



BRIEFING

Options for Budget 2025 for New Zealand Trade and Enterprise

Date:	5 December 2024	Priority:	High
Security classification	Budget - Sensitive	Tracking number:	BRIEFING-REQ-0007117

Action sought		
	Action sought	Deadline
Hon Melissa Lee Minister for Economic Development Hon Todd McClay Minister for Trade Hon Judith Collins KC Minister of Science, Innovation and Technology	Provide feedback on your preferred approach to the Budget 2025 submission for New Zealand Trade and Enterprise related savings by 12 December.	12 December 2024

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Heather Kirkham	General Manager, Economic Development and Tourism Branch	Privacy of natural persons	✓
Dean Ford	General Manager, Technology & Innovation		

The following departments/agencies have been consulted
New Zealand Trade & Enterprise

Minister's office to complete:

☐ Approved

☐ Declined

☐ Noted

☐ Needs change

☐ Seen

☐ Overtaken by

☐ See Minister's Notes

☐ Withdrawn

Comments



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Purpose

To agree the options to include in the Budget 2025 submission for New Zealand Trade and Enterprise (NZTE) related savings, as requested by the Minister of Finance.

Recommended action

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

- a **Note** that the Minister of Finance has requested advice on three savings initiatives in relation to NZTE for consideration as part of Budget 2025:

- options for savings within NZTE, in the context of the science system reforms
- options for savings in the International Growth Fund and
- options for savings in the Strategic Investment Fund.

Noted

- b **Agree** to a proposed reallocation of \$11.15 million annually from NZTE to Invest NZ for the investment functions in the Budget 2025 submission.

Minister for Economic Development

Agree / Disagree

Minister for Trade

Agree / Disagree

- c **Note** the \$11.15 million annually in recommendation (b) above includes the current appropriation for the Strategic Investment Fund.

Noted

- d **Agree** to NZTE's proposal to make changes to the International Growth Fund to sharpen its focus on performance and impact, while reducing the size of the fund to make total savings of \$6 million across 2024/25 and 2025/26 only. This proposed saving will be included in the Budget 2025 submission.

Minister for Economic Development

Agree / Disagree

Minister for Trade

Agree / Disagree

- e **Note** that as a result of reductions NZTE has made in recent years, it will be two percent below its 2016/17 baseline by 2025/26 and further savings would mean cuts to service delivery, undermining the Government's goal to double the value of exports.

Noted

f **Agree** to not include any further savings to NZTE as part of the Budget 2025 submission.

<i>Minister for Economic Development</i>	<i>Agree / Disagree</i>
<i>Minister for Trade</i>	<i>Agree / Disagree</i>

g **Agree** to forward this briefing to the Minister for Science, Innovation and Technology.

<i>Minister for Economic Development</i>	<i>Agree / Disagree</i>
<i>Minister for Trade</i>	<i>Agree / Disagree</i>



Heather Kirkham
**General Manager, Economic
Development and Tourism, MBIE**

5 / 12 / 2024

Hon Melissa Lee
Minister for Economic Development

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Hon Todd McClay
Minister for Trade

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Background

1. On 15 November 2024, the Minister of Finance wrote to Hon Melissa Lee, Minister for Economic Development as the Minister responsible for the Ministry of Business, Innovation and Employment (MBIE). The letter outlined the core components of Budget 2025 and identified the initiatives that Budget Ministers would like relevant MBIE-portfolio Ministers to prepare savings options for.
2. The savings initiatives identified in relation to NZTE are:
 - a. options for savings in NZTE, in the context of reducing the scope of NZTE's functions under changes to science system
 - b. options for savings to the International Growth Fund, and
 - c. options for savings to the Strategic Investment Fund.
3. The Minister of Finance has requested that the Minister for Trade and the Minister of Science, Innovation and Technology work together on these options. The Treasury have since written to MBIE to clarify that the Minister for Economic Development should lead this Budget submission (this was an error in the Minister of Finance's Budget letter).

Moving NZTE investment functions to Invest NZ will reduce NZTE's baseline

4. On 18 November 2024, Cabinet agreed to progress work to establish an investment attraction agency, Invest New Zealand, as well as to progress work to refocus NZTE to prioritise strong export outcomes [CAB-24-MIN-0445 refers].
5. To best comply with the Minister of Finance's request, we recommend reallocation of NZTE's investment attraction functions, as well as the Strategic Investment Fund, to the new Invest NZ entity. The reallocation of this funding toward the Invest NZ appropriation will amount to a \$11.15 million annual reduction in NZTE's baseline.

