and, hence, lower costs for those with good safety systems and performance) although gains limited because of reduced capacity to analyse risk</li> <li>✗ Slower certification and regulatory approvals and/or less guidance to industry on regulatory requirements mean: <ul style="list-style-type: none"> <li>- Increased potential for missed or diminished commercial opportunities</li> <li>- Risk of higher costs due to increased uncertainty</li> </ul> </li> <li>✗ Some additional cost to the economy</li> </ul>

## DESIGN OF FUNDING ARRANGEMENTS

Regardless of which option is supported, the Board also proposes changes to the design of the underlying funding arrangements. The proposed changes will address current cross-subsidisation of the revenue shortfalls for fee- and charge-funded services.

### Proposed design changes

The key changes involve:

- Increasing fees and charges (increases to hourly rates charges for surveillance and certification functions will be phased annually over the next three years)
- Introducing three new fixed fees for processing a medical certificate application, deregistration of a foreign-owned aircraft, and a registration under the Cape Town Convention<sup>5</sup>
- Moving towards equalising the rate for the domestic passenger safety levy and the departing international passenger safety levy, by reducing the domestic levy and increasing the international one
- Revoking the aeronautical information services levy and funding the related costs from passenger safety and participation levies
- Reducing the Australia New Zealand Arrangement levy discount as fees and charges for surveillance activities move towards full cost.

For the three new fees, the primary reason for their introduction is that there are identifiable users who both benefit from, and give rise to the cost of, the related services. Applying cost-recovery principles, these services should be funded from user charges rather than levies, as occurs currently. The most significant new fee is for the processing of applications for medical certificates. This fee is discussed further in Appendix B.

The arrangements for collecting and applying revenue from the aeronautical information services levy are complex, do not align well with cost-recovery principles, and generate annual revenue of only \$0.6 million. Accordingly, it is difficult to justify the retention of this levy, and feedback from consultation supported its removal. This levy is discussed further in Appendix C.

### Possible changes considered

The proposed changes build on options included in the public consultation document issued in October 2010. Feedback from consultation indicated general agreement with these design changes, but the aviation sector was strongly of the view that the Civil Aviation Authority needed to demonstrate improved value for money before increasing fees, charges, and levies.

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<sup>5</sup> This enables lenders and lessors of aircraft equipment to register, under the Convention on International Interests in Mobile Equipment and Protocol Thereto on Matters Specific to Aircraft Equipment (the Cape Town Convention), an “irrevocable deregistration and export request authorisation” as a remedy against a lessee’s default. This authorisation must be recorded by the Civil Aviation Authority

The Civil Aviation Authority has taken this on board. It commissioned an independent Value for Money Review (completed in early 2011) and has taken steps (building on the review) to achieve cost efficiencies. This includes around \$1 million in annual savings arising from implementing shared corporate services with the Aviation Security Service as part of the first phase of the Change Programme. The total savings over 2012–15 are projected to be \$5.6 million.

The 2010 consultation document included the option of a new fuel levy (to replace the domestic passenger safety levy, and participation levies paid by the general aviation sector) and a cargo levy for cargo-only international flights (which currently do not pay any form of levy). Feedback indicated no support for the fuel levy concept, but support for the cargo levy.

Further analysis indicates that cargo levy revenue would be less than \$0.3 million per annum. The Civil Aviation Authority considers that, given the administrative costs, introduction of this levy is not warranted yet. The Board intends seek a cargo levy when it is justified in benefit/cost terms, and the situation will be reviewed during the next funding review.

**Comparison of proposals**

The following table outlines the differences between the application of the proposed Option 2 to the changed funding arrangements and the proposals included in the 2010 consultation document.

Item	2010 (Consultation Document) - 2011–14	2012 Current Proposals - 2012–15
Hourly charges	Phased from \$118 to \$208 (by 2013/14). Further movement to \$242 in 2014/15	Phased annually from \$118 to \$247 (by 2014/15). Moves to 75 percent of full cost-recovery
Fixed fees	Immediate move (from 2011/12) to full cost-recovery based on \$242 hourly rate	Immediate move (from 2012/13) towards full cost-recovery based on \$242 hourly rate
New fixed fees	Medical certification administration Assessing appeals on medical certification Cardiology assessments	From 2012/13, one medical transaction fee of \$272 covering all Civil Aviation Authority medical certification processing costs
	Medical-related fees at full cost-recovery based on \$242 hourly rate	Medical fee at full cost-recovery based on \$213 hourly rate
	Deregistration of foreign-owned aircraft \$383 Registration under the Cape Town Convention \$484	Deregistration of foreign-owned aircraft \$383 Registration under the Cape Town Convention \$243  (lower rates reflect further analysis of costs)
Levies	Equalise the domestic and international passenger safety levy rates (\$1.56 in 2011/12 rising to \$1.64 in 2013/14)	Move towards common rate for domestic and international passenger safety levies.  New international at a rate of 50 percent of the difference between the current international rate and the new equalised rate (new domestic \$1.71 and international \$1.30)

