



Meeting Memo

Budget 2024 bilateral with the Minister of Finance

To	Minister of Conservation	Date submitted	1 March 2024
GS tracking #	24-M-0022	DocCM	DOC-7579229
Security Level	BUDGET SENSITIVE / STAFF SENSITIVE		

Meeting date/time	05/03/2024, 5:00pm – 5:30pm
Meeting location	TBC
Attachments	<p>Appendix 1 – Talking Points</p> <p>Appendix 2 – Table of proposed baseline reduction target (BRT) savings initiatives and impacts</p> <p>Appendix 3 – Table of indicative savings towards cost pressures and impacts</p> <p>Appendix 4 – Financial Overview A3</p> <p>Appendix 5 – Summary of DOC's financial sustainability</p> <p>Appendix 6 – Letter to the Minister of Finance on the Department of Conservation's financial position</p>

Key contacts			
Name	Organisation	Role	Cell phone
Ruth Isaac	DOC	Deputy Director-General, Policy and Regulatory Services	s.9(2)(a)
James Johnson	DOC	Manager, Budget and Funding Policy	

Purpose

1. This memo is to support your meeting with the Minister of Finance (**MOF**) on Conservation initiatives in Budget 2024. The meeting will cover initiatives across all of your portfolios. Talking points are provided at **Appendix 1**.

Context

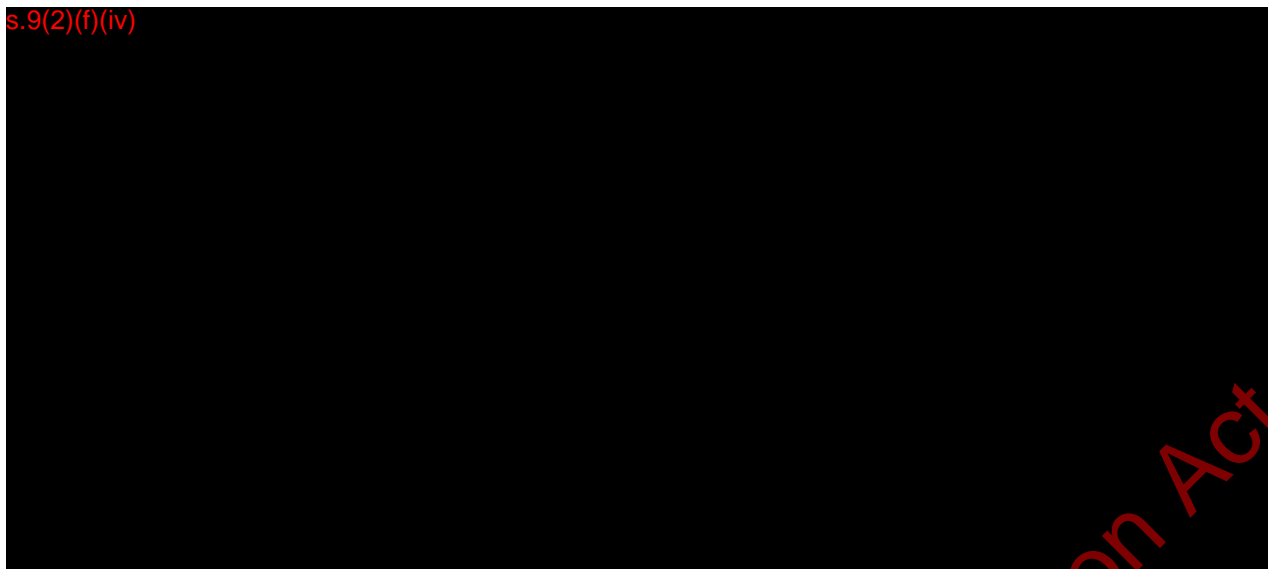
Budget 2024 initiatives

2. MOF set a baseline reduction target (**BRT**) of \$33.8 million for the Department of Conservation (**DOC**) and invited you to submit a budget bid **s.9(2)(f)(iv)** for consideration as part of Budget 2024.
3. With your agreement, DOC has submitted seven budget initiatives in the Budget 2024 process:
 - A package of five savings initiatives to meet the BRT (these are detailed in **Appendix 2**);
 - **s.9(2)(f)(iv)**
 - [Redacted]

