The Treasury

Budget 2026 Information Release

September 2026

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Key to sections of the Act under which information has been withheld:

[1] 6(a) - to avoid prejudice to the security or defence of New Zealand or the international relations of the government

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[7] 6(e)(ii) - to prevent serious damage to the economy of New Zealand by disclosing prematurely decisions to change or continue government economic or financial policies relating to the regulation of banking or credit

[12] 7(a)(i) - to avoid prejudice to the security or defence of the self-governing State of the Cook Islands

[13] 7(a)(ii) - to avoid prejudice to the security or defence of the self-governing State of Niue

[14] 7(a)(iii) - to avoid prejudice to the security or defence of Tokelau

[15] 7(a)(iv) - to avoid prejudice to the security or defence of the Ross Dependency

[23] 9(2)(a) - to protect the privacy of natural persons, including deceased people

[25] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information

[26] 9(2)(ba)(i) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied

[27] 9(2)(ba)(ii) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely otherwise to damage the public interest

[31] 9(2)(f)(ii) - to maintain the current constitutional conventions protecting collective and individual ministerial responsibility

[33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

[34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions

[35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;

[36] 9(2)(h) - to maintain legal professional privilege

[37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice

[38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice

[39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

[40] 18(c)(i) - that the making available of the information requested would be contrary to the provisions of a specified enactment

[41] 18(d) - information requested is or will soon be publicly available

Where information has been withheld, a numbered reference to the applicable section of the Act has been made, as listed above. For example, a [23] appearing where information has been withheld in a release document refers to section 9(2)(a).

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Budget Ministers

Discussion on Budget 2026 invitations

Purpose of this meeting

The purpose of this meeting is to:

- discuss the proposed approach to Budget invitations for spending and savings initiatives

Following decisions at this meeting, I will write to portfolio Ministers in mid-October inviting Budget 2026 initiatives for submission in mid-December.

Budget 2026 Invitations

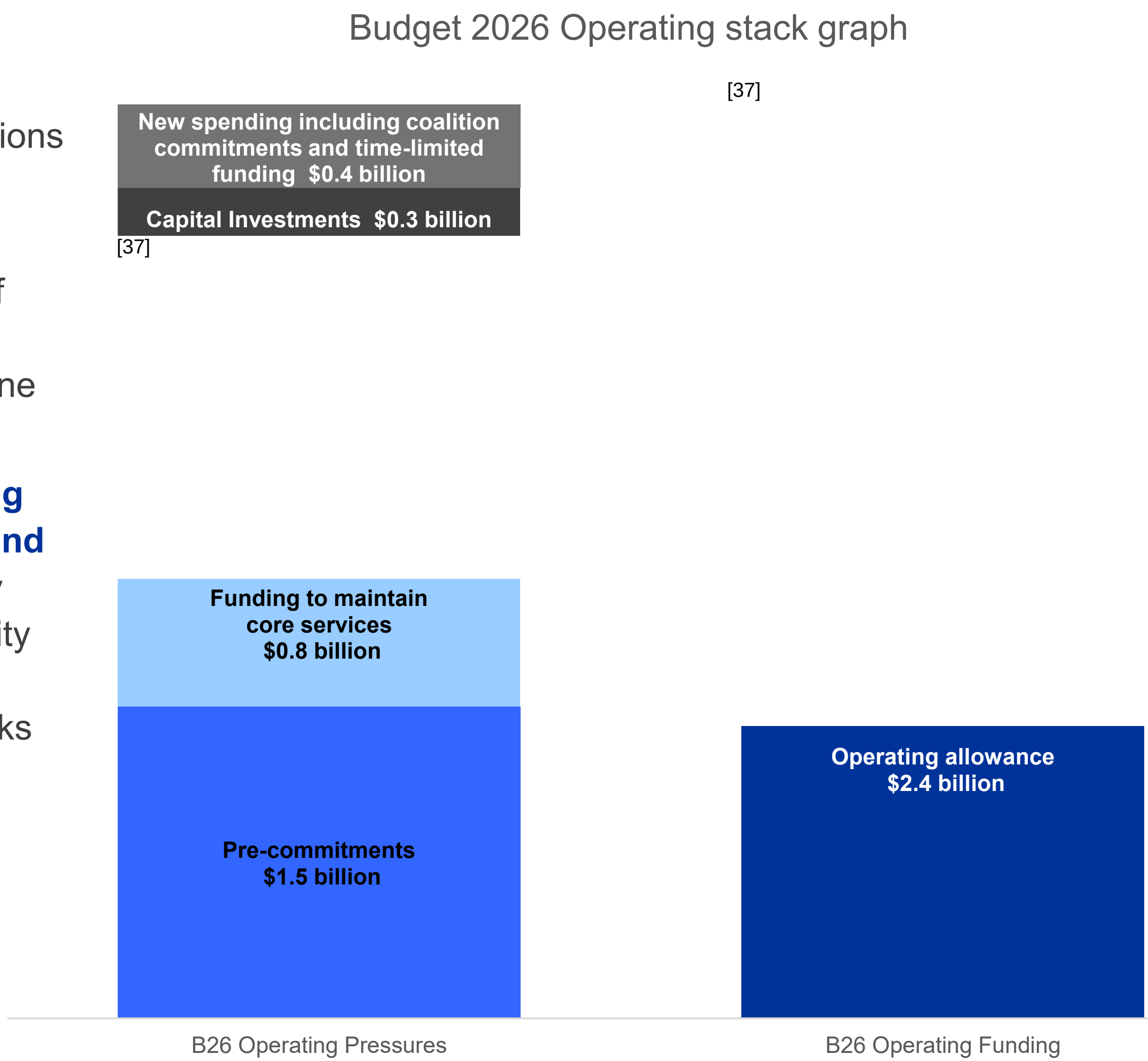
Budget 2026 will prioritise:

