MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

# BRIEFING

## Budget 2024 Bilateral: Further Information and Savings Options

| | | | |
|---|---|---|---|
| **Date:** | 9 February 2024 | **Priority:** | High |
| **Security classification:** | Budget - Sensitive | **Tracking number:** | 2324-1974 |

| **Action sought** | | |
|---|---|---|
| | **Action sought** | **Deadline** |
| Hon Melissa Lee<br>**Minister for Economic Development** | **Note** that MBIE understands that you may need to find additional savings for the Economic Development Portfolio to meet the 7.5% target for MBIE's Initial Baseline Exercise.<br><br>**Note** the further advice on savings for New Zealand Trade and Enterprise, the New Zealand Screen Production Rebate – International, and the Major Events Fund. | 12 February 2024 |

| **Contact for telephone discussion (if required)** | | | |
|---|---|---|---|
| **Name** | **Position** | **Telephone** | **1st contact** |
| Dean Ford | General Manager, Economic Development and Transitions | Privacy of natural persons [redacted] | ✓ |
| Privacy of natural persons [redacted] | Manager EDT Policy Projects | | |

| **The following departments/agencies have been consulted** |
|---|
| |

**Minister's office to complete:**

☐ Approved ☐ Declined
☐ Noted ☐ Needs change
☐ Seen ☐ Overtaken by Events
☐ See Minister's Notes ☐ Withdrawn

**Comments**

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## Purpose

To provide further information on the Economic Development Portfolio savings for MBIE's Initial Baseline Exercise following your Budget Bilateral with the Associate Minister of Finance.

## Recommended action

The Ministry of Business, Innovation and Employment recommends that you:

a **Note** that you have been asked by the Associate Minister of Finance to identify savings of 7.5% of the Economic Development portfolio's eligible baseline for MBIE's Initial Baseline Update.

*Noted*

b **Note** that following the decisions at the Budget Bilateral Meeting on 07 February the current savings identified in the Economic Development portfolio are:

| Total Departmental and Non-Departmental Combined Savings | | | | | | |
|---|---|---|---|---|---|---|
| **$ million** | **2024/25** | **2025/26** | **2026/27** | **2027/28 & Outyears** | **4-Year Average** | **Total** |
| Savings Required (at 7.5% of Eligible Base) | 35.85 | 35.67 | 24.75 | 21.47 | 29.43 | 117.74 |
| Savings Proposed | 34.51 | 27.40 | 24.83 | 24.83 | 27.89 | 111.57 |
| Over/Under | -1.34 | -8.27 | 0.08 | 3.36 | | -6.17 |

*Noted*

c **Note** that further savings need to be identified to meet the 7.5% target for the Economic Development portfolio.

*Noted*

d **Note** the further advice on savings options regarding New Zealand Trade and Enterprise, the New Zealand Screen Production Rebate – International, and Major Events Fund.

*Noted*

e **Note** that officials are available to discuss this briefing at the Weekly Meeting on 12 February.

*Noted*

PP

Dean Ford
**General Manager**
Labour, Science and Enterprise

09 / 02 / 2024

Hon Melissa Lee
**Minister for Economic Development**

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## Background

1. You met with the Associate Minister of Finance and the Minister for Trade on 07 February 2024 to discuss savings options for the Economic Development portfolio for MBIE's Initial Baseline Exercise.

2. Ministers agreed to a further $5m of savings or revenue per annum be sought from New Zealand Trade and Enterprise (NZTE) to contribute to the savings target and sought further advice on the fiscal cost of the New Zealand Screen Production Rebate – International (NZSPR). We understand Minister Seymour will write to you confirming these decisions.

3. For fullness in considering non-departmental appropriations, we have also provided advice on the Major Events Fund in this briefing.

## Current Savings Identified in the Portfolio

4. In consultation with other Ministers, you have currently identified $111.57m of savings across the four-year period from the Economic Development portfolio:

| Total Departmental and Non-Departmental Combined Savings | | | | | | |
|---|---|---|---|---|---|---|
| **$ million** | **2024/25** | **2025/26** | **2026/27** | **2027/28 & Outyears** | **4-Year Average** | **Total** |
| Savings Required (at 7.5% of Eligible Base) | 35.85 | 35.67 | 24.75 | 21.47 | 29.43 | 117.74 |
| Savings Proposed | 34.51 | 27.40 | 24.83 | 24.83 | 27.89 | 111.57 |
| Over/Under | -1.34 | -8.27 | 0.08 | 3.36 | | -6.17 |

5. This equates to 7.11% savings on the eligible base. We expect the Associate Minister of Finance will confirm these savings and request further savings be made to ensure the Economic Development portfolio meets the required 7.5% target.