Item	2010 (Consultation Document) - 2011–14	2012 Current Proposals - 2012–15
	Reduce Australia New Zealand Arrangement levy discount compared to domestic passenger levy (down to 6 percent by 2013/14)	Reduce Australia New Zealand Arrangement levy discount (down to 9 percent from 2012/13) \$1.55
	Remove aeronautical information services levy	Remove aeronautical information services levy
	Cargo levy	No cargo levy yet
	Fuel levy	No fuel levy
	Increase participation levy rates (approximately 30 percent)	Increase participation levy rates (approximately 19 percent)

## Consultation

The Civil Aviation Authority undertook public consultation on capability and performance proposals, and changed funding arrangements, during October 2010. There were 41 submissions received and further consultation with key government departments. The Civil Aviation Authority was assisted through the consultation process by the Sector Reference Group, which comprises representatives of the aviation sector<sup>6</sup>. The Sector Reference Group provided advice and information to the Civil Aviation Authority on issues raised.

Feedback from consultation was mixed. Most respondents recognised the need for investment in the Civil Aviation Authority's capability and performance. However, it was clear that the aviation sector wanted the Civil Aviation Authority to improve value for money, to make its costs more transparent, and to become more efficient before implementing any increases in fees, charges, and levies.

As a consequence, the Civil Aviation Authority completed a Value for Money review in early 2011, which identified where the Civil Aviation Authority could be more effective and efficient.

Following the Value for Money Review, the Board initiated a major Change Programme in June 2011. Phase 1 of the programme implements a consolidated and strengthened shared corporate support functions for the Civil Aviation Authority and Aviation Security Service<sup>7</sup> and a new management structure for the Civil Aviation Authority. Phase 2, which deals with the Civil Aviation Authority's regulatory operations, commenced on 1 May 2012 with a new structure scheduled for

<sup>6</sup> Comprising the Air New Zealand Group; Airways Corporation; the Board of Airline Representatives of New Zealand; the Aviation Industry Association of New Zealand; the New Zealand Airports Association; and the New Zealand Aviation Federation (sports and recreation sector).

<sup>7</sup> The Aviation Security Service is legally part of the Civil Aviation Authority, but with separate funding (largely from passenger security levies) and employment arrangements.

implementation from 1 June 2012. Lessons learned from the Change Programme have delayed formalising a funding business case until now.

The Board's current proposals take into account aviation sector feedback (for example, in deciding to phase some revenue increases over several years). Air New Zealand, Jetstar, and the Board of Airline Representatives of New Zealand (21 airline members including Air New Zealand and Qantas) have indicated their support. Only Qantas, Emirates and the Singapore office of the International Air Transport Association have voiced objections to specific revenue increases. For example, Qantas saw no basis for the proposed increase in the Australia New Zealand Arrangement levy. The Civil Aviation Authority has responded to each of these concerns in writing and/or by meeting with the organisation.

A Steering Group<sup>8</sup> has overseen the work during 2011/12 and development of the funding business case. The Civil Aviation Authority has continued to consult with the Sector Reference Group and has spoken directly with interested parties who raised issues during the initial public consultation<sup>9</sup>. A further round of departmental engagement has also taken place.

## IMPLEMENTATION

Implementation will be through changes to fees, charges, and levies. It is intended that increases to the hourly charges for surveillance and certification functions be phased annually over the next three years to reach a level of 75 percent of full cost recovery by 2014/15. Fixed fees are intended to move immediately to reflect the full cost of the services provided (mainly in personnel licensing and aircraft certification). Most fixed fees are one-off charges and relate to the right to participate in the aviation system. The funding proposals would be implemented through changes to the Civil Aviation Charges Regulation (No 2) 1991 and the Civil Aviation (Safety) Levies Order 2002, and the revocation of the Civil Aviation (Aeronautical Information Services) Levies Order 2001.

