



Hon Nicola Willis  
Minister of Finance  
Parliament Buildings  
Wellington

Dear Nicola

I am writing in response to your letter to me dated 15 November 2024, which outlined your expectations for Budget 2025. This letter focuses on savings related to a tagged contingency and some of the grants and funds in the Economic Development portfolio, as well as new spending and cost pressure initiatives as detailed below:

Savings and Revenue	Tagged Contingencies	New Zealand Growth Capital Partners – Return of tagged contingency
Savings and Revenue	Grants and Funds	Major Events Fund – Scaling the Fund
New Spending	Economic Growth Initiatives	Elevate NZ Venture Fund – Recapitalising
New Spending	Cost Pressures	New Zealand Screen Production Rebate – International – Reset the level

The Minister for Trade and I have written to you separately on the targeted policy savings for New Zealand Trade and Enterprise, the International Growth Fund and Strategic Investment Fund.

I have annexed to this letter the relevant Grants and Funds Summary Template for the International Growth Fund, the Strategic Investment Fund and the Major Events Fund which have been identified as funds for savings in the Economic Development portfolio (**Annex One**).

*Return of tagged contingency for New Zealand Growth Capital Partners*

I have submitted an initiative to return the tagged contingency for New Zealand Growth Capital Partners (NZGCP). This tagged contingency was established in Budget 2024 as an indemnity for operating costs to be met by the Crown if NZGCP's cash balance became negative. This is no longer required as NZGCP wrote to me in

August to share that a major realisation had occurred from the Aspire portfolio. Subsequently, NZGCP are no longer facing cashflow challenges and the tagged contingency can be returned, resulting in savings of \$12 million in 2024/25.

### *Scale the appropriation for the Major Events Fund*

The Major Events Fund is a contestable fund used to invest in major events to achieve Government priorities. You asked me to submit an initiative that considered options to close or scale the Major Events Fund, with a goal of ensuring that the money that the government spends on funds is value for money.

Government investment in events addresses a market failure, allowing economic, social and cultural spillover benefits that would otherwise be lost, or not fully maximised, to be secured. Major events bring a variety of financial and economic benefits and non-financial, social and cultural benefits to New Zealand. Major events create vibrancy, which is important for the visitor experience and linked to New Zealand's tourism proposition. Event organisers spend money on facilities, workforce, hospitality and other services when they host an event in New Zealand, stimulating local and regional economies. New Zealand SailGP, held in Christchurch in March 2024 with a \$1.35 million investment from the Major Events Fund, had specific benefits for tourism and for New Zealand's brand and reputation, generating 3,741 international visitor nights and a total broadcast audience of 74.6 million people. Deloitte valued the total economic benefit of the New Zealand SailGP event at over \$35 million.

At my request, officials considered the impact of closing the Major Events Fund to new applications and halving its size. The types of benefits outlined above, alongside the additional economic spend by event organisers in New Zealand, would be lost if the Major Events Fund closed or was halved in size. Financial support for major events is unlikely to be delivered to the same level by local government or private businesses. It is also likely to become harder to attract, secure and deliver large one-off events, such as the FIFA Women's World Cup or a future Commonwealth Games, if there is not a range of smaller events to sustain the industry and provide proof of New Zealand being able to deliver.

If the Major Events Fund was halved, the impact would likely mean a greater focus on large events (for spend impact), fewer sporting events (which can have higher bid and support requirements), and a decision whether to focus on high performance (e.g. World Cups) or mass participation (e.g. Rainbow Games). \$5.70 million annually from 2027/28 is likely to secure one large event annually, or three smaller events annually. There are committed major events contracts through to 2030 which mean the Major Events Fund could not be closed or significantly scaled without further specific legal advice on those contracts.

In light of this, I consider that the best option is to scale the fund, reducing the fund back to pre-2017 levels (to \$10 million annually), saving \$1.39 million per annum. This is an 8.8% reduction in purchasing power, at a time when costs are rising and other countries are investing significantly in attracting major events. Event budgets at State and Federal level in Australia greatly exceed the buying power of the Major

Events Fund. For example, Western Australia's 2024/25 events budget is AU\$77.5 million and Queensland's 2023/24 State Budget commits base funding of \$125 million per annum for Tourism and Events Queensland.

