Department of Conservation
Te Papa Atawhai

Briefing: Predator Free 2050 Limited's Annual Report 2023-24

To	Minister of Conservation	**Date submitted**	13 November 2024
CC:	Minister of Finance		
Action sought	Agree to present Predator Free 2050 Limited's Annual Report 2023-24 to the House of Representatives.	**Priority**	Normal
Reference	24-B-0532	**DocCM**	DOC-7808843
Security Level	In Confidence		

Risk Assessment	Low • The on-going high level of Company costs provides a fiscal risk. • The Company has not secured philanthropic or private sector co-funding as Cabinet intended, creating the risk of a shortfall in the Company's expected investment in breakthrough science.	**Timeframe**	20 November 2024 The statutory timeframe for presenting the Annual Report to the House is within five days of receipt.
Attachments	Attachment A – Predator Free 2050 Limited's Annual Report 2023-24		

Contacts	
Name and position	**Phone**
Sia Aston, Deputy Director-General Public Affairs	[redacted] s9(2)(a)
Kelley Reeve, Director Governance and Government Services	[redacted] s9(2)(a)
Grace Xu, Governance and Performance Manager	[redacted] s2(9)(a)

Executive summary – Whakarāpopoto ā kaiwhakahaere

1. Predator Free 2050 Ltd (**the Company**) sent you its 2023-24 Annual Report on 13 November. DOC considers the Annual Report is adequate for you to present to the House of Representatives, which you are required to do within five working days of receipt.
2. The Company is a Crown-owned company, established to contribute to the Government's Predator Free 2050 Programme that DOC leads. You are the responsible Minister. DOC monitors the Company's performance on your behalf.
3. The Company reported achieving all 13 performance measures for 2023-24. We observed the following aspects of the Company's reporting:
   - The annual report does not provide a clear indication of the Company's performance, as it conflates the performance of the partner-led projects with the performance of the Company.
   - The Company's operating costs spend of $3.6m, at 15 percent, is the highest proportion of total spend since the Company's establishment period. This operating spend proportion is forecast to increase as the Company's funding reduces, raising financial sustainability risks and questions on value for money.
   - The Company reported partner-led projects received $32 million of co-funding, while the Company itself received grants and donations of $63,000.
4. With total revenue reducing as the timebound Jobs-for-Nature and Provincial Growth Fund funding are ending, we expect the Company will need to further scrutinise its operating costs and what it delivers within its reduced funding envelope. The Company also needs to align its focus to the next five years of the Predator Free 2050 strategy and invest in fundraising strategy and capabilities.
5. DOC will continue to monitor the Company's performance and advise you on these performance matters.

We recommend that you … (Ngā tohutohu)

		Decision
a)	Agree to present the Predator Free 2050 Limited 2023-24 Annual Report to the House of Representatives	Yes/No

Date: 13/11/2024

Sia Aston
Deputy Director-General Public Affairs
For Director-General of Conservation

Date: / /

Hon Tama Potaka
Minister of Conservation

Purpose – Te aronga

1. To seek your agreement to present Predator Free 2050 Limited's (**the Company**) 2023-24 Annual Report to the House of Representatives.
2. To update you on the Company's performance for the 2023-24 financial year, against its expected performance in its Statement of Performance Expectations (**SPE**).

Background and context – Te horopaki

3. The Company was established in 2016 as a Crown-owned Schedule 4A Company. The shareholding Ministers are the Ministers of Finance and Conservation. You are the responsible Minister. DOC monitors the Company's performance on your behalf.
4. The Company sent its 2023-24 Annual Report to you on 13 November. You are required to present the Annual Report to the House of Representatives within five working days of receiving it from the Company.

The Company is part of the larger Predator Free 2050 Programme and its role is evolving

5. The Company was created to contribute to the Government's Predator Free 2050 Programme (**PF2050**), strategically led by DOC, with other key delivery partners including Zero Invasive Predators (**ZIP**), and Predator Free New Zealand Trust.
6. PF2050 has continued to be a successful programme of work, having achieved most of the 2025 interim goals.
7. The next five years is critical for PF2050. The key strategic outcome is to demonstrate by 2030 that Predator Free 2050 is achievable, investment ready, and cost effective. DOC and ZIP will focus on this strategic outcome for high-value conservation areas, and the Company is to focus on rural and urban land [**23-B-0519 refers**]**.**
8. To achieve this, the Company needs to focus strategically on innovation and learning, raising non-government funding, managing financial sustainability, and demonstrating value for money. We further outline the Company's performance below.