With the exception of the proposed new fee for processing of applications for medical certification, no new arrangements are required for the collection of fees, charges, and levies. In the case of the new medical certification processing fee, a new on-line payment system will be in place by 1 November 2012. The system will be more convenient for aviation participants and will be lower cost than the alternative manual payment system.

Operators are likely to pass on the additional costs from these increases to their customers, as they are also faced with increasing costs from ACC levies, insurance, fuel, maintenance, and wages. Accordingly, the Civil Aviation Authority is looking to minimise the impact of proposed funding changes. It is doing this through identifying

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<sup>8</sup> Comprising the Board Chair, chief executive of the Ministry of Transport, Treasury senior manager, chief executive of the Civil Aviation Authority, and three Civil Aviation Authority general managers.

<sup>9</sup> Being the New Zealand Air Line Pilots' Association, and the Aviation Medical Council.

cost savings within its operations over 2012–15, phasing annually the changes to the hourly charges for surveillance and certification functions, and phasing change to the passenger safety levies.

## MONITORING AND REVIEW

The Civil Aviation Authority will look to generate further efficiencies within its operations during 2012–15. These efficiencies should further reduce costs, which will help to avoid or limit the need for future increases in fees, charges, and levies.

The Civil Aviation Authority is also introducing memorandum accounts into its financial management systems and reports. Memorandum accounts record the accumulated balance of any surpluses and deficits incurred for major revenue sources. They are intended to provide a long-run perspective to the pricing of outputs and required revenue levels.

The Civil Aviation Authority will continue to engage with the Sector Reference Group, following the implementation of these proposals, to seek its feedback on the effectiveness and impact of the related changes on the aviation sector.

The Civil Aviation Authority will also develop during 2012 performance measures of changed services and costs, and a benefit realisation plan, to assist Board oversight and quarterly reporting to the Minister.

There will be funding reviews at least every three years that will include a formal review of value for money and effectiveness within the Civil Aviation Authority. The next funding review is scheduled for completion by 1 July 2015.

## APPENDIX A - DETAILED SECTOR ANALYSIS

### Context

The impact analysis which follows is based on a comparison of the amounts that the aviation sector currently pays with the increased amounts under the Board's proposed option (Option 2) as applied to the changed funding arrangements. The diverse nature of the aviation sector means that it is difficult to formulate conclusions regarding the overall impact on the sector. The analysis therefore assesses the financial impact on major categories within the sector.

The options do not have a direct financial impact on government as no increase in government funding is sought.

The increased licensing fees are a one-off charge as licences are lifetime documents. The fee levels reflect that related costs are not large compared to a passport that needs renewing every five years.

Any increase in hourly rates for surveillance activities is an incentive for operators to ensure they manage risks in a way that reduces the need for more active Civil Aviation Authority safety oversight. The introduction of a Safety Management System regime would enable operators to further reduce related costs, as the Civil Aviation Authority will focus less on safe operators and more on those that pose a greater risk.

The Board's proposal seeks to reduce the domestic passenger safety levy and increase the departing international passenger safety levy with a view to having a common rate at the next funding review. While the percentage increase in the international passenger safety levy (46 percent) could be considered large, it is only an additional 41 cents per passenger on an international flight.

It is recognised that the rates do impose varying additional cost on industry at a time when the economy is experiencing slow growth and other costs are rising. The proposal also has to be considered in the context of a raft of aviation-related costs impacting on the commercial viability of operators (that is, insurance, landing fees, Airways charges, Accident Compensation Corporation (ACC) levy increases, and (most significantly) fuel.

Offsetting the additional cost, the aviation sector will directly benefit from the proposed enhancement of the Civil Aviation Authority's capability and effectiveness. Improved processes, systems, and internal capability will enable companies like Air New Zealand, and the myriad of other smaller aviation businesses in New Zealand, to get new products to the market quickly and the costs associated with accidents should be reduced.

## AIRLINES

### Levies

The proposals look to move the international safety passenger levy to a rate of 50 percent of the difference between the current international levy rate of 89 cents and the proposed new common rate for passenger safety levies of \$1.71. This would mean an international passenger rate of \$1.30. The Board proposes equalising the domestic and international passenger safety levies at a single rate for the 2015–18 review period.

