

26 March 2021

Department of Conservation  
PO Box 10420  
Wellington 6143

By Email: [prfreview@doc.govt.nz](mailto:prfreview@doc.govt.nz)

Kia ora

### **Percentage of Revenue Framework Review: Tourism Industry Aotearoa Submission**

Tourism Industry Aotearoa (TIA) welcomes the opportunity to comment on the Review of the Percentage Revenue Framework. While we are on the review's reference group, we feel it appropriate to put forward a submission that reflects our thinking along with those of our members.

We view this work to be critical for establishing a strong and positive two-way relationship between the tourism industry and the Department. We have included answers to the specific consultation questions in Appendix 1.

#### **TIA's Main Areas of Feedback**

The three key areas TIA puts forward at this stage of the review process are:

1. **Principles.** We feel that it would be beneficial to have a clearly stated set of agreed principles up front and centre in the Framework. They could include:
  - Giving back
  - No free commercial use of public lands
  - Commercially realistic
  - Keep it simple
  - Give effect to Te Ao Māori
  - Others?

The application of agreed Principles will set up a platform of shared understanding on how the system will work.

2. **Gradients.** We were interested that DOC has gradients in its arrangements (Base + Premium + DOC Infrastructure + Exclusivity + Environmental Compensation) and within these.

There are also gradients on the industry side that should be taken into account alongside the DOC gradients. These include:

- Turnover is a blunt instrument given the wide variance of profit margins by different sectors and businesses.
- The proportion of concession experience spent on the DOC land should be factored into a concession.
- The ancillary benefits, such as providing safe use of conservation places by visitors and 'care of place' such as pest and weed control, revegetation, advocacy, etc., should be factored into a concession.
- Others?

These factors need to be incorporated into the overall concession pricing framework and will provide scope for fairly rewarding or incentivising desired outcomes and behaviours. We see the Principles guiding the decision points.

3. **Simplicity.** Having a logical, simple, transparent and speedy process is necessary. Common complaints from concessionaires are that they don't understand the decision-making process and it takes far too long. Perhaps some tourism-specific resources are needed, such as:
- Purpose statement that includes the agreed Principles
  - Outline of the overall framework and how it will apply for different tourism concession activity types
  - Price book specifically for tourism concessions
  - Templates (electronic) that can include the gradient areas.

We are mindful that some subjectivity is introduced by the gradients but again, the Principles can provide guidance.

### **Tourism Industry Aotearoa**

TIA is the peak body for the tourism industry in New Zealand. With around 1,400 members, TIA represents a range of tourism-related activities including hospitality, accommodation, adventure and other activities, attractions, retail, airports and airlines, transport, as well as related-tourism services.

The strategic positioning of TIA in its leadership of the tourism industry is sharply focused on the sustainable future of the industry. For instance, TIA established and supports the tourism industry's strategic framework, *Tourism 2025 & Beyond – A Sustainable Growth Framework*. This has the Vision of '*Growing a sustainable tourism industry that benefits New Zealanders*'.

TIA gives effect to this through the *New Zealand Tourism Sustainability Commitment - He kupu taurangi kia toitū ai te tāpoitanga* that it launched in 2017. The TSC has the Vision of '*Leading the world in sustainable tourism*' and it is activated through the actions of individual businesses and entities who join the TSC. With almost universal voluntary uptake by our members, the TSC has been made a standard part of being a TIA member.

The 12 TSC Commitments set out the actions or behaviors that make up a sustainable business from a balanced scorecard perspective – Economic, Community, Visitor and Environment. The Commitments align to both the UN's Sustainable Development Goals and the Government's Wellness Framework.

Under the Environment area, the purpose is '*tourism strongly contributes to protecting, restoring and enhancing New Zealand's natural environment and biodiversity.*'

The TSC Commitment that most closely aligns to the work of the Department is:

#### ***Commitment 10: Restoring Nature.***

We contribute to protecting and enhancing Aotearoa New Zealand's environment, including water, biodiversity, landscapes and clear air.

TIA is committed to ensuring the various policy and process settings in place all act to support our members to advance this Commitment and thereby help them to make the positive progress on the nature/tourism interface we are seeking to achieve.

Also, TIA and DOC have a formal partnership agreement in place that seeks to benefit both tourism and conservation. This was entered into in 2015 with a key action being [Project Groundswell](#) which aims for nationally consistent and effective DOC

commercial processes and decision making, and support for business practices that exemplify kaitiakitanga (guardianship).