Letter to the Minister of Finance

4. On 16 February 2024, you wrote to MOF to confirm your budget initiatives and provide context on DOC's financial position, including that further savings would be needed to meet DOC's growing cost pressures in 2024/25 and 2025/26.
5. In this letter, you sought MOF's agreement for DOC to keep **s.9(2)(f)(iv)** [Redacted]
[Redacted]
[Redacted] You may wish to ask MOF whether she sees merit in this proposal.

s.9(2)(f)(iv)
[Redacted]



Key points for discussion

- 12. **Financial Sustainability Review** - DOC officials are undertaking a Financial Sustainability Review which will produce advice on how to put DOC on a sustainable funding path. Key points in relation to sustainability can be found at **Appendix 5**.
- 13. **BRT savings initiatives** – we recommend you seek MOF’s support for the \$33.8 million worth of initiatives that DOC has submitted, as these are the best savings options that align with the Government’s priorities that could be identified and implemented within the timeframe.
- 14. **Meeting DOC’s cost pressures** – we recommend you seek MOF’s agreement for DOC to keep s.9(2)(f)(iv) of BRT savings annually to help meet DOC’s cost pressures ahead of recommendations from the Financial Sustainability Review. Otherwise, DOC will need to reduce s.9(2)(f)(iv)

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Risks & implications

- 17. Anticipated impacts of BRT package of savings initiatives are set out in **Appendix 2**.
- 18. Anticipated impacts of savings identified to date to fund cost pressures in 2024/25 and 2025/25 are set out in **Appendix 3**.
- 19. The Treaty implications of the BRT package of savings initiatives s.9(2)(f)(iv) in 2024/25 and 2025/26 can be found at 24-B-0047 on page 16.

20. s.9(2)(f)(iv), s.9(2)(h)

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MEMO ENDS

Appendix 1: Talking points

Key points on Vote Conservation

- **While DOC's funding has increased in recent years, much has been ringfenced for specific new initiatives, for grants to other parties, partially supported unavoidable costs or overdue maintenance catch up.**
 - DOC's cumulative operating costs increases from 2016/17 to 2021/22 were 15.9 per cent excluding Jobs for Nature and accounting for adjustments related to Software as a Service. This is compared to CPI of 15.4 per cent over the same period.
 - DOC's workforce grew by 26 per cent, or 540 FTE, between 2016 and 2022. FTE levels remained in line with Vote Conservation increases over the period.
 - Most growth was in rangers and other frontline staff, which increased by 174 FTE, and in technical roles that directly support and enable frontline services, which increased by 257 FTE.
 - Outside of major IT projects, consultant / contractor expenditure is within PSC benchmarks
 - As a result of Covid, DOC was required to make \$28 million of savings in 2021, when third-party revenue decreased.
 - Regardless of the baseline reduction target, baselines are set to reduce by 19% in 2024/25.

Baseline Reduction Target savings initiatives

- **I am proposing a package of savings initiatives that meet DOC's baseline reduction target of \$33.8 million.**
 - This package of savings represents the best savings options for DOC, given our government's priorities and what can be implemented in the time available.

- In addition to the baseline reduction target, DOC also has significant non-discretionary and demand-driven cost pressures.

Background Information

- BRT savings initiatives and impacts can be found at **Appendix 2**.
- The criteria used to identify and analyse savings options were:
 - alignment to Government priorities;
 - impact on the organisation’s ability to continue to deliver and to make efficiency improvements;
 - impact on outputs and outcomes;
 - ease of implementation; and
 - feasibility of achieving the savings in time for 2024/25.
- All existing Jobs for Nature projects are funded and time limited, and the remaining funding is unallocated.
- Funding for the Kermadec Ocean Sanctuary was set aside to facilitate an arrangement with iwi to progress the Sanctuary. The deal has been rejected by iwi and therefore the funding is no longer required. If the Government wants to progress a separate deal, funding can be sought at that time.
- Reducing RM Advocacy work was chosen as an option because of its performance against these criteria and because, unlike other DOC functions, this work is mostly discretionary – although sometimes DOC gets subpoenaed into Environment Court for cases.