A new Major Events Strategy was introduced this year that directs the investments from the Major Events Fund to focus on events that secure economic, productivity, and promotional benefits for New Zealand. In implementing this, I, alongside my fellow Major Events Ministers (which includes the Sport and Recreation, Tourism and Hospitality, Arts Culture and Heritage and Foreign Affairs portfolios) will ensure that investment decisions from the fund focus on ensuring value-for-money and achieving maximum economic, social and cultural benefit.

#### *Recapitalise Elevate NZ Venture Fund*

You have asked me to submit an initiative providing options for recapitalisation of the Elevate NZ Venture Fund. This initiative is subject to, and informed by, completion of the scheduled five-year review of Elevate. It also includes an option to recapitalise Elevate by diverting funding from the New Zealand Superannuation Fund.

I have submitted an initiative for a \$250 million capital allocation into Elevate over the next several years. I consider that this is the amount required which would best send a strong signal to the domestic venture market for investment into venture capital funds and promising startup companies. It is important that this commitment comes as part of Budget 2025 to provide certainty to the private sector. I am requesting that this funding comes from a re-allocation of the Government's future contributions to the New Zealand Superannuation Fund.

The initiative is accompanied by a Terms of Reference for the five-year review of Elevate (**Annex Two**). This is expected to be completed by the end of January. Treasury officials have confirmed that this timing will allow the review to inform the consideration of this initiative.

#### *Reset the level of the New Zealand Screen Production Rebate – International*

Between 2014/15 and 2023/2024, inbound productions invested about \$7.7 billion in New Zealand, supported by around \$1.2 billion in rebate payments. Independent research commissioned by the Ministry of Business, Innovation and Employment found that every dollar government invests in the New Zealand Screen Production Rebate – International (the rebate), generates a return of investment of around \$2.35 per dollar invested. Other evaluations have found a range of higher returns. As the rebate amount is based on how much a production spends domestically in New Zealand, the research further suggests that for every dollar of rebate, the net fiscal cost is around \$0.20. Only the rebate cost is explicitly recognised in the fiscal accounts.

New Zealand is one of around 115 locations around the world with international screen incentives, and production companies have many choices about where to work around the world. The operation of these incentives differs, but New Zealand is currently at the lower end of international screen rebate rates. In some Australian

states, for example, rebates of up to 40 per cent are available. There are no comparable countries or locations without a screen incentive.<sup>1</sup> New Zealand's offering is considered attractive, not only because of our natural scenery, but because of the skills that exist within New Zealand and the work of industry champions such as Sir Peter Jackson, James Cameron and others, who have fostered and invested in this sector. The game development sector is a related sector which has thrived because of the international screen sector.

International screen production activity also contributes spillover benefits to tourism, the innovation sector, and New Zealand's brand and reputation. These wider benefits, for New Zealand communities and for the wider Crown accounts through taxes and other revenue, are not reflected in the direct appropriation. The rebate has had significant flow-on benefits to local economies, including the development of the Miramar and Henderson precincts, alongside fostering the game development sector where there are considerable overlaps in skills and talents. Work on international productions enable New Zealanders to gain experience with new production technologies and methods. In 2023/24, 87 per cent of crew working on international productions receiving the rebate were New Zealanders. Large international productions (such as *The Wrecking Crew* and *Spartacus*) invest in skills and talent development activities, which helps New Zealand crew develop skills essential to building a sustainable industry. In these productions, New Zealanders are often found in senior roles, as directors, or producers.

I have evaluated a full range of options for the rebate alongside the priorities for Budget 2025, including closing the rebate and changing policy settings to ensure the spend is within the current appropriation. While there are a range of options to manage the fiscal cost (from capping rebates at a production level or changing eligibility criteria, to capping the overall rebate amount), however, closing the rebate or changing the policy settings to ensure the spend is within the current appropriation would likely result in the effective closure of the international screen sector in New Zealand.

In considering the options for managing the cost I am mindful that changes to the settings came into effect just over a year ago, following an 18-month process. The industry has told me that the review process had a chilling effect on investment given the uncertainty around future settings.