6. The NZSPR – International and NZTE were discussed as potential candidates for securing these additional savings. We have provided advice in relation to these, as well as further advice regarding the Major Events Fund in this briefing.

## New Zealand Trade and Enterprise

7. To date NZTE has proposed areas of saving (rather than Ministers requesting specific activity-focussed savings). While it remains appropriate for NZTE's board to determine how to achieve savings requirements directed by Ministers, the section below provides an illustrative MBIE view of areas for potential additional savings that could contribute to the portfolio target. These include:

    a. Increased charging or co-payment for services

    b. Changes to NZTE's approach to intensively supported Focus portfolio customers, including:

        i. reducing or refocusing services, with a focus on customers most in need

ii. Changes to the International Growth Fund (IGF), including:

(1) ceasing Springboard grants,

(2) improving eligibility criteria, with a focus on not subsidising projects that would have proceeded without an IGF grant,

(3) reducing the international revenue cap for IGF eligibility.

8. While each option on its own is unlikely to generate significant savings, a combination is expected to make a meaningful increased contribution. Some options, such as introducing more cost recovery on services, have strong policy merit and would most likely have a muted impact on NZTE's ability to support the Government's objective to double exports, whereas other options (e.g. reducing the number of Focus customers) would likely have a more negative impact on this goal. These are discussed below.

*Introduce (or increase) charging or cost-recovery for services*

9. NZTE generally does not charge or cost recover for its services:

a. A significant proportion of NZTE's funding is directed to the 1,000 Focus portfolio customers who receive a broad suite of largely fully subsidised bespoke services (in addition to having exclusive access to IGF grants).

b. It removed participation fees for its range of capability building services available to all businesses in response to the pandemic.

10. Firms (particularly Focus customers) receive significant private benefits from the bespoke services available. Notwithstanding the public benefits generated by these firms expanding internationally, the private benefits received create a strong policy rationale for firms paying an appropriate proportion of the cost of services relative to the private benefit (where practical).

11. While cost recovery might be administratively challenging in some cases, it should be more straight forward and less costly to have cost-recovery for services provided by third-party providers. Requiring firms to co-fund bespoke services is common in trade promotion agencies in other countries and would be consistent with the practice of Callaghan Innovation.

12. Free and frank opinions

**Focus Portfolio services**

*Further reducing the number of Focus Customers*

13. NZTE increased the number of Focus customers from 700 to 1400 in 2020 through time-limited pandemic response funding and is reducing this to 1,000 as this funding expires. This number could be further reduced towards the pre-pandemic level, although this may negatively affect the contribution that NZTE can make to supporting the Government's export objective.

*Reducing the range of services available, or more actively rationing services towards those with the greatest need*

14. While NZTE has recently reduced services established during the pandemic, the savings exercise is an opportunity consider its overall service set for Focus customers and whether there is still strong rationale for government to continue to fund these services (or whether the private market is sufficiently placed to deliver these services). Alternatively, NZTE could consider more actively rationing the provision of services to Focus customers with the strongest need for government support (e.g. smaller, relatively less experienced firms).

**International Growth Fund**

15. While NZTE could reduce the number or quantum of IGF grants available to effect savings, there are other potential settings changes NZTE could use to manage a reduction in IGF funding, including:

*Removing Springboard grants from the IGF*

16. Originally established in 2020 using pandemic response funding but subsequently incorporated into the IGF, Springboard grants are small grants (under $10,000) to address specific capability gaps in firms. NZTE provided 333 springboard grants in 2022/23, totalling $2.1 million.

17. While there might be value in these smaller-scale grants, these do not strongly fit within the original policy intent of the IGF and the relative benefit of these for firms should be considered in the context of a savings requirement.

*Lifting criteria to reduce subsidising projects that would have proceeded*

18. NZTE does not assess whether firms have the financial capability to fund projects without IGF funding (only that firms have the financial means to successfully complete the project). This implicitly assumes that even if a firm could fund an IGF-supported project, the risks involved would dissuade it from the project.

19. This assessment approach creates risk that IGF grants subsidise projects that would have proceeded without government support. This risk is most pronounced with larger firms that are already relatively well-established internationally and are more likely to have the financial means, capacity, and previous experience to take on the risk of an expansion project into a new market without government financial support.[1]

*Reducing the international revenue cap excluding firms from the IGF*

20. In 2015 Cabinet excluded Focus portfolio firms with more than $500 million in annual international revenue from accessing IGF Validation or Expansion grants (EGI(15)77 refers). There is no similar exclusion for the Springboard grants. This revenue cap could be reassessed, although there is significant uncertainty about what the “right” threshold is that enables valuable activity that wouldn’t have taken place otherwise.