- **Outstanding coalition agreement commitments**
- Funding to maintain delivery of **core services**
- Other government priorities, including **growth-enhancing initiatives** and priority areas in **Defence, Education, Law and Order** and **Health**
- **Productivity enhancing** infrastructure investments.

These elements are described in the next few slides.

B26 Indicative Gross Expenditure and Savings

- We need to identify [1] and [33] of savings and reprioritisation options per annum to manage within a $2.4b allowance
- Based on the estimated cost of recommended initiatives for invitation, this quantum has gone down to [37]
- However, **I recommend aiming to identify** [1] and [33] **of savings and reprioritisation** to fund priority investments, maintain optionality to meet the fiscal strategy and manage potential downside risks



Envelopes for priority areas

- I am seeking your agreement to set low, medium, and high scenario envelopes for the following priority areas in Budget 2026 set out in the following slides:
  - **Defence**
  - **Education** (Hon Stanford)
  - **Law and Order**
  - **Health**
- These envelopes need to cover critical cost pressures, progressing coalition commitments and/or key capital investments.
- I also propose to set a capital envelope for **Transport** to deliver the Government Policy Statement on Land Transport 2027 (GPS 2027). Indicative GPS 2027 costings will be available in the draft in early December, after which point an envelope can be set.
- Rather than set envelopes for Foreign Affairs, Education (Hon Seymour) and Tertiary Education like we did in Budget 2025, I recommend inviting discrete initiatives in these areas.

Decision sought:	**Agree** to set an envelope for Transport, with funding scenarios to be set in December

Proposed envelopes

Envelope	Agencies	Scenarios (operating $m per annum)	Key details
Law and Order	• Police • Ministry of Justice • Corrections • Crown Law • Serious Fraud Office • the Centre for Family Violence and Sexual Violence Prevention	Low 200 Medium 275 High 350	• The scenarios reflect scaled cost pressures with a focus on maintaining service delivery and addressing non-discretionary volume pressures such as Corrections' capacity. • The high envelope is based on estimated funding for [33] and [37] and the Waitakere and Rotorua Courthouses) as well as other pressures, Ministerial priorities and capital investments outlined in the long-term investment plans. • Budget 2025 provided $355 million per annum to Law and Order agencies.
Education (Hon Standford)	• Ministry of Education • Education Review Office	Low [33] Medium High 300	• The high envelope is focused on maintaining delivery of core education services, additional funding for learning support, and includes capital investments outlined in the long-term plan (e.g. school property). • Budget 2025 provided significant new funding for Education [38]