Proposals to help manage cost pressures s.9(2)(f)(iv)

- I seek your agreement to keep s.9(2)(f)(iv) of baseline reduction target savings annually to help meet cost pressures s.9(2)(f)(iv)

- My officials are undertaking a Financial Sustainability Review which will produce advice on how to put DOC on a sustainable funding path.
- It is Government’s intention to deliver effective public services, and in my view, s.9(2)(f)(iv)

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s.9(2)(f)(iv)

Background Information

- In addition to DOC's baseline reduction target of \$33.8 million, DOC's cost pressures in 2024/25 are estimated to be \$15.8 million, increasing to a cumulative s.9(2)(i) 2025/26 and rising further in outyears.
- These cost pressures arise from a range of non-discretionary and demand-driven sources including inflation, the impact of extreme weather events, and legacy assets. They do not include all of the cyclone costs and they include the maintenance costs on legacy assets, rather than cost of resolving legacy assets.
- A summary of indicative savings options towards cost pressures and their impacts can be found at **Appendix 3**.

s.9(2)(f)(iv)

Released under the Official Information Act

s.9(2)(f)(iv)



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Appendix 2 - Table of proposed baseline reduction target (BRT) savings initiatives and impacts

Table A: Proposed package of savings for \$33.8 million Baseline Reduction Target (BRT)				
Savings initiative	Savings	Description	Service level impact	FTE impact
1. Jobs for Nature outyears funding - note that this is distinct from Jobs for Nature Multi-Year Appropriation funding which is committed to funding projects to 2025/26	\$13.36m	Jobs for Nature is a \$1.219 billion programme, of which \$485 million has been agreed for DOC to use to help 225 projects across New Zealand. All of this funding is time limited and existing contracts are also time limited. Jobs for Nature produces key outputs such as pest control which are important to biodiversity.	This funding is not currently in our baseline and is therefore not allocated to any projects, so the effective impact is nil. Based on existing Jobs for Nature programme spending, you could expect this level of funding to potentially achieve: rat, possum and mustelid control over 40,000ha and goat and deer control over 50,000ha per annum.	None
2. Kermadec Ocean Sanctuary	\$3.089m	Funding for the implementation of the Kermadecs Ocean Sanctuary. The Government has decided not to support this Bill further.	The funding is not required as no Sanctuary is currently under consideration.	None
3. Contaminated Sites programme	\$2.000m	Contaminated sites provision redirected. \$2m of an \$18m provision. Decision making path to be confirmed.	Affected sites will continue to be managed as they are, setting up of the programme and remediation will be slowed down.	None
Total programme savings \$18.449				
4. Savings from enabling functions	\$13.724m	Staff reductions across Biodiversity, Organisation Support, Public Affairs, Regional Operations Planning teams, and the Director General's Office. Reduction in contractors and IT support, and IT savings and efficiencies projects. Sentinel A Nuku programme baseline reduction.	s.9(2)(g)(i) [Redacted] [Redacted] [Redacted] Reduced GIS support across the Department. Risk of increased workload for frontline staff who will need to pick up more administration work from reduced support staff. Reduced contracted financial advice and accounts support for SAP. Closure of the Sentinel A Nuku apprentice ranger programme in FY 26/27.	77 FTE
5. Savings from external services	\$1.635m	Reduction of RMA advocacy FTE across Regulatory Services and Legal functions. Strategic Partnerships and Investments staff reduction.	Reduced RMA advocacy by 50%, including legal contingency fund. Increased risk of poor outcomes for conservation in the RM system. Reduced baseline funding for strategic partnerships, which will need to generate its own funding, with a more tightly focussed remit on conservation outcomes.	13.5 FTE
Total Budget Reduction Target package savings \$33.808m				