The Company's performance in 2023-24

9. The 2023-24 Annual Report reports against the targets in the Company's 2023-24 SPE and therefore is based on the pre-2024 focus on investing in landscape predator eradication, products, and research science.
10. We observed the following key aspects of the Company's performance:
    - The annual report does not provide a clear indication of the Company's performance, as it conflates the performance of the partner-led projects with the performance of the Company. Six of the Company's thirteen performance measures report on the performance of the projects that receive funding from the Company, rather than on the performance of the Company.
    - The Company's operating costs spend of $3.6 million, or 15 percent, is the highest proportion since the Company's establishment period. As a proportion, this is forecast to go higher as the Company's funding reduces, raising financial sustainability risks and questions on value for money.
    - The Company reported partner-led projects received $32 million of co-funding. The Company itself received grants and donations of $63,000. The Company is yet to establish its fund-raising capabilities and strategy.

The Company has reported successes

11. The Company reported achieving all 13 performance measures for 2023-24, including:

- Supporting three Iwi-led large-scale projects, that support Iwi to exercise kaitiakitanga on their whenua using tikanga and kawa
- The release to market of five new tools for predator elimination, bringing the total to date to 15, including A.I. enabled traps, toxin delivery devices, and lures.

12. Each project is an independent entity which is run by a regional or territorial council, community group, trust, Iwi or company, and receives part of its funding from the Company.

13. It is difficult to determine the Company's contribution to the performance of the projects as the boundary is not clear. This reflects an ongoing issue with the Company representing the efforts of the predator free system, including individual projects, as its own.

14. A key monitoring focus for the next year is to work with the Company to better account for its own performance through its accountability documents and quarterly reporting.

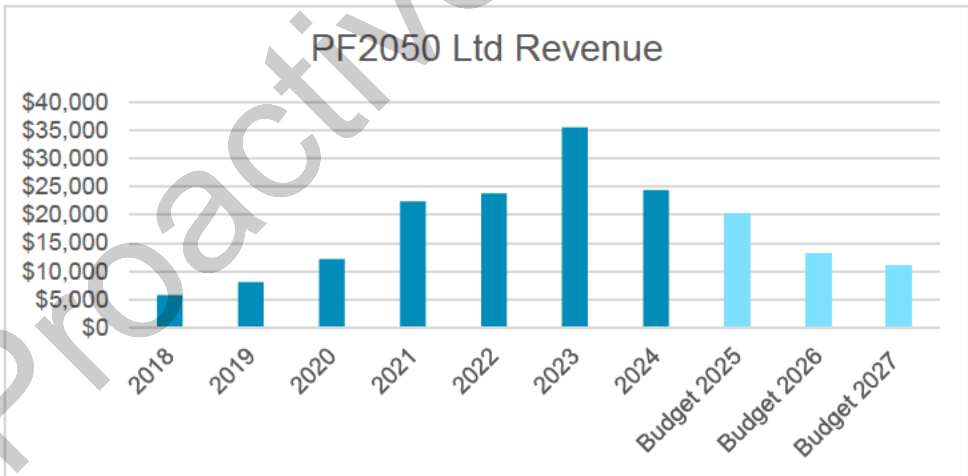
Company Costs continue to increase relative to revenue

15. The Company's activities and expenditure fall into two categories:

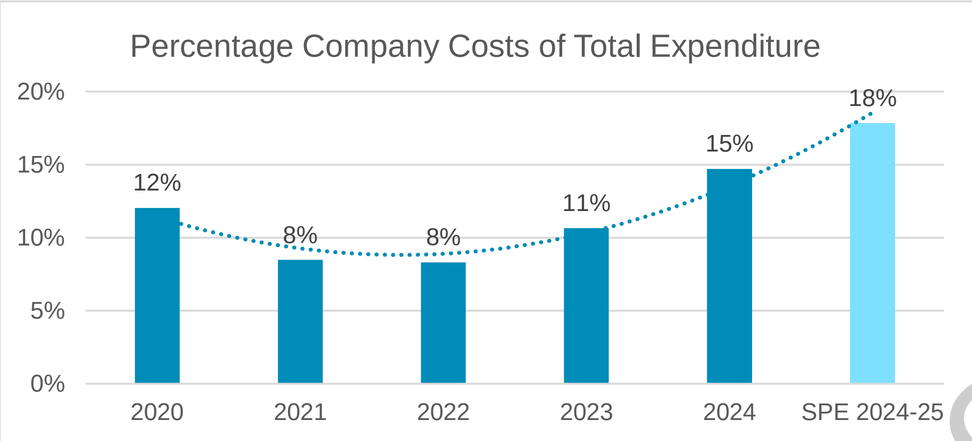
- Co-invested in projects - $20.9 million
- Company costs (overheads) - $3.6 million

16. In 2023-24 the Company spent $3.6 million – 15 percent of its expenditure - on Company costs. By comparison, the PGF funding agreement allowed for administrative costs of no more than five percent. The Company has a senior management team of five, previously seven in 2023-24, with a total staff of 15.

