High level feedback – Phase 1

DOC is reviewing its fee structure for activity fees that are determined by a percentage of revenue earned through a concession. In Phase 1 of the review we provided a Summary Issues and Options paper along with other materials on the PRF Review website for feedback. This is a high-level summary of the feedback we received.

Summary of submissions

DOC received 74 submissions for Phase 1 of the review. The submission period closed on 19 March 2021. Feedback received ranged from emails to very detailed submissions.

Submissions were received from:

Organisation Type	#	%
Business	49	66%
Iwi	12	16%
Not for profit	8	11%
Association/Industry body	5	7%
Total	74	100%

Feedback that is out of scope for the PRF Review

Many submissions included feedback that fell outside the scope of the review. This feedback will be passed on to appropriate areas of DOC.

- The concession system
  - The concession system does not give effect to Section 4 of the Act.
  - DOC should review the whole system rather than a part of it.
  - DOC loses business opportunities due to the lack of agility in the concessions process.
- Concession revenue
  - Is DOC's primary purpose in collecting fees commercial or conservation?
  - Concession revenue should be spent at place.

Common themes in the feedback

- One size does not fit all with the Percentage of Revenue Framework (PRF).
- Subjectivity in methodology factors should be minimised.
- Gross revenue may not be a good indicator of business activity.
- Determining what component of revenue is earned on Public Conservation Land (PCL) can be difficult.
- There is not a natural 'market' upon which to determine the activity fee (or percent).
- Longer concession contract terms are preferable to allow for a return on capital investment.
- There are more restrictions to operate on PCL than freehold land.
- Taxpayers already pay for upkeep of PCL, concession fees for activities like guiding are double dipping.
- Environmental and community benefits should be considered.

Summary Issues and Options paper questions

Approximately 25% of the 74 submissions received during Phase 1 directly addressed questions in the Summary Issues and Options paper. This section summarises these responses.

Do you think the Percentage of Revenue Framework provides a fair market fee?

- No
- Difficult to know if fees are fair
- Yes, but…
    - Needs improvement
    - One size does not fit all
    - More expensive than freehold
- How do we know what the market is?

What parts of the Percentage of Revenue Framework do you agree with?

- Works well in a crisis
- Calculated easily
- Equitable if used across an industry type
- The methodology, but not the subjectivity
- Best measure where there isn't market comparison
- Flexibility to allow for bespoke negotiations where PRF isn't appropriate.

Do you agree/disagree with the four methods? What do you see as the costs and benefits of these various methods?

The majority of those addressing the Status Quo (current PRF) supported it or suggested modifications.

Half of those addressing the Royalty method supported it. Those not in favour mentioned:

- difficulty of market assessment
- based on revenue rather than profit
- further clarification on subjective factors.

Most of those addressing the Auction method did not support it due to:

- favouring big business
- deterring infrastructure investment
- timing of concession contracts
- prioritising commercial outcomes.

Most of those addressing the Value-add (or Excess Returns) method did not support it due to:

- issues identifying normative returns
- high administrative and compliance costs.

Are there any further methods you think DOC should consider?

- Bespoke negotiations
- Outsourcing fee setting
- Use different fee methods for different activities.

Do you have any comments on potential enhancements?

The majority of those addressing the idea of a Governance Board supported it or conditionally supported it depending on its structure and powers. Some did not support an additional layer of administration and related costs.

Half of those addressing additional financial information agreed that improved collection is necessary to support fee setting and benchmarking. Some said providing the information DOC needs is expensive and time consuming or does not align with the format of their accounting information.

Most of those addressing fee setting by regulation considered some aspect of it negatively.

Suggested modifications to the status quo

Some submissions provided suggestions about modifying the factors of the status quo:

PRF factor	% range	Suggestions
Base	3.5% - 7.5%	▪ The % range appears subjective and should have no minimum/be smaller. ▪ Use a continual investment model rather than a 2-year investment window. ▪ A formula reflecting capital investment may be more suitable than a % range.
Premium	0% - 2.5%	▪ Combine premium and exclusivity. ▪ Reduce subjectivity by defining categories in the % range. ▪ Use a matrix of uniqueness and capacity levels to determine the %.
DOC infrastructure	0% - 1%	▪ Separate the charge for use of DOC infrastructure from the PRF. ▪ Reduce subjectivity by defining categories in the % range. ▪ The infrastructure % range is too low. ▪ Consider concessionaire contributions towards maintenance of DOC assets. ▪ Do not charge a premium for DOC infrastructure as the concessionaire has no control over the investment.
Exclusivity	0.5% - 1.5%	▪ Combine premium and exclusivity. ▪ The % range appears subjective and should have no minimum/be smaller. ▪ Lack of exclusivity should mean a lower fee. ▪ Use the market yield for property to define the opportunity for exclusive use. ▪ Have another level for the right to exclude the public and other concessionaires.
Environmental compensation	0% - 4%	▪ Separate the charge for environmental compensation from the PRF. ▪ Environmental aspect needs to be included. ▪ This factor could be a larger part of the PRF, in place of the base rate.

PRF factor	% range	Suggestions
		▪ Discount for contributions to conservation. ▪ Develop alternative management tools to mitigate adverse effects of activities on PCL. ▪ Should this be an accumulative, annual or one-off?
Other		▪ Recognise in the formula a reduction for not-for-profit or charitable organisations. ▪ Recognise in the formula profitability or costs of concession operations. ▪ Recognise in the formula the term of the concession (aligns with capital investment). ▪ Recognise in the formula contributions to recreation and conservation. ▪ Recognise and provide for iwi mana whakahaere, tino rangatiratanga, tikanga and kaitiakitanga in the respective iwi rohe. ▪ Better guidance for treating activities carried out partly within and partly outside conservation land.

Industry specific feedback

- Hydro concessionaires would like a consultation process to deliver a fee structure, similar to the process undertaken for the telecommunications sector.
- Ski concessionaires would like an unimproved land value fee structure and/or using a two-tier approach with fixed and variable fee components.