Appendix 3 - Tables of indicative savings towards cost pressures and impacts

Table B: Indicative package of savings for meeting cost pressures 2024/25				
Savings initiative	Savings	Description	Service level impact	FTE impact
s.9(2)(f)(iv)				
Total programme savings \$				
10. Savings from enabling functions	\$13.996m	Reduced biodiversity FTE and research programmes, Health and Safety, Planning and Assurance staff s.9(2)(f)(iv) IT system improvements.	Stopping Save our Kiwi research – stopping long-term monitoring of managed populations of two species of kiwi. Reduced research into mitigating kea mortality from 1080. Reduced research into toxoplasmosis in Maūi dolphins. Reduced active protection of Kauri. Stopping applied research on predator control tools/methodology. s.9(2)(f)(iv) Reduced technical advice and programme support for biodiversity delivery. Reduced active protection of freshwater catchments and species. Reduced freshwater monitoring.	92.6 FTE
11. Savings from external services	\$0.930m	Reduced Land Delivery FTE and operational costs in Office of Regulatory Services. Reduced FTE in Strategic Communications and Engagement.	30% reduction in communications support for SLT. Reduced land delivery capacity.	5 FTE
Total 24/25 cost pressures package savings \$15.426m				

Released under the Official Information Act

Appendix 3 - Tables of indicative savings towards cost pressures and impacts

s.9(2)(f)(iv)

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Conservation finances

In short

DOC provides services that protect conservation assets and enable people to benefit from them, including for business or leisure.

As a frontline operational agency, DOC's core job stays the same, although the area, assets and expectations we manage have grown over time. How we do our work depends on funding, taking account of the health and safety of employees, concessionaires and visitors.

DOC's funding base will decrease by 20% by 2026/27 – not accounting for the Government's planned savings.

Under the previous Government, DOC's budget was set until 2025. Cost pressures and new initiatives are funded through reprioritising existing funding, with the Hauraki Gulf and the southeast South Island marine protection network providing examples of that approach.

Strategic choices will be needed between current activities and areas of increasing demand such as resilience to climate change, managing the visitor network, and addressing the decline of treasured places, ecosystems and species.

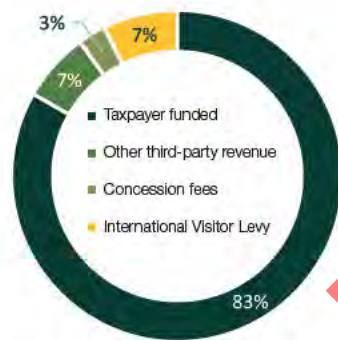
DOC has a Financial Sustainability Review underway.

We will advise you on options and next steps emerging from that.

How conservation funding works

Around four-fifths of conservation is funded by the Crown and one-fifth comes from third parties like concessions, the International Visitor Levy and Great Walk bookings. The latter varies year-on-year reflecting demand.

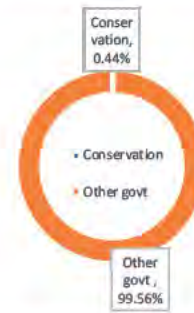
DOC is directly responsible for spending 85% of total appropriations (departmental funding).



Navigating the future with decreasing funding and increasing cost pressures

Now

In 2023/24, DOC is managing one-third of New Zealand's land with \$880 million or 0.44% of government spending.



If we spread departmental funding evenly across DOC-managed land and water, it gives \$56 per hectare to work with.



Each year, only 7.5% of public conservation land receives 1080-based predator control, one of the most effective tools we can use currently.