21. As below, data from FY20 to FY22 shows that very few IGF grants were issued to firms with revenue above $250 million, but more in the $100-$250 million international revenue category. A change in cap to $100 million international revenue (for example) would be a significant change in approach, and a similar goal of

[1] Such firms could still access key market information and connections via NZTE’s other services.

avoiding subsidising activity that would have taken place regardless could be achieved by strengthening assessment criteria.

| | International revenue | |
|---|---|---|
| **Value of IGF grants (ex. Springboard)** | **$100-$250m** | **$250-$500m** |
| FY2020 | $1.4m | $0.6m |
| FY2021 | $2.3m | $0.0m |
| FY2022 | $1.3m | $0.2m |

### Potential timeframe and impacts

22. As outlined, the options set out are indicative of areas where setting changes could contribute towards savings increases, with varying impact on export customers. Free and frank opinion [redacted] Any changes resulting from this exercise will also need to be considered and implemented in the context of the Government's commitment to ongoing fiscal discipline and to ensuring efficiency and effectiveness of Government-funded services.

## New Zealand Screen Production Rebate – International

23. Officials have engaged with The Treasury regarding how any changes in NZSPR funding would be treated in the baseline exercise. The Treasury have confirmed that for savings on the NZSPR to be regarded as genuine savings for the purposes of this exercise, they would need to be accompanied by concrete actions that would realise these savings. That is, we need to consider options and implement changes to the NZSPR criteria that would be likely to reduce the cost of the NZSPR – International over time.

24. However, the NZSPR – International is not an appropriate avenue to deliver short-term savings in the context of this fiscal savings exercise. Rather than reducing funding, the rebate requires additional funding in the near and longer-term to meet existing and reasonably anticipated future financial commitments.

### Current commitments

25. We have previously advised you of the current funding profile for the NZSPR – International in the context of agreeing the approach to an invited bid for Budget 24 [2324-1538 refers].

26. There is approximately $310 million of accruals for registered productions from 2024/25 through to 2027/28 – this is the scale of existing financial commitments by the Crown under the NZSPR.

27. The current multi-year appropriation for the NZSPR – International covers the period 2021/22 to 2025/26 and will be exhausted during 2025/26. You have agreed to submit a bid for Budget 24 to top up the current Multi-Year Appropriation (MYA) at an

indicative scale of $110 million. This estimate accounts for known commitments (as above), anticipated demand, a potential transfer to cover a funding shortfall in the NZSPR – New Zealand, and potential changes in timing of future rebate payments due to changes in production schedules.

28. Confidential advice to government

**Options for containing future fiscal costs**

29. Rather than realising near-term savings, Confidential advice to government Confidential advice to government

30. Confidential advice to government

31. In relation to option a., the headline rebate rates were confirmed (for live productions) and updated (for PDV productions) at the conclusion of the review of the NZSPR in April 2023. These rates balanced fiscal objectives with retaining sufficient competitiveness.

Confidential advice to government

Confidential advice to government

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Confidential advice to government

## Major Events Fund

40. The proposed reduction of $1.94M for the Major Events Fund is the maximum saving that can be made while ensuring that all committed funding and applications in train can proceed across the remainder of the MYA, and that capability can be retained in this area of the portfolio.

41. Note that any mega events (such as the Commonwealth Games) would be funded separately with the agreement of Cabinet.

42. This saving can be achieved through a mix of:

    a. Closing the Creative and Cultural Incubator programme and funding,
    b. Withdrawing from leverage and legacy activities with Crown partners (such as NZTE trade opportunities),
    c. Down-scaling future investment recommendations to be commensurate to fund balance, and
    d. Closing the fund to further applications.

43. However, if further reductions are required beyond the $1.94M, it is expected that:

    a. Existing applications are not assessed, and event owners advised they have been unsuccessful in securing funding; and/or
    b. The fund would immediately close for any further applications through to 2027; leaving the portfolio light for 2026 and 2027; and/or
    c. Cancelling existing investment agreements that sit towards the end of the MYA, allowing event owners time to either cancel the event, or secure alternative funding.

44. Major Events have a long lead time, and New Zealand is directly competing with Australian states for most Major Events. Therefore, options to reduce beyond the proposed $1.94M will have serious impacts to our reputation as an event host in the future (and therefore likely impact on our ability to secure events post 2027), and impact on the viability of the wider events sector in New Zealand.

45. If a decision is made to cancel existing investment agreements, a matrix will be developed that ranks the risks and impacts of withdrawal of funding, and recommendations will be provided for you to determine which events we exit.

## Next steps

46. Confirmation of savings are due with The Treasury and the Associate Minister of Finance on 16 February. Upon confirmation of these savings MBIE will work with The Treasury to return these savings.

47. Officials are available to discuss this briefing at the Weekly Meeting on 12 February.