On the assumption that passenger levies, which are collected from the airlines, are passed on in the form of higher ticket prices, the impact per flight is an additional 41 cents per international passenger and 7 cents less per domestic passenger. The size of these changes will have no effect on the public's air travel decisions (for example, a 41 cent increase on a \$300 fare to Sydney). There will be little, if any, compliance costs on airlines as the collection mechanisms already exist.

### **Fees and charges**

The main financial impact for airlines will come from increased fees and charges. For example, the Air New Zealand group of companies has a current annual cost for audits and approvals of \$0.483 million. This could more than double in three years with the increased hourly charges for surveillance and certification functions. In addition, the fee for processing a medical certification application could add at least a further \$0.370 million to Air New Zealand's costs if it bore the full cost for its 1200 pilots.

The additional financial impost on Air New Zealand is unlikely to be as large as that described above given the investment that the Civil Aviation Authority is making to implement the safety management system approach to regulatory oversight. This approach will mean that low-risk operators, like Air New Zealand, will not receive the same level of surveillance (audits and inspections) as they currently do.

The increases in fees and charges are a small change within the company's overall cost structure. For example, the Air New Zealand's group's total operating revenue in 2010/11 was \$4,312 million, with fuel costs of \$1,084 million<sup>10</sup>. Jet fuel price increases are the most significant costs factor and added \$77 million in operating expenditure for Air New Zealand in the six months ended December 2011 compared to the similar period in 2010<sup>11</sup>.

Air New Zealand has indicated its support for the necessary investment in the Civil Aviation Authority's capability and effectiveness and, accordingly, is accepting of the proposed revenue increases and changed funding arrangements. With respect to the international airlines operating to and from New Zealand, their representative body (the Board of Airline Representatives New Zealand) has indicated that it will not seek an international passenger safety levy lower than that which is proposed.

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10 Air New Zealand's Annual Report for 2010/11

11 Air New Zealand Interim Shareholder Review 2012 – Statement of Financial Performance

## GENERAL AVIATION

The general aviation sector comprises helicopters, small aeroplanes (aeroplanes having a seating configuration of nine seats or less and a maximum take-off weight of 5,700kg or less), balloons, and other small aerial vehicles.

The sector is made up of freight and passenger carrying services, agricultural operations and sport and recreation activity.

Any impact from the funding review will vary among operators. The introduction of the safety management system regime would allow the Civil Aviation Authority to better adjust its surveillance activity according to risk. Those operators with poor safety systems would pay more by being subject to greater Civil Aviation Authority attention, but this also provides a useful financial incentive for them to improve their management of safety risk. The general aviation sector's contribution is expected to double by 2014/15 under the proposed changes. However, with the introduction of safety management systems in that period, operators with good safety systems and low risk will attract less Civil Aviation Authority direct monitoring and therefore pay less.

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## AGRICULTURE

The agricultural aviation sector is very competitive and operates under tight margins. The number of operators has not changed significantly, despite the recent economic downturn. It is an industry largely dependent on the health of the primary sector. In an environment where fertiliser application has declined over recent years, the industry appears to have adjusted by reducing the number of flights rather than reducing the number of operators.

The industry has had 11 fatalities and six serious injuries in the last 10 years. The accident statistics show the results of a working environment for many operators at the edge of the risk envelope.

The revenue received from this sector in the 2010/11 was \$0.380 million, with seven of the 104 participants receiving invoices over \$10,000. The average agricultural aviation participant was invoiced \$3,653 annually. Based on a total 84,000 hours flown for the year, Civil Aviation Authority-related costs for an average operator would be in the region of \$4.50 per hour. By contrast, fuel costs are around \$350 per hour for a fixed wing turbine aircraft and the industry charge-out rate to farmers is in the region of \$1,500 to \$2,000 an hour.

The additional impost from the phased hourly charge on the average operator would be \$1,936 in 2012/13 rising to \$3,981 in 2014/15. In addition, the new fee for processing a medical certification application of \$272 would have an impact on pilots, many of whom are required to undertake two medical examinations a year.

With the introduction of the safety management systems approach, which supports a risk-based approach to surveillance, the amount of time that Civil Aviation Authority auditors spend with less risky agricultural operators should reduce.

While additional costs on agricultural aviation operators are likely to be passed on to farmers, the industry says it is struggling to survive, with very few making profits despite it being a "better season". The industry organisation (New Zealand Agricultural Aviation Association) indicated that "given the level of proposed charges,

this may well spell the demise of some struggling operators and it may well persuade those who are swinging to actually become so discouraged as to leave the industry.”