Ahead

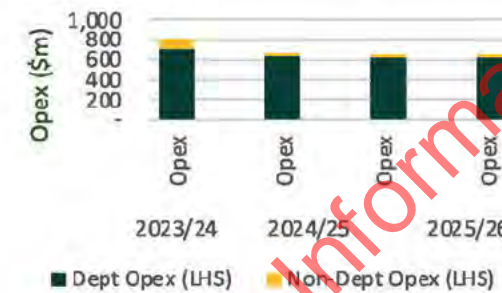
The overall funding path for Vote Conservation (see graph to right) will decline by 20% by 2026/27. Funding is set until 2025.

Estimated cost pressures (see table to right) are increasing, from \$17 million in 2023/24 to an estimated s.9(2)(i) in 2026/27. These are driven by inflation, Treaty settlements and assets. A high share of non-discretionary spending limits savings opportunities. DOC currently has a recruitment pause in effect to stay within our funding envelope.

There are other factors that will affect DOC's work financially (beyond the table) and the experience New Zealanders will have connecting to shared natural heritage.

- **Ageing visitor assets** – for example, 50% of huts are over 30 years old. Many assets will reach their end of life in the next 3-4 years, triggering choices about funding the rebuild of these or shrinking the network.
- **Extreme weather events.** In the last 3 years, there has been a severe weather event every year costing DOC \$12–13 million per event, or 400% of the 10-year rolling average spend of \$3million. Funding recovery from Cyclone Gabrielle is expected to cost up to \$90million over the next 5 years.

DOC Appropriations Forecast Expenditure 2023/24 - 2026/27



Cost pressure (\$000)	2023/24	2024/25	2025/26	2026/27
Salary and wage inflation (net)	5800	6870	s.9(2)(i)	
Inflation (net)	3289	4793	9976	15,105
Asset revaluations	0	1200	2400	3600
Inherited assets – Tongariro and MetService	1637	1637	1637	1637
Treaty settlement implementation	2547	11,792	10,902	9691
Three Waters registered sites remediation	965	1930	2286	2837
Reduction in third-party revenue	3460	915	702	702
Total	17,698	29,137	s.9(2)(i)	
Permanent baseline reduction of 2%	-	-	12,400	12,400

2023–2026

DOC has been part of the previous Government's Natural Resources Cluster Pilot Budget Process.

In 2022, our budget was set for 3 years. Under this system, DOC can next submit a Budget bid in the 2025/26 financial year and would only be able to submit initiatives in the meantime to fund responses to natural events, capital initiatives, inflation and the Climate Emergency Response Fund.

2023 unplanned actions + \$39.9 million

Initiatives	\$ OPEX
1 Molesworth Recreation Reserve: purchasing farming assets and ongoing management	\$16.7m
2 Public Sector pay adjustment	\$13.9m
3 Addressing damage to sites and assets from 2023 North Island weather events	\$9.1m

Strategic choices ahead on where to place effort

Vote Conservation
Crown and third-party funding reducing

Inflation and extreme weather
Known and Unknown

4000 species vulnerable to extinction
Biodiversity decline
Assets reaching end of life
Visitor network in decline

Funding for conservation – Budget 2018 to now

The last few years saw DOC navigating impacts from the COVID-19 pandemic. This has included being an intermediary in channelling funds to support job creation by third parties, (ie the Jobs for Nature programme, now in its final year). DOC has been exposed to drops in third-party revenue from low visitor numbers.

New national programmes were also funded in this period to protect New Zealand's natural DNA and heritage. Conservation funding has grown by 80% since 2018/19, but core departmental output expenses (excluding third-party revenue, non-discretionary areas of spending and Jobs for Nature) only grew by 40% over the same period.

What happened at the time

2018

FIRST-TIME NATIONAL PREDATOR CONTROL

First time locking in funding for predator control, over 4 years. A priority to address biodiversity crisis.

+ \$181.6m

Initiatives	\$ OPEX
1 Predator control	\$81.3m
2 Biodiversity contingency	\$76.0m
3 Organisational capability	\$16.2m
4 Visitor management	\$5.5m
5 Biodiversity in Mackenzie Basin	\$2.6m

Actions taken in Budget

2019

PANDEMIC

DOC is in part funded by the International Visitor Levy, which stopped when the borders were closed during the pandemic.