Decision sought:	**Agree** to the proposed levels of the Law and Order and Education envelopes

Proposed envelopes

<table>
<tr><th rowspan="2">Envelope</th><th rowspan="2">Agencies</th><th colspan="3">Scenarios ($m)</th><th rowspan="2">Key details</th></tr>
<tr><th></th><th>Operating per annum</th><th>Total Capital</th></tr>
<tr><td rowspan="3">Defence</td><td rowspan="3">Ministry of Defence,
New Zealand Defence Force,
Government Communications Security Bureau
NZ Security Intelligence Service</td><td>Low</td><td>[1]</td><td rowspan="3">Capital investments will be funded on an individual basis, with operating funding sought from the envelope.</td><td rowspan="3">All envelope scenarios are sufficient to fund Year 2 investments outlined in the Defence Capability Plan. To reflect the wider fiscal context, the different scenarios would require scaling cost pressure funding. [1] and [33]
Budget 2025 provided NZDF an average of $350 million in operating funding per annum.</td></tr>
<tr><td>Medium</td><td></td></tr>
<tr><td>High</td><td></td></tr>
<tr><td rowspan="3">Health</td><td rowspan="3"></td><td>Low</td><td>[37]</td><td>450</td><td rowspan="3">The operating envelope covers all health Portfolio Ministers, apart from for Hon Seymour –a separate invitation will be issued for Pharmac.
The recommended envelopes are based on delivering several outstanding coalition Health commitments.
The recommended high capital envelope is based on delivery-ready investments outlined in the 2026 Health Infrastructure Plan and the Digital Infrastructure Plan.</td></tr>
<tr><td>Medium</td><td></td><td>750</td></tr>
<tr><td>High</td><td>200</td><td>950</td></tr>
</table>

Decision sought:	**Agree** to the proposed levels of the Defence operating envelope **Agree** to the proposed levels of the Health operating and capital envelopes

Spending

- New initiatives will prioritise funding to maintain delivery of core services in priority areas and delivering our outstanding coalition commitments. The most significant operating new and existing initiatives I am considering inviting are:

New Initiatives	Key Pressures
Progressing **Resource Management Reform** Tranche 1	Cost adjustments for **Early Childhood Education and Tertiary Tuition** subsidies
Further funding for **Pharmac**	Continuing the **Healthy School Lunches** initiative, as current funding expires at the end of the 2026 calendar year (expected for discussion at SOU on 8 October)
Financial incentives for councils and communities through **Going for Housing Growth** programme	[33]
Further funding for individual initiatives in **Vote Foreign Affairs**	Funding for departmental functions of **DPMC** as there is limited funding expiring in 2025/26
Implementation of the Government's response to the **Dame Karen Poutasi Report**	Funding for **Oranga Tamariki** volume pressures