It is difficult to predict whether some operators will leave the sector because of increased civil aviation fees charges. Overall, these costs are a small component of an operator’s cost structure, and other factors will be more significant, including farmer demand for services and variable cost increases, such as fuel.

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## TOURISM

Tourism is important to the New Zealand economy. Tourism contributes, directly and indirectly, 8.6 percent of New Zealand’s Gross Domestic Product. International visitor arrivals and expenditure are forecast to increase by 2.8 percent annually through to 2016<sup>12</sup>.

Only a limited number of tourists use domestic aviation-related activities. The global economic crisis has impacted negatively on tourist operators in New Zealand, although there is a now gradual growth in visitor numbers. Some aviation tourism operations have exited the industry and profits for the remainder have decreased, as has spending on marketing, other non-essential items, and capital items.

The sector has a few large operators flying from a number of bases in New Zealand. The largest helicopter business has 29 helicopters operating from seven bases. The largest general aviation aeroplane operator has 17 aeroplanes. Annual civil aviation fees and charges vary depending on the size of the operation. A representative operator would average approximately \$3,000 to \$5,000 per annum in civil aviation audit costs.

A tourist operator currently paying \$4,000 a year in audit costs would pay an additional \$2,120 in 2012/13 and \$4,360 by 2014/15 from the phased increase in the proposed hourly rate. In addition, each pilot would be faced with the new fee for processing a medical certification application of \$272 on a regular basis.

The impact on a tourist operator is difficult to determine and costs are generally passed on in flight charges to the consumer. An advertised one hour Queenstown/Milford/Queenstown over-flight (adult fare) is \$405.00. Increased civil aviation charges in 2012/13 of \$2,500 per annum would likely add 15 cents to the cost of an individual flight. By comparison, a five percent increase in fuel cost is an additional \$65,000 per annum, or about an extra \$4 per flight<sup>13</sup>. As such, these costs impact significantly more than the proposed increases to fees and charges.

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<sup>12</sup> Ministry of Economic Development key tourism statistics (March 2012)

<sup>13</sup> In 2010/11, Jet A1 aviation fuel increased by 23 percent and AvGas aviation fuel by a similar amount.

## TRAINING ORGANISATIONS

There are a range of training schools and aero clubs offering flight training in New Zealand (for a Private Pilot Licence, Commercial Pilot Licence, or Airline Transport Pilot Licence). The larger schools (based on reported hours flown) are Canterbury Aero Club, Ardmore Flying School, CTC Aviation Hamilton, Massey Aviation and Nelson Aviation College. Some schools are training for airlines only. Others focus on individual packages. Some schools have supplementary revenue operations. There are numerous small aero clubs that offer packages for limited hours and instruction to help towards attaining pilot licences. Some smaller operators also provide training for all professional licences and ratings.

Annual revenue for the larger schools is in the region of \$4 to \$5 million per year. Expenses include fuel, airport charges, landing fees, handling fees, salaries, maintenance, insurance, Civil Aviation Authority and other government compliance costs.

New Zealand flight schools cater for both domestic and overseas students. Domestic enrolments may be affected by the government's reduction in the cap for domestic pilot training from 600 to 450 Equivalent Full Time Students from 2012 and setting a maximum student loan fee-borrowing limit of \$35,000 from 2013.

Conversely, Boeing Corporation's current Market Outlook 2009—28 forecasts that international commercial aviation will require 466,650 pilots and 596,000 maintenance personnel over the next 20 years to accommodate new and replacement aircraft. The largest growth is forecast to be in the Asia-Pacific region. The International Civil Aviation Organization supports similar figures and predicts that there will be a demand for double the number of pilots by 2030.

Pilot training is expensive:

- Private Pilot Licence training is a minimum of 50 hours at \$250 an hour in a single engine aircraft (\$12,500)
- Instrument rating (twin engine aircraft ) is 40 hours at \$500 an hour (\$20,000)
- Commercial Pilot Licence training is a minimum of 150 hours at \$250 per hour (\$37,500), plus other instructor and ancillary fees
- Trainees also have examination fees, flight test fees, various ground course fees and chart costs, and medical assessment-related fees.

Currently, the larger schools incur civil aviation audit costs of approximately \$15,000 - \$16,000 a year, an initial aircraft registration fee (\$152), annual fee for maintenance of register (\$32), and a participation levy (\$60 to \$85 per aircraft). In addition, schools will generally absorb the pilot licence fees as part of their student fee structure.