More recently, DOC has released its Heritage and Visitor Strategy to guide its work to sustainably manage visitors to protect and enhance the values of New Zealand's natural, cultural and historic heritage. The Strategy has three goals: Protect; Connect; and Thrive. Improving concession management can clearly assist the Department to achieve these goals. Refer: <https://www.doc.govt.nz/about-us/our-policies-and-plans/heritage-and-visitor-strategy/>

### **Our Context**

The Aotearoa New Zealand tourism industry has a deep and direction reliance on our various landscapes and natural places. This includes our mountains, glaciers, forests and biodiversity, but also our built places and our agricultural landscapes are pretty special too.

With many of the best and most scenic places on the public conservation lands and waters, it is natural that visitors will gravitate to these places and that a range of commercial activities will emerge to meet this demand.

With DOC as the custodian of these places, there needs to be robust processes in place to facilitate the wider range of activities that are involved.

From TIA's perspective, this has been a fraught area for a long time. There are some outstanding issues that never seem to get resolved. We observe a tendency for issues to get aired, but not fully fixed. We appreciate the difficulties that stem from the legislative framework that DOC operates to and we have advocated for a fresh look at the legislation guiding this key area of public policy.

Notwithstanding this, we are keen to contribute to all processes where we feel important progress can be achieved. The Percentage of Revenue Review is such an area. We know there has been longstanding and ongoing dissatisfaction in this area. Doing this better is an important issue for many operators and is likely so for the Department itself. We would like to support meaningful progress being achieved that benefits both our members and DOC.

### **Our Considerations**

Firstly, we see the Percentage of Revenue as part of the wider interface of tourism operators with the Department. There are other parts that are not under consideration meaning that this Review is looking at a part of the pie, but not all of it. We fear this is detrimental to arriving at the best overall solution.

On reading the consultation material and in wider conversations with operators, there are a few things that we would like to highlight.

To our reading, the Percentage of Revenue Framework and its components (particularly the price book) are DOC-centric and operators have not been seeing their realities reflected in the Framework. We will explore some ideas around this point as follows:

1. **Principles.** We feel that it would be beneficial to have a clearly stated set of agreed principles up front and center in the Framework. We would need to go through some process to determine these, but to illustrate they could include:
  - **Giving Back.** Tourism operators are committed to generating positive benefits for nature and communities through the concessions that they hold.
  - **No Free Commercial Use of Public Lands.** Tourism operators are committed to paying for the rights to operate in public conservation lands and waters on a fair and reasonable basis.

- **Commercially Realistic.** DOC has concession rate-setting policies and processes that reflect the nature of the commercial operating environment of the businesses and sectors involved and takes into account the ancillary benefits that accrue to nature and communities from their operations.
- **Keep it Simple.** DOC ensures that its policies and processes are clear, transparent and easy to use for both concessionaires and the Department.
- **Give effect to Te Ao Māori.** As part of the Percentage of Revenue Review, Treaty party issues and options are being considered. It will be important that the outcomes from this work are reflected in the Review outcomes. TIA will contribute further to this aspect of the review process.
- Others?

TIA considers that the application of the agreed Principles will set up a platform of shared understanding on how the system will work.

We note that Deloitte also suggests guiding principles (Alignment to Legislation, Fairness, Efficiency, Incentives) which we see as fitting with and adding to our suggestions above. We certainly agree with the Deloitte statement: *'what is important is that a principles-based approach is taken to charge on a basis that reflects a fair share of benefits...'*

- 2. Gradients.** We note that there are gradients in DOC arrangements (Base + P + DI + E + EC) and within these. These gradients are a factor in the perception of complexity involved. Somewhere in the mix the level of operator investment needs to be considered.

But, most importantly, we feel it is equally necessary to factor in gradients on the industry side. Tourism businesses are not one size fits all. They are many and varied, and no two are quite alike. Areas where such gradients apply include:

- What are the profit levels for businesses and what margins do they operate to? For instance, some businesses operate with large margins on small volumes, while others have skinny margins on larger volumes. Typically, this is a function of the characteristics of the sectors involved. Some sectors can have inherent low returns, such as ski fields, and many TIA members we know operate on thin margins. This means that the Percent of Turnover approach is a very blunt instrument and will be inappropriate for many operators.
- How is the amount of time a concessionaire's service spends on the DOC land factored into a concession? For instance, some activities only spend a portion of time of any trip on DOC lands so why should the standard concession rate apply as if the whole trip was on DOC land?
- How much benefit to nature and communities is being contributed by the operator in operating and investing in its concession, and for being a part of the community in which the concession activity takes place? How is the operator contributing towards the Department's strategic objectives, including for providing safe access to conservation places by visitors and 'care of place' such as pest and weed control, revegetation, advocacy, etc.? How are communities benefiting from jobs and visitor-based commercial activity, etc.