17. The Company's revenue is reducing as Jobs-for-Nature (**JfN**) and Provincial Growth Fund (**PGF**) funding concludes. Graph 1 shows the Company's past and on-going annual revenue.



18. Graph 2 shows the growth of Company costs as a percentage of total expenditure.



The Company continues to be confident with its operating model and cost base

19. The Company undertook a reorganisation at the end of the 2023-24 financial year. The Board has indicated it remains comfortable with the level of Company costs.

20. While we acknowledge the Company's efforts in cost savings, the percentage of Company costs to total expenditure in 2023-24 is the highest since the Company's establishment period, and the highest ever dollar amount. With overall Company revenue reducing, and no evidence of future significant reductions in Company costs, the proportion of expenditure on Company costs is set to increase.

21. It is unclear what outcomes or outputs have been delivered by the Company spending $3.6 million, and outputs/outcomes are not reported through quarterly or annual reporting.

22. This has been an item of significant engagement between DOC and the Company, as the Government expects public sector entities to apply fiscal prudence and deliver value for money.

23. We are seeking to better understand the underlying cost drivers and how they are supporting key outcomes, backed by measurable reporting.

The Company has a core role in raising non-government funding and the reported results are mixed

24. The PF2050 mission was founded on the concept of mobilising private sector investments to fund projects, science and research. Cabinet's intention was for the Company to raise funds from non-government partners, such as 'high value philanthropists and businesses' to help fund science and research, hence its registered charity status.

25. The Company reports that the independent landscape projects it funds attracted $32 million in co-funding in 2023-24 ($142 million to date). Since inception, the Company itself, despite its registered charity status, has secured limited co-funding through philanthropic sources (<$500,000).

26. The Company believes it has "tapped out" co-funding from domestic sources. Anecdotally, the Company has expressed reluctance in exploring other co-funding sources, stating a Crown-owned company would not be able to secure non-Crown funding, or it was too difficult.

27. The current Company thinking brings some emerging risks:

- Relying on projects’ partner funding alone as co-funding does not provide diversification of non-Crown funding for PF2050. For example, significant funding is gained from local government which is diminishing as they face budget constraints.
- Cabinet established the Company as a Crown company, acknowledging it is a comparatively expensive model, and intended for the Company to raise non-government funding. Not focusing on this will mean limited investment in science and research.
- The Company is increasingly calling on the Crown for more funding support and signals that project partners have expectations for continued Crown funding (despite the time-bound nature of JfN and PGF funding).

28. DOC considers the Company needs to reset its thinking to start focusing on diversifying non-Crown funding sources, investing in key capabilities and developing a fundraising strategy. DOC is aware of opportunities to attract domestic philanthropic investment. For example, the Queen Elizabeth II National Trust (**QEII**) has had success from its fundraising strategy developed three years ago, receiving an average of $1.8 million per annum in donations plus asset transfers and bequests. DOC is making similar efforts.
29. We are currently seeking to better understand the Company’s current co-funding pipeline and approach to fundraising.

Risk assessment – Aronga tūraru

30. The on-going high level of Company costs provides a fiscal risk. As the level of Crown Company funding reduces, the Company will consume a higher proportion of its revenue on overheads, based on the current operating model. It would be prudent for the Company to further scrutinise its operating model to ensure value for money.
31. The Company has not secured philanthropic or private sector co-funding as Cabinet intended, creating the risk of a shortfall in the Company’s expected investment in breakthrough science, and developing an expectation by the Company that the Crown will provide increased funding. Your expectations will be reinforced in the 2025-26 LOE and through the February 2025 Cabinet paper (**23-B-0519 refers**).

Financial implications – Te hīraunga pūtea

32. No financial implications.

Legal implications – Te hīraunga a ture

33. The presentation of the Annual Report does not carry any legal implications but meets legislative requirements.

Next steps – Ngā tāwhaitanga

34. Your Office will arrange for the Annual Report to be sent to the House Office for it to be presented to the House of Representatives.

ENDS