The additional costs from proposed increases to civil aviation hourly charges range from \$62.54 per hour in 2012/13 to \$128.62 per hour in 2014/15. Assuming that Civil Aviation Authority surveillance of training schools amounts to 30 hours a year, the added costs per training school would be in the region of \$2,000 in 2012/13 and \$4,000 in 2014/15. The participation levy proposals will add further small cost to operators of approximately \$10 to \$15 per year per training aircraft.

Flight training organisations are currently struggling financially. Some have indicated that the government's reduction of the cap on Equivalent Full Time Student numbers for pilot training by a third is likely to mean less aircraft utilisation (fewer hours flown by each aircraft), fewer aircraft, and increases in aircraft hourly hire rates.

Any increase in fees and charges will be viewed by the training schools and student pilots as exacerbating an already difficult trading environment. There are already industry concerns that some schools will close with further job losses.

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## AERO CLUBS

There are over 40 aero clubs in New Zealand. Most of these are members of Flying New Zealand, which represents approximately 3,400 individuals. The Civil Aviation Authority audits aero clubs that hold certificates (under Rule Part 141 or 135). Average civil aviation audit charges for a club that flies 5,000 hours a year are in the region of \$7,300.

The phased increase in the hourly charge could mean that aero clubs face additional costs ranging from \$4,000 in 2012/13 to \$8,200 in 2014/15. Currently, the civil aviation charges component of an aero club hourly hire rate is approximately \$1.45. This would increase to \$2.25 in 2012/13 and \$3.10 in 2014/15 (for an indicative aero club flying an average of 5,000 hours per year).

To put these increases into perspective, a Cessna 172 solo hire is around \$220 per hour plus \$20 landing fees. Variable fuel costs would have a much more significant impact than increased civil aviation fees and charges.

When added to other costs, the above increases could impact on a club's ability to maintain and attract new members. Many aero clubs are finding it difficult in the current economic climate and a number of clubs are facing declining flying hours.

A further problem for clubs is the added costs faced by the individual pilot, such as the new fee for processing a medical certification application for those pilots attaining and maintaining a private pilot licence, and increased licence fees for those entering the system or upgrading to higher licences. It is difficult to quantify how these new and additional costs will impact upon the decision of pilots whether to maintain their pilot licences.

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## Private and Recreational Pilots

The increase in fixed fees and the new medical certification processing fee will have a varying impact, depending on whether an individual pilot is entering, or is already in, the system and on the level of licence held,

The proposed increases in personnel licensing fixed fees only impact upon new entrants as existing personnel licence holders hold the document for life. Appendix D provides a comparison of licensing and registration fees in other sectors.

An existing or a new private pilot licence, commercial pilot licence, or aviation transport pilot licence holder would be faced with an extra fee of \$272 for processing of a medical certification application on a regular basis with frequency depending on

age (note the recreational pilot licence does not have an associated medical fee, as the medical requirement for this licence is the lesser driver's licence standard)<sup>14</sup>.

Flying is an expensive recreational pursuit. Sport and recreation pilots typically have a limited budget, making them particularly sensitive to any increased costs. Many of the older pilots require two medicals a year. Given that pilots have not previously borne the related costs, the new fee for processing a medical certification application is likely to be viewed by this part of the general aviation sector as having a major financial impact. It will influence the decision whether to maintain their private pilot licence and deter some potential new entrants.

Increased civil aviation fees, together with increasing costs from fuel, insurance, hire costs, MetFlight fees<sup>15</sup>, airport landing fees, Airways charges, an Aeronautical Information Publication, and charts means that flying competes at a disadvantage with many other less expensive leisure activities. It is an activity that is generally pursued for 'the love of flying'.

The Civil Aviation Authority expects that some older pilots will not maintain their current private pilot licence and/or opt for a recreational pilot licence. The latter does not require an aviation-based medical assessment and therefore would not incur the new fee for processing a medical certification application. This could save an older pilot, who may need two medicals a year, \$544 in related fees. While pilot licences are a one-off fee that a new entrant pays, there are a number of upgrade licences to attain if the pilot wishes to pursue a career. The related fees will be increased.