Officials will report to me in the new year, providing a one-year check-in on the effect of these recent changes. Preliminary information suggests the changes have been very successful at attracting additional large budget films productions. Eight productions registered in 2023 under the new policy settings, which gave an additional five per cent uplift in the rebate, compared with six overall since 2014 under the old policy settings. To ensure continued value-for-money, I will complete further economic assessments and a review of the rebate scheme to be able to present an up-to-date economic analysis that can inform future decisions. If there are

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<sup>1</sup> Comparable countries or locations with a form of incentive include Australia, Austria, Belgium, Brazil, Canada, China, France, Germany, Greece, India, Italy, Japan, Malaysia, Mexico, Poland, Singapore, South Africa, South Korea, Thailand, the United Kingdom, and the United States.

new policy settings or options that emerge from the one-year check-in that would create additional value-for-money or savings, I will consider them.

There are active investment proposals from production companies and their ambitions, alongside the input of industry champions, could see this sector grow and become a flagship industry for New Zealand. Given the importance of the rebate to the sector and the recent implementation of revised policy settings, I am not proposing changes to the rebate settings at the current time. While I am mindful of the fiscal cost of the rebate and the priorities for Budget 2025, the net fiscal impact of the rebate is lower than the headline rebate spend.

As demonstrated in **Annex Three**, the approach taken to date on the rebate has meant that a mix of multi-year appropriations, contingency drawdowns and extra Budget funding has been used to manage the true cost of the rebate. I have submitted an initiative that sets the rebate appropriation at the forecast level based on current policy settings and avoids having to seek short-term fixes to this ongoing issue. I have asked officials to ensure our current forecasting is as accurate as possible and work with the Treasury on managing the quantum as part of this initiative.

I look forward to hearing from you about my proposed approach to these initiatives.

Yours sincerely

Hon Melissa Lee  
**Minister for Economic Development**

Incl: Annex One – Grants and Funds Summary Template for the Economic Development portfolio  
Annex Two – New Zealand Screen Production Rebate – International  
Annex Three – Venture Capital Fund Review – Terms of Reference

## Annex One – Grants and Funds Summary Template for the Economic Development portfolio

	High Amount	Low Amount	Submission
Total Operating (2024/25-2028/29) (\$)	0	105.93	86.27
Total Operating per annum (from 2025/26 onwards) (\$)	0	22.28	41.46
Details (100 words max)	<p>To reach the high amount, savings would need to be made to close the International Growth Fund, the Strategic Growth Fund and the Major Events Fund. This simplified the number of grants and funds and removed their administration costs, increased the options available for Government spend by returning funds to the Crown.</p> <p>The high amount could not be met without breaking existing contracts. In addition, these funds work to support achieving the Government priority to double the value of exports in the next 10 years and support the economy to grow.</p>	<p>To reach the low amount, savings were considered to halve the appropriation for the International Growth Fund, the Strategic Growth Fund and the Major Events Fund. This increased the options available for Government spend by returning funds to the Crown.</p> <p>The low amount could not be met as these funds align with Government priorities to double the value of exports in the next 10 years and support the economy to grow. Scaling these funds would prevent the Government from obtaining the economic benefits that flow from these investments.</p>	<p>To reach the submission amount, savings were considered to make savings from the International Growth Fund (returning \$6m over two years), scale the Major Events Fund (reduce to \$10m per annum, returning \$6.95 million five years) and reprioritise the Strategic Investment Fund (remove from the Economic Development portfolio).</p> <p>This submission consolidates the grants and fund in the portfolio; focusing the International Growth Fund and the Strategic Investment Fund on different economic growth outcomes. It also increases the options available for Government spend by returning funds to the Crown.</p>

	High Amount	Low Amount	Submission
<b>Risks and mitigation (100 words max)</b>	<p>To reach the high amount, the Government would be trading-off fiscal savings against benefits to the wider economy.</p> <ul style="list-style-type: none"> <li>- The closure of the Major Events Fund would stop central Government from utilising major events to secure economic, social and cultural benefits for New Zealand.</li> <li>- The closure of the International Growth Fund would close the mechanism for the Government to co-fund business projects, which create additional export revenue, jobs and spend on New Zealand suppliers.</li> <li>- The closure of the Strategic Investment Fund would prevent a new investment attraction agency from utilising this fund.</li> </ul>	<p>To reach the low amount, the Government would be trading-off fiscal savings against benefits to the wider economy.</p> <ul style="list-style-type: none"> <li>- The scaling of the Major Events Fund would allow a small major events attraction function. The limited scale would limit the benefits to New Zealand from events.</li> <li>- The scaling of the International Growth Fund is not aligned with Cabinet's agreement to refocus New Zealand Trade and Enterprise's work and double the value of exports in the next ten years.</li> <li>- The scaling of the Strategic Investment Fund would reduce the ability of its investments to be at a viable level.</li> </ul>	<p>The submission amount trades-off fiscal savings against benefits to the wider economy. It makes savings across some funds but retains them at a viable level as there is value-for-money in the investment and there is a clear rationale for Government intervention. The risks in the submission amount are moderate, representing reputational risks on New Zealand's ability to develop, support and grow international export investments and major events.</p> <p>In the submission, the Strategic Investment Fund is transferred to the new investment agency, with the appropriation removed from the Economic Development portfolio. This is noted as a saving for the portfolio.</p>