+ \$117.2m

Initiatives	\$ OPEX
1 International Visitor Levy	\$106.2m
2 Improving safety and security	\$10.7m
3 Provincial Growth Fund	\$0.3m

2020

ECONOMIC RECOVERY FROM PANDEMIC

Four-year Jobs for Nature programme set up to boost economy through employment. DOC channelled funding to others. Programme is now finishing.

+ \$513.6m

Initiatives	\$ OPEX
1 Jobs for Nature, est. 30.0 FTE	\$501.8m
2 Ngāi Tai Supreme Court decisions	\$7.9m
3 Southern South Island flood recovery contingency	\$3.9m

2021

LOW INTERNATIONAL VISITOR NUMBERS

Financial impacts from pandemic, such as lower third-party revenue from slow return of visitors coming to New Zealand.

+ \$10m

Initiatives	\$ OPEX
1 Preserving concession funding	\$10.0m

2022–25

CONSUMER PRICE INDEX (CPI), PROTECTING MARINE ENVIRONMENT AND CONTROLLING PESTS

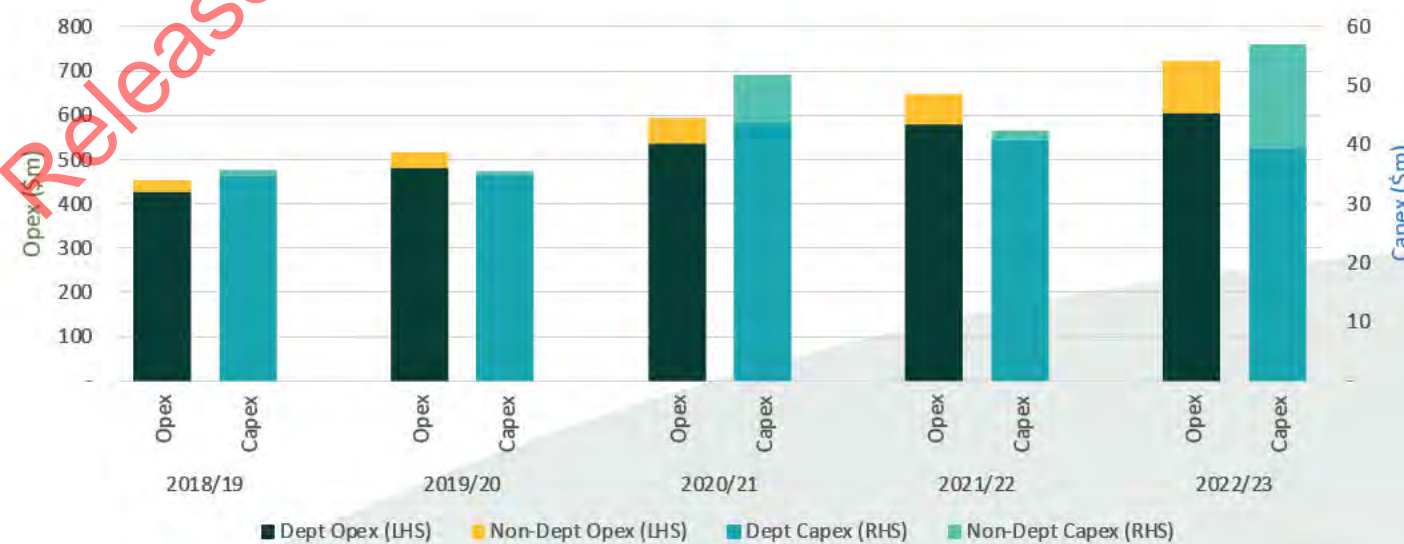
Natural Resources Cluster Pilot Budget Process allocated funds for 3 years.

Addressing increasing living costs for DOC's people, and marine protection in the Hauraki Gulf and the southeastern South Island.