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## CHANGE OF OWNERSHIP AND REGISTRATION MARKS

Having accurate aircraft ownership details is important to the Civil Aviation Authority, as these details enable the organisation to understand the shape and performance of the system and to influence safety through aviation directives sent directly to those people who are in a position to maintain the safety of the aircraft – the owners. For example, the Civil Aviation Authority may issue an aviation directive to owners following an accident investigation which might have shown a deficiency in a part of a particular type of aircraft. Change in ownership details are required for all aircraft, ranging from Air New Zealand's Boeing aircraft through to single seat micro- lights.

The Civil Aviation Authority estimates there is significant non-payment of the current fee. It is a requirement to change ownership details if an aircraft has been operating outside the owner's control (leased) for more than 28 days. Leasing is prevalent, especially among the smaller aircraft such as micro-lights and helicopters. With the new fees, there is a risk aircraft will not officially change hands as required or be stood down for a day to circumvent the change in ownership requirement. The Civil Aviation Authority is acting to ensure better compliance, with options ranging from placing a hold on services through to removal of aviation documents.

Registration marks play an important part of the registration process, with most sport and recreational and hobby aircraft owners being passionate about their marks -

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14 <http://www.nzta.govt.nz/licence/medical/drivers.html>

15 Fees for either the MetFlight GA or Commercial weather briefing system, provided by the New Zealand Meteorological Service.

some have been reserving their mark for a number of years whilst building their aircraft from scratch. There is a possibility that the increased fee (from \$27 to \$171.30) may result in some people not reserving a particular mark. This would have a minor impact on the Civil Aviation Authority's overall revenue.

## APPENDIX B – FEE FOR PROCESSING OF A MEDICAL CERTIFICATION APPLICATION

The Central Medical Unit (the Unit) within the Civil Aviation Authority is responsible for ensuring continued medical certification of pilots and air traffic controllers. All commercial and private pilots must have an aviation-based medical certificate, but recreational pilots do not need one.

The Unit provides quality assurance throughout the whole medical certification process. This includes the provision of aviation medical advice to the Director of Civil Aviation, participation in independent reviews of medical certification decisions, developing medical policies, managing cardiology assessments and assessing appeals. The Unit makes clinical and regulatory decisions about individuals' medical privileges and is responsible for all aviation medical records. It liaises closely with medical examiners on medical certification issues, monitors medical examiners' decisions, and provides regulatory training. All costs associated with the Unit's activities are currently met from passenger levies.

Currently, a pilot or air traffic controller obtains a medical certificate from an Accredited Medical Examiner under delegated authority of the Director of Civil Aviation, and pays the medical examiner the related cost. There is currently no cost to a pilot or air traffic controller for the Unit's activities, which has an annual operating budget of \$2.3 million.

The proposed change is the introduction of a fixed fee to cover the full cost of the Unit's activities. Other options considered in the October 2010 consultation document were separate fees for the administration of medical certification, assessing appeals, and cardiology assessments; continuing to use levy revenue; and introducing an hourly rate for engagement with the Unit.

The proposed single fee of \$272 best aligns with cost-recovery principles, is most palatable to the aviation community, and is simpler administratively. Continuing with levy funding is inappropriate and an hourly rate has the potential to impose significant costs for pilots and air traffic controllers. The proposed fixed fee remains additional to any medical examiner's charge for a medical assessment.

The fixed fee has a financial impact for pilots and air traffic controllers as these costs have not been collected in the past. In addition, the frequency of payment (and therefore the overall cost) can vary with the age and health of each participant – some pilots may require two assessments each year. The Civil Aviation Authority is introducing an electronic portal to enable the streamlining of administration for both medical and personal licensing, which will lead to cost reductions over time.

### *Redundant fees*

Civil aviation regulations currently include a number of aviation medical assessor and designated medical examiner certification fees that have been inactive for over a decade. These fees do not relate to the proposed fixed fee and will be revoked.

## APPENDIX C - AERONAUTICAL INFORMATION SERVICE LEVY

Section 75 of the Civil Aviation Act 1990 requires the Civil Aviation Authority to provide an information service to collect and promulgate aeronautical information relating to the safety, regularity and efficiency of air navigation. The products making up the information service are drawn from the aeronautical information services database managed by Airways on behalf of Civil Aviation Authority.

The aeronautical information services products provide all reference material required for operators flying within, into and from New Zealand; material such as aeronautical data, aerodrome information, charts and other aeronautical information essential to air navigation; information in support of pre-flight planning; and notices about conditions, hazards, changes to aerodrome operation. In other words, information that is essential to safe flight operations.