TIA considers that these three gradient factors need to be incorporated into the overall concession pricing framework. In essence, the Department's gradients serve to increase the fee level from the base level, whereas the industry gradients would perhaps tend to provide some credits to the level that is set. We see the Principles guiding the decision points.

- 3. Simplicity.** Having a logical, simple, transparent and speedy process is necessary. That said, we appreciate that acting on the industry gradient factors

above may further complicate the rate setting process, but we view it as important for achieving an appropriate balance point. So how do we achieve the simplicity we need? Perhaps some tourism-specific resources are needed. This could include:

- Purpose statement that includes the agreed Principles
- Outline of the overall framework and how it will apply for different tourism concession activity types
- Price book specifically for tourism concessions
- Templates (electronic) that can include each of the gradient areas (both DOC's and the industry ones suggested above).

We are also mindful that there is a lot of subjectivity introduced by the three gradients (as is case for the DOC areas) but again, the Principles can provide guidance.

### **Comment**

Fundamentally, we believe that a system like that set out above will significantly change the incentives for concessionaires. From TIA's perspective it is essential that tourism operators are good citizens and are making a real positive difference to the places in which they operate. The concession system should be a key mechanism for incentivising and ensuring that this is indeed the case.

We consider that our suggestions build on the Deloitte material, with the industry gradients being the key new perspective to be factored in.

We would be most happy to discuss this submission and I will also work on this and other input through the Review reference group itself.

Ngā mihi



Bruce Bassett  
Strategy and Policy Manager  
Tourism industry Aotearoa

## Appendix 1: TIA Responses to Consultation Questions

	Consultation Question	TIA Response
1	Do you think the PRF provides a fair market fee?	Our main question is 'what is a market fee?' We can see there is legitimacy for a 'market-like' fee. We understand the concept but question how it can work in places where this is no market. It suggests our special places are a commodity to be traded. Our view is that while there may be some place where this would work, in most places on PCL this would not be the case. The provision of private access on the PCL is much more complex and multi-faceted than a cash equation on its own.
2	What parts of it do you agree with?	As stated above, we believe in the concept should pay fairly for the rights to operate on the PLCs. As set out in the submission, there are issues of gradients that mean a percentage of revenue is not actually the right method. The variances that currently exist (ski fields at 2.7% and guiding at 6.9%) suggest the practice is actually applied with considerable flexibility.
3	What issues do you think DOC should address in the review?	Incorporation of the realities of the concession businesses is important, as set out on the submission. We see three key areas: 1) It should set out the Principles that foundation the PRF that guide how it is used and to shape key decisions. 2) It should incorporate operator side of the relationship by considering: 'margins' not just revenue; the extent of the PCL touch-points of the service involved; and fully consider the net beneficial aspects of the concessionaire including ecological restoration, benefits to communities etc. 3) It should develop tourism-specific resources, including application material, to streamline and simplify the process.
4	Do you agree/disagree with the potential methods identified?	We do not feel a particular preference here. This is because I do not feel we do not really understand the problem or the framework we should be operating to. As you will know from our submission, we have reservations about the percent of revenue approach, but to move to another method without really knowing how it will work in practice is difficult. That is why we have focused our attention on the Principles, Gradient and Simplicity aspects of our paper. In practice, different methods might be able to be used in different circumstance.
5	What do you see as the costs and benefits of the various methods	Not well positioned to answer this at this stage (refer above).
6	Are there any further method you think DOC should consider?	No, other than to reiterate that a range of methods might work best in different circumstances.
7	Do you have and comments on the potential enhancements identified.	Better information should be a given. Rationalising the fee setting process could/should be used. Our reservation to this is that such a process does not accommodate the industry characteristic as set out on point 3 above. An external governance structure could be a good idea, and TIA would like this to be retained as an option. A governance group that included industry could be very important for creating a structure for addressing systemic issues.
8	Are there any further potential enhancements you think DC should consider?	We are unclear exactly how the Deloitte work on Treaty Partner Issues and Options Paper fits into this work programme. We also think there would be real advantages to link the PRF income to the place where it is generated. We understand why this is difficult by nevertheless we feel it is an important point.