Percentage of Revenue Framework Review

High level feedback – Phase 2

DOC is reviewing its Percentage of Revenue Framework (PRF) that determines activity fees charged to some concessionaires.

In Phase 2 of the review, we provided information on the option ("Royalty") that the Department selected to develop further and test. Details on two sub-alternative models for the Royalty option were also provided; these were the Concessionaire Investment Model (CIM) and the Fixed Percentage Model (FPM).

This is a high-level summary of the feedback we received on the Options Assessment paper.

Summary of submissions

As part of the phase 2 engagement, the Department sought input from partners and stakeholders to help develop the technical details of the Royalty option. Sixteen submissions were received. The submission period closed 23 July 2021.

Participation in Phase 2 engagement from industry was less than in Phase 1. This limited the use of Phase 2 feedback as a representative sample of concessionaires. Hydropower concessionaires made up 50% of responders in phase 2 engagement.

Most responders agreed that the Royalty option was an improvement on the current PRF. However, there was no consensus on which of the two sub-alternatives would be preferred.

Submissions were received from:

Organisation Type	#	%
Business	12	75%
Iwi	1	6%
Not for profit	2	13%
Association/Industry body	1	6%
Total	16	100%

Feedback that is out of scope for the PRF Review

Some submissions included feedback that fell outside the scope of the review. These comments were the similar to those contained in Phase 1 High level feedback.

Phase 1 High Level Feedback can be found on the Percentage of Revenue Review Framework webpage.

Department of Conservation
Te Papa Atawhai

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Common themes in the feedback

- Agreement that the royalty option was an improvement on the current PRF.
- Common interest in continued engagement with the PRF review.
- No clear majority preference for the CIM or FPM sub-alternatives.
- Submissions on the CIM or FPM disagreed about the various components of the models or sought further information to assist understanding.
- A need to define terms such as Gross Revenue and Asset Value.
- Desire for further information on the (CIM) Base Rate increments.
- Divergence on preferences for a fixed or flexible percentage.
- Concerns around the variability of the fee due to using revenue as a fee determinant.
- Support for process enhancements and desire for further engagement on these enhancements.
- Uncertainty that one method that would best address all concessionaires.

Phase 2: Assessment of options questions

The Phase 2 Assessment of Options paper asked direct questions to further clarify the operational detail of the methodology for the Royalty option. This section summarises the questions asked and stakeholder responses.

"Do you agree that the Royalty option methodology is an improvement to the PRF? If so/not – why?"

Most responders expressed support for the Royalty option. However, remaining issues included:

  - If the CIM is used then further clarification is needed on the three components Base, Premium and Exclusivity.
  - The chosen model requires flexibility to accommodate various organisation types and sizes within the same industry.
  - Concerned about fees changing over time and impacting profitability.

- Responders who did not support the Royalty option…
  - Felt that it would decrease efficiency.
  - Disagreed with the basic principles of this approach.

"Which of the royalty method approaches would fit your business better? (i.e. the CIM or FPM)? If so, why?"

There was no clear majority support for the CIM or FPM.

The following notable points were made concerning the **CIM.**

- The CIM was overly complicated.

- More information on the increments for the Base Rate is required
- Support for maximum Base Rate to be applied if asset information not provided by concessionaire.

The following notable points were made concerning the **FPM**.

- Concern that the use of industry averages would create winners and losers.
- Where a fixed percentage was preferred the use of the rule of 25 to determine it was not supported.
- Mixed support for long term fixed percentage (key issues were business risk and uncertainty vs business planning)
- Concern that the FPM does not recognise cases where high capital investment is required to unlock revenue potential.

"Do you think any parts of the Royalty option need improvement or clarification? If so, what?"

- The Royalty option does not account for costs incurred to concessionaires to meet compliance or national park management plans.
- Both models require clarification on how Not-for-Profit organisations will be treated as compared to commercial operations.
- Any model used needs to be easily interpreted, consistently applied, and set for a reasonable period to give certainty.

Help develop the detail (specific questions)

Specific questions were asked in the Assessment of Options paper to help develop the Department develop the operational detail of the Royalty option. The following lists the topics with responses noted below.

1. *Section 4, Conservation Act*
    - General expression of support and desire to understand how this might be addressed.
    - The Royalty approach via Crown revenue is not appropriate to recognise section 4 matters. It should be based on a method that supports "Net Enduring Restorative Outcomes" to assist addressing a continually degrading conservation estate. That is users must pay not only to offset exploitation but to progressively and substantially restore the mauri of Te Taiao.
2. *Defining "Gross Revenue"*
    - Needs further clarification, suggestions made that it could be based on the accounting standards definition.

3. *Proportion the revenue or proportion % that is applied to the revenue*
    - The following suggestions were made to appropriate revenue to Public Conservation Land (PCL).
        - Time of experience spent on PCL
        - Percentage of total land used by concessionaire that is on PCL
        - Costs attributed to activity on PCL.
4. *Use of asset value in Base Rate in the CIM model royalty formula*
    - Asset Value needs to be defined.
    - Asset Value for the Base Rate does not recognise operators with lower investment values but high expenses.
    - Concerns that depreciating/fluctuating asset value will result in higher fees.
    - Investment value could be an alternative to Net Book Value.
    - A small number of investment bands based on historical cost applied to the risk-free rate should be used.
5. *Reconsideration process*
    - Broad support from respondents for a negotiation step before the formal dispute process.
6. *Two tier fee structure*
    - Not enough information was provided to respond to this question.
    - A fixed tier could be based on asset value and a variable tier based on special value, environmental impact, exclusivity, and other factors.
7. *Stability period for the percentages*
    - Respondents suggested the following stability periods could be used.
        - Base Rate and Premium factors adjusted annually
        - Exclusively factor set for the life of the concession
        - The percentage could be set at every 3-5 years

Partner and Industry specific feedback

- Ski concessionaires would prefer the use of unimproved land value as the primary method for their industry and/or using a two-tier approach with fixed and variable fee components.
- The Hydro industry preferred a fixed percentage model, though it did not support the use of the “Rule of 25” to determine it.
- A submission from the tourism sector supported the use of CIM for commercial operations on conservation land that do not involve exclusive use of land, such a guiding and landings. The land value option was preferred where a concessionaire exclusively occupies PCL to operate a business.

- A submission from Iwi considered the Royalty approach does not support “Net Enduring Restorative Outcomes” to assist addressing a continually degrading conservation estate.