Airways New Zealand, certificated aerodromes and the Meteorological Service of New Zealand pay the aeronautical information services levy. This levy was last increased in May 2008.

The current aeronautical information services levy is complex to administer. Calculating the amount is not particularly straightforward as it involves assessments of contribution volumes, production costs and aircraft movement data. These matters are further complicated by some of the levy payers also being users of the Aeronautical Information Services products. Thus, Airways pays a aeronautical information services levy to the Civil Aviation Authority whilst the Civil Aviation Authority pays Airways a larger amount (sourced from passenger safety and participation levies) for the provision of aeronautical information.

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### NEW AERONAUTICAL INFORMATION MANAGEMENT SYSTEM

The international aviation information system is transiting from a traditional paper-based system to a real-time digital and information-based network system. The new system will enable various components of the system to both transfer and use aeronautical information. The Civil Aviation Authority is planning to introduce a related aviation information management system.

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### PROBLEMS WITH CURRENT FUNDING ARRANGEMENTS

The current aeronautical information services levy is based on a historic distinction between originators and users of aeronautical information. With the proposed introduction of an aviation information management system, it is increasingly harder to maintain such distinctions. The current funding arrangement does not consider the ultimate beneficiaries of the information (ultimately and predominantly air passengers), and therefore does not align particularly well with cost-recovery principles.

The Civil Aviation Authority is facing a shortfall in aeronautical information services levy revenue from 2012/13 due to rising contract costs with Airways, with the shortfall cross-subsidised by passenger safety levies.

## OBJECTIVE AND ASSESSMENT CRITERIA FOR CHANGED AERONAUTICAL INFORMATION SERVICES FUNDING ARRANGEMENTS

The objective is to enable the primary beneficiaries of the system to pay.

Three options were considered:

- No change to the current system
- Increase the current levy, including changes to the amounts paid by certificated aerodromes to reflect changing passenger movements
- Revoke the aeronautical information services levy and fund the provision of aeronautical information services products from passenger safety and participation levies.

The following assessment criteria were used:

- Should create administrative efficiency (for example, reduced transaction costs and time) and simplify funding to ensure that the primary beneficiaries of the aeronautical information system pay
- Should ensure a funding stream which is predictable, fair and consistent to realise technological advances in the provision of aeronautical information

The best option is to revoke the aeronautical information services levy and access related revenue from the passenger safety and participation levies. The associated benefits are:

- Removing current collection mechanisms and associated costs for the Civil Aviation Authority and levy-paying organisations
- Simplifying the overall civil aviation levy system and allocating related costs to the beneficiaries.

## APPENDIX D – COMPARATIVE FEES AND CHARGES (INCLUSIVE OF TAX)

Regulations involving licensing of people	Frequency	Current	Proposed
New Zealand private pilot licence	Once	\$56	\$230
Australian private pilot licence	Once	A\$60	
United Kingdom private pilot licence	Periodic	£168	
New Zealand commercial pilot licence	Once	\$61	\$230
Australian commercial pilot licence	Once	A\$80	
United Kingdom professional pilot licence	Periodic	£221	
New Zealand processing of medical certification	Periodic	No charge	\$313
New Zealand master mariners licence	5 years	\$736	
New Zealand maritime certified deckhand	Lifetime	\$236	
New Zealand maritime launch master	Lifetime	\$406	
New Zealand passport	5 years	\$153	
New Zealand building practitioners licence - issue	Periodic	\$460	
New Zealand building practitioners licence - renewal	Annual	\$174	
New Zealand driver's licence – issue	Periodic	\$136	
New Zealand driver's licence – renewal	10 years	\$44	
New Zealand motor vehicle licence (medium car)	Annual	\$462	

New Zealand regulations involving registration	Frequency	Current	Proposed
Aircraft registration	Once	\$175	\$296
Aircraft registration – maintenance of the register	Annual	\$37	\$99
Motor vehicle registration / licence	Periodic	Up to \$654	
Registration of a New Zealand company	Each	\$153	
Marriage licence	Each	Up to \$174	
Social workers practising certificate	Annual	\$368	
Real estate agents registration - issue	Periodic	\$1,133	
Real Estate Agents registration - renewal	Periodic	\$794	
Nurses registration	Periodic	\$41	
Nurses annual practising certificate	Periodic	\$110	
Financial Advisers registration	Periodic	\$1,120	
Financial Advisers registration - renewal	Annual	\$560	
Wellington dog registration	Annual	\$168	