Objective	Vote	Portfolio	Title	High Amount (average per annum, \$m)	Low Amount (average per annum (\$m)	Comments (50 words max)
Grants and Funds	Business, Science and Innovation	Economic Development	Scaling the International Growth Fund	31.96	15.98	This fund has been scaled to reflect proposed changes to the fund to sharpen its focus on performance and impact. Total savings of \$6 million across 2024/25 and 2025/26 only has been submitted.
Grants and Funds	Business, Science and Innovation	Economic Development	Reallocating the Strategic Investment Fund	1.20	0.60	This fund has been reprioritised out of the Economic Development portfolio and to a new investment function separate from New Zealand Trade and Enterprise.
Grants and Funds	Business, Science and Innovation	Economic Development	Scaling the Major Events Fund	11.39	5.70	This fund has been scaled to return the fund appropriation to pre-2017 levels. Total savings of \$6.95 million across five years has been submitted (\$1.39 million per annum).



## **Annex Two – Venture Capital Fund Review – Terms of Reference**

### **CONTEXT**

The Elevate NZ Venture Fund (established under the [Venture Capital Fund Act 2019](#)) was launched in 2020. It is a \$300 million fund of funds programme, established to crowd-in capital at the Series A/B stage of New Zealand's early-stage capital markets.

As well as increasing the capital available to New Zealand entities, Elevate also seeks to support New Zealand's VC markets to develop and mature, so that over time, they become self-sustaining.

Elevate is managed by New Zealand Growth Capital Partners on behalf of the Guardians of New Zealand Superannuation.

At the time the Elevate was established, it was agreed that a review of the programme should be conducted after five years, and at the end of the term (fifteen years) to assess the performance and make recommendations for any changes to the structure and design of the programme (DEV-19-MIN-0063 refers).

While the long investment cycle for venture capital means that we wouldn't expect Elevate to have fully achieved its policy objectives yet, a five-year review provides an opportunity to understand what progress Elevate has made towards achieving its objectives, and identify whether any improvements could be made to the fund's policy settings.

### **PURPOSE**

The purpose of the 5-year review is to:

- provide a robust evidence base on the impact to date Elevate has had on New Zealand's early-stage capital markets
- inform decisions on any further government investment in Elevate
- identify any improvements that could be made to the structure and design of the programme.

### **APPROACH**

The review will be carried out in two phases. Phase One will focus on assessing the impact Elevate has had and the progress made towards achieving its policy objectives. If further funding is committed to Elevate through Budget 25, Phase Two will look at the more detailed policy settings of the fund and consider whether any improvements could be made to the structure and design of the programme.

### **SCOPE**

Phase One of the review will cover:

#### **Context**

- What is the role of government in VC markets?

- What is the policy rationale for Elevate? Why was this chosen over other interventions?
- How does Elevate align with government priorities?

#### Performance to date

- What progress has Elevate made in achieving the objectives set out in the Venture Capital Policy? i.e.:
  - increasing the amount of capital available to New Zealand's startups
  - helping develop New Zealand's venture capital markets to function more effectively so that over time:
    - more venture capital becomes available from sources other than Elevate
    - startups that receive venture capital become more likely to grow into successful and sustainable businesses
    - markets become self-sustaining (including through more investment from New Zealand investors).
- How successful has the fund-of-fund model been compared to alternative models for supporting VC markets. Is this still the optimal way to meet policy objectives?
- How does Elevate's performance compare with international examples?

#### Outlook

- What is the outlook for New Zealand's VC markets?
- How likely is it that Elevate will make further progress to achieving its objectives?
- At what point will government be able to withdraw its investment from the market? Will these outcomes be sustained beyond then?