The International Growth Fund is an important tool for growing exports

6. The Minister of Finance has asked for options for savings to the International Growth Fund. The International Growth Fund is in transition, from a fund of \$60 million per year to a fund of \$30 million per year. This year, the fund is \$37 million, it is allocated \$34 million in 2025/26, and \$30 million thereafter.
7. The International Growth Fund is designed to enable and incentivise international growth projects that provide value to the New Zealand economy, in addition to the value that would have been created without the fund. To achieve this value, it is used to co-fund export businesses' international projects that:
 - a. **Increase ambition and commitment:** Allow companies to be more ambitious about their international growth and take on more financial risk, and fully commit to market entry and expansion, with public investment leveraging private investment.
 - b. **Accelerate implementation:** Allow companies to grow more quickly than they otherwise would through enabling market entry and expansion.

- c. **Create spillovers:** Create significant spillover benefits to the wider economy, such as increased jobs, increased supplier spend in New Zealand, increased international connections and a bigger exporting ecosystem in New Zealand.
- d. **Wraparound set of tailored services:** Work with the suite of NZTE services, making the project more effective than a standalone project.

The International Growth Fund has additional benefits

- 8. The International Growth Fund substantially increases the chance of a successful and long-lasting market entry for a project. It is an important tool in the ambition to double the value of exports over the next 10 years.
- 9. Under the International Growth Fund, NZTE only supports projects that are ambitious and will stretch the companies beyond their business-as-usual. The projects also need to be designed to achieve an economic return to New Zealand of \$4 for each dollar invested.
- 10. Other comparable countries (e.g., Ireland, Singapore and Australia) have funds with similar objectives. Despite facing less acute challenges than New Zealand (small and far from its key export markets), the investment in such funds is often much larger in other countries.
- 11. NZTE report that the International Growth Fund is making a significant positive difference for the following reasons:
 - a. **Every \$1 invested from the International Growth Fund creates an average \$6.20 return for New Zealand:** This suggests an economic return of about \$180 million on the \$30 million International Growth Fund appropriation. The International Growth Fund economic return calculation was originally designed by Deloitte and has been independently audited.¹
 - b. **Recipients generate an average of six International Growth Outcomes:** NZTE records 'International Growth Outcomes', which are outcomes that lay a platform for future international growth. Even where success of the International Growth Fund does not show through in the realised direct economic impact, International Growth Fund projects usually lay a platform for future growth. For example, the 138 customers that received International Growth Fund funding for expansion projects achieved 917 International Growth Outcomes in the five-year period within which they completed their project.
 - c. **The International Growth Fund results in additionality benefits:** There are many cases of the International Growth Fund generating additionality for the New Zealand taxpayer. One company that received funding noted it had significantly improved its technical ability and investments in advanced timber milling technology.

¹ NZTE calculates the benefit to New Zealand from each \$1 invested in the International Growth using a calculation that captures additional export revenue, additional New Zealand jobs created and additional spend on New Zealand suppliers (called the realised direct economic impact). Over the portfolio of companies that received funding from the International Growth Fund for an expansion project, the realised direct economic impact in 2022/2023 was \$6.20 of realised direct economic impact for every \$1 of funding.

We propose to include \$6 million of International Growth Fund savings over the next two years for Budget 2025

12. NZTE are proposing to make several changes to the International Growth Fund to sharpen its focus on performance and impact, while reducing the size of the fund to make total savings of \$6 million across 2024/25 and 2025/26 only. This would be achieved by:

Confidential advice to Government

We propose no further savings to NZTE as part of Budget 2025

14. NZTE’s budget has not grown materially since 2017. For the 2026/27 year, NZTE will have two percent less funding than in 2016/17. Given the Government’s priority to double the value of exports, we do not propose you submit any further savings to NZTE as part of the Budget 2025 submission. The table below summarises the funding position for NZTE since 2016/17.

NZTE Funding (including IGF)				
Funding 2016/17	Funding 2024/25		Funding 2025/26	
\$203.72 million	\$205.83 million	+1% versus 2017	\$199.46 million	-2% versus 2017

Next steps

15. We are seeking your feedback on this briefing by 12 December 2024.
16. If you agree with the proposed approach, we will:
- a. provide a joint letter from Ministers McClay and Lee to the Minister of Finance on the Budget 2025 submission in relation to NZTE; and
 - b. include the agreed approach to these savings in our Budget submission to the Treasury by 23 December 2024.