



Civil Aviation Safety Authority
GPO Box 2005
Canberra ACT 2601
Via Email: costrecovery@casa.gov.au

23 April 2015

Re: Cost Recovery Implementation Statement (CRIS) 2014-15

The Regional Express Group provides the following in response to the Invitation for Comment in relation to the Cost Recovery Implementation Statement (DRAFT) 2014-15.

The Department of Finance's Cost Recovery Guidelines (CRG) of July 2014, to which the CRIS refers, and upon which it claims to be based, outlines three guiding principles for the construction and operation of Cost Recovery Frameworks being: *Efficiency & Effectiveness*, *Transparency & Accountability* and, lastly, *Stakeholder Engagement*.

These are the overarching criteria to which the Department of Finance (DoF) holds regulatory bodies such as CASA accountable, with regard to their Cost Recovery Framework.

It is in consideration of these principles that Regional Express provides its response.

Transparency and Accountability

Regional Express is very concerned about the nature of the additional charges advised in the draft Cost Recovery Implementation Statement. The vast majority of the "New Fee's" are proposed at an hourly rate (HR).

This leaves Regional Express, and likely others in the industry, with no certainty as to likely costs, further reduces transparency and accountability and is unacceptable. These costs must, in principle, be reviewed and more fixed costs applied noting our overriding objection below however.

Efficiency & Effectiveness

Increasing Costs

Section 3.2 of the CRIS states that the total estimated cost of Aviation Regulatory Services in FY 10/11 (actual figures not produced) amounted to \$26.8m. In FY 14/15, these costs are forecast to equal \$40.8m. This increase is explained as being inflationary and "*increases in the level of regulatory services provided due to adjustments in activity in certain sectors*".

These figures represent a 52% increase in costs over a period of 4 years; a significant increase in the cost of Regulatory Services. Consumer Price Index has inflated costs rising by 10.4% over this period (Inflation Calculator, Reserve Bank of Australia) leaving a remaining real cost increase of 41.6% over 4 years.

The primary cost driver for CASA's regulatory services is staff effort, contributing 80-90% of costs. This suggests that the 52% increase in costs is primarily due to an expansion in CASA's workforce and/or labour costs.

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An increase in real costs of 41.6% for regulatory services over the course of 4 years represents a significant expansion in staff effort that we believe it not matched by the increase in sector activity and therefore indicates a reduction in internal efficiency.

As CASA foreshadows, *Indirect costs cannot be easily and conveniently traced to the particular cost object, e.g. salary costs of support staff that do not render regulatory services directly, but nevertheless form an integral part of service delivery.* The lack of costing methodology for the assignment and allocation of indirect costs to aviation regulatory services does not bode well for any potential efficiency gains.

It is therefore the position of Regional Express that we do not support the adding of the ninety (90) additional Cost Recovery charges. In light of the above we call on CASA to put in place a transparent and measurable program to urgently address internal efficiency.

We also strongly feel that CASA should demonstrate successful and considerable cost reductions and efficiency gains prior to any further increase in staff numbers.

Unrealistic Cost Projections

Table F of the CRIS forecasts total CASA expenses for aviation regulatory services to increase at approximately 3% per annum over the next 4 years. These projections completely disregard CASA's current trend of rapidly increasing costs. How does CASA justify only forecasting approximately 3% annual cost increases when, over the past 4 years, regulatory services costs have increased by 52%?

This contradicts CASA's position that increases in revenue and expenditure from new fee items are expected to be revenue neutral, with a corresponding reduction in revenue and expenditure connected with existing fees, which currently total two hundred and sixty six (266).

Regional Express notes that Airservices Australia's Pricing Framework is audited by an objective third party; the ACCC. Regional Express notes that similar measures are not adopted by CASA under their Cost Management Strategy.

In fact the only audit oversight of the Cost Management Strategy that was noted is conducted by CASA executive management.

Stakeholder Engagement

It is noted that in terms of future cost recovery arrangements, the Department of Infrastructure and Regional Development and CASA will be reviewing CASA's long term funding strategy in 2015-16 for future consideration by the Government.

Therefore it is prudent that Industry engagement be focused on the above process rather than the proposed Cost Recovery Implementation Statement that has been drafted in isolation from the proposed long term funding review.

Conclusion

During a period of significant economic downturn in many sectors of Australian Industry, we have all had to tighten our belts and CASA's regulatory services should not be immune from this requirement. In this environment it is not appropriate for CASA to propose some 90 new charges related to the new Part 61 for pilot licensing and at the same time maintain complex bureaucratic systems that fail to deliver efficiency.

Rapidly increasing staffing costs must be curbed and operational efficiencies must be improved prior to imposing new charges on an Industry that already contributes so significantly to regulatory funding via direct and indirect funding sources.





Regional Express believes the transparency and accuracy with which this CRIS has been assembled must be addressed.

It is the position of Regional Express that, this CRIS, in its current form, is unacceptable and that the proposed new fees should not be implemented at least until CASA demonstrates that maximum internal efficiency is achieved.

In addition, further significant regulatory change should be put on hold until the complete CASA Board have given full consideration to the future direction of Australian aviation regulations.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'N Howell', is positioned above the typed name. The signature is written in a cursive, flowing style.

Neville Howell
Chief Operating Officer,