If required, the second phase of the review will consider issues such as the whether the policies set out in the [Venture Capital Fund Policy Statement](#) (which provides the core parameters and settings under which Elevate is operated) still fit-for-purpose, the fund's governance arrangements, and any other matters not able to be included in Phase One.

The following areas are out of scope:

- an organisational review of New Zealand Growth Capital Partners.

#### **TIMING**

Phase One of the review will be completed by 29 January 2024.

## Annex Three – New Zealand Screen Production Rebate – International

Figure 1: Fiscal budgeting of the New Zealand Screen Production Rebate – International since 2014/15

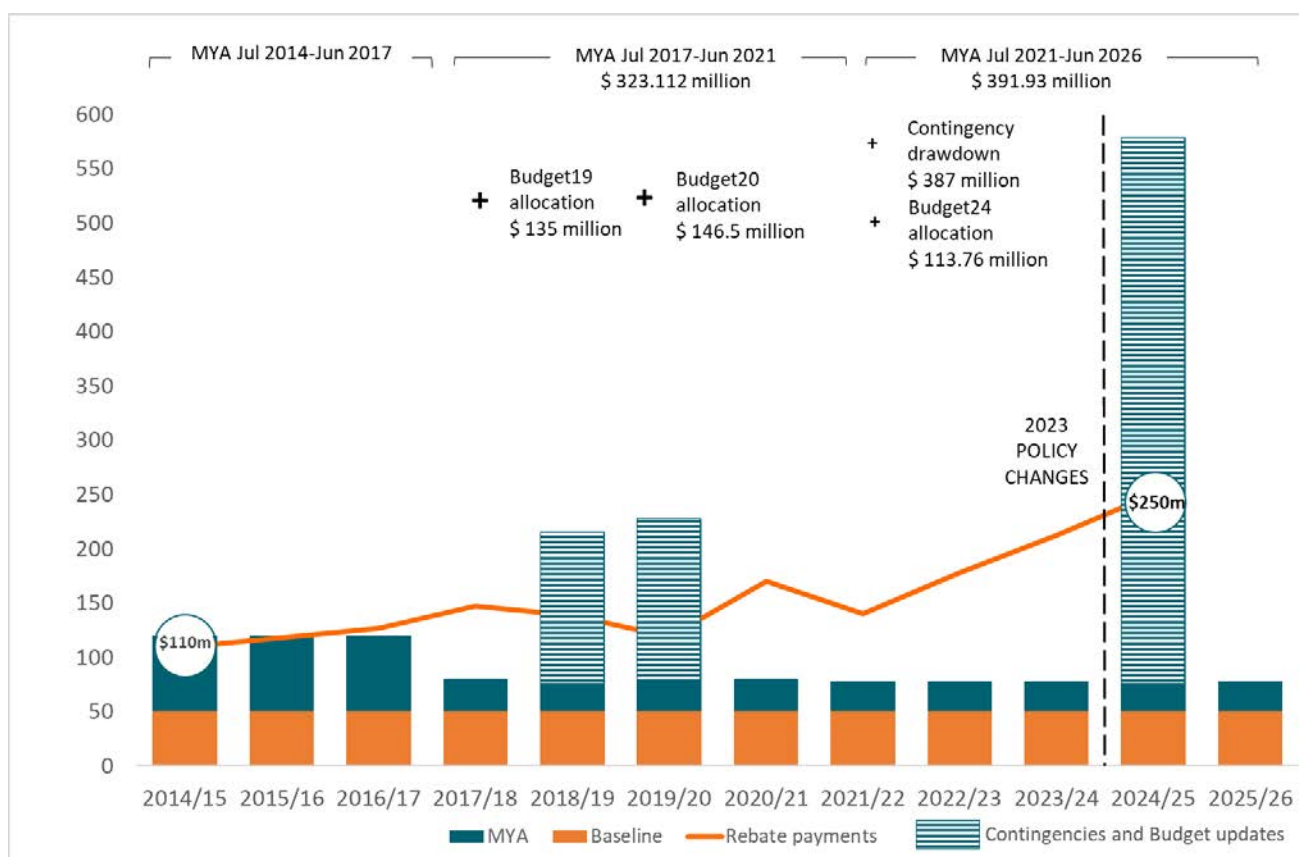


Figure 2: Productions supported by the New Zealand Screen Production Rebate – International since 2014/15