+ \$364.7m

Initiatives	\$ OPEX
1 Controlling destructive pests, est. 14.0 FTE	\$61.6m
2 CPI and wages	\$120.1m
3 Fit-for-purpose recreation assets, est. 32.0 FTE	\$32.4m
4 Ramping up deer/goat management, est. 11.0 FTE	\$30.0m
5 Legislative and regulatory compliance, est. 13.0 FTE	\$28.0m
6 Fiordland predator control for most events, est. 3.0 FTE	\$26.9m
7 Property maintenance, est. 5.0 FTE	\$25.0m
8 Protecting cultural heritage, est. 2.0 FTE	\$13.2m
9 Practically improve marine management, est. 1.5 FTE	\$12.0m
10 Extinction risk for flagship marine species, est. 3.5 FTE	\$7.1m
11 Battery electric vehicles	\$5.0m
12 Carbon storage to achieve New Zealand's carbon goals	\$3.4m

DOC appropriations – actual expenditure 2018/19–2022/23



Overall envelope

Annualised workforce growth
DOC 2.0%
Govt 3.3%

Appendix 5 – Summary of DOC’s financial sustainability

- › DOC has significant cost pressures, a baseline that is reducing, and a deteriorating asset base:

1/3	0.44%	19%
of New Zealand’s land managed	of Government spending	Reduction in funding in 2024/25 before BRT

- › DOC’s funding decreased by c.\$28m in 2021 as a result of Covid-19. This gap was primarily met from non-frontline services and activities. To date, only around half of this revenue has returned.
- › In 2022, DOC commenced a Financial Sustainability Review (FSR). Findings of Phase 1 are:
 - Future funding does not match projected demand under current settings.
 - Current work is not enough to meet responsibilities or improve outcomes.
 - DOC advised to find \$10-20m in efficiencies upfront to fund frontline conservation activity to provide some mitigation of further outcome decline.
- › DOC’s BRT is \$33.8m, but taken together with our cost pressures the total target is \$50m for 2024/25, rising to **s.9(2)(i)** in 2025/26, with further ongoing savings year on year to manage cost pressures.

BUDGET SENSITIVE / STAFF SENSITIVE

› **MOF's 21 December letter highlighted DOC's growth since 2017**

The 21 December letter from MOF to MOC highlighted increases in DOC's spending, including that:

- DOC's FTE has increased by 28% since 2017.
- DOC's operating expenditure has increased by 75% since 2017.
- DOC's contractor and consultant operating spend has increased by 164% since 2018, compared to the public service department average of 55%.

› **FTE growth has been focused on frontline delivery**

DOC's workforce grew 26% (540 FTE) from 2016-2022, in line with Vote Conservation increases over the period:

- Most growth was in rangers and other frontline staff (174 FTE) and technical roles that directly support and enable frontline services (257 FTE).
- The remainder was for enabling functions, corporate services and staff undertaking regulatory functions.
- 71% of new "back-office" roles were technical roles supporting frontline services as opposed to corporate services.

› **There has been no real growth in operating expenditure outside of specific initiatives since 2016/17**

Much of the new funding in recent years has been ringfenced for specific initiatives, for grants to other parties, partially supported unavoidable costs or overdue maintenance catch up:

- For example, DOC received \$500 million over four years in Budget 2022 for the Jobs for Nature programme. DOC's funding is due to decrease by 19% in 2024/25.
- DOC's cumulative operating costs increases from 2016/17 to 2021/22 were 15.9% (excluding Jobs for Nature and accounting for adjustments related to Software as a Service) compared to CPI of 15.4% over the same period.

› **Outside of major IT projects, consultant / contractor expenditure is within PSC benchmarks**

Adjusted for one-off projects such as the Financial Management Information Systems upgrade, other Information Systems and Services; "Software as a Service" projects, DOC's base level of consulting / contractor spending remained stable from 2016/17 to 2021/22 and within Public Service Commission benchmarks. See Appendix 2 for graph.