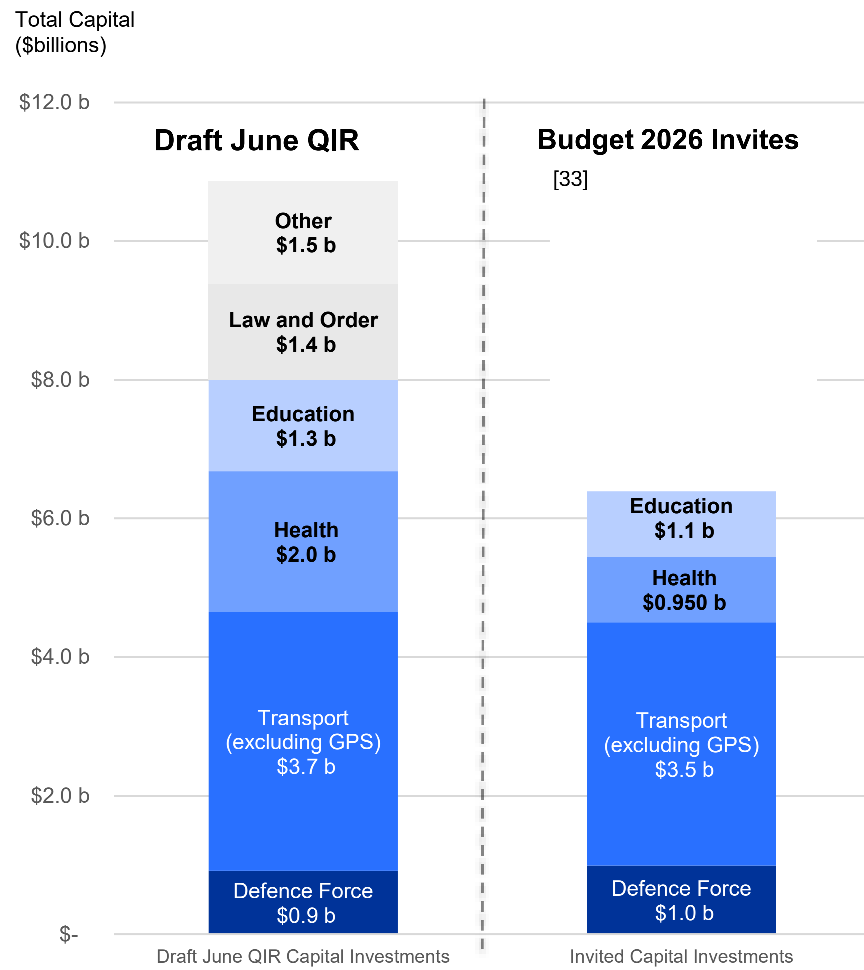
Decision sought:	**Agree** to invite the initiatives above into the Budget 2026 process **Agree** that I can finalise the remaining initiatives for invitation into the Budget 2026 process

Capital investments

I propose to invite a broad range of investments (between $4.4 – 7.8 billion) that **increase economic growth and productivity and/or support the delivery of core public services**. These include:

- **Transport:** GPS on Land Transport, and various rail investments such as the Rail Network Investment Programme and the Metropolitan rail renewals.
- **Law and Order agencies:** [33] and [37] development of three new courthouses in Rotorua and Waitakere, [33]
- **Environment:** Implementing the first tranche of the Resource Management reform investments.
- **Health:** Delivery ready investments from the 2026 Health Infrastructure and Digital Plans, such as Whangarei Hospital, the next phase of the National Remediation Programme
- **Education:** upgrades to the Education payroll system (operating funding)

I also expect Ministers and agencies **to accelerate and demonstrate investment readiness as a condition of funding.** Additionally, I expect Ministers and agencies to put forward asset recycling options from within their own balance sheet before submitting new capital proposals.



Decision sought:	**Agree** to invite the initiatives above into the Budget 2026 process **Agree** that I can finalise the remaining initiatives for invitation into the Budget 2026 process

Savings

- The current workstreams to help identify [1] and [33] of savings are:
  - **Welfare and social housing** which I am considering to improve policy outcomes while reducing Government expenditure in the medium-term. I intend to set a **stretch savings target of up to** [33] across this workstream through Budget invitation letters. Specific options are outlined on the next slide.
  - The **Tax and Social Policy Work Programme**, including its revenue-positive options such as shareholder loans, bank measures, and possible charity integrity measures.
  - **Baseline reductions** to support public sector reform. Cabinet has delegated decision making for a baseline reduction to Budget Ministers. To align with public sector reform, I propose phasing this as 2% at Budget 2026, generating **$100 million per annum** initially. For Budgets 2027 and 2028, the rate will increase to 5% generating higher savings. Details on my proposed parameters on slide 12.
  - **Baseline reprioritisation** through adhering to at least 25% of new spending outside of envelopes to be funded by reprioritisation could generate up to **$300 million per annum.**
- The options above will be challenging and require ~$900 million or more additional savings to enable projected spending. If no further savings are identified, gross spending will need to reduce.
- **What additional areas do Ministers want to pursue that will generate significant savings?**

Welfare and Social Housing reform

I have set a stretch target of [33] to ensure all options are considered, but some of the options considered will be challenging.

Welfare	Working for Families	Social Housing

• [33]
•
• Invest-to-save options – e.g., for work incentives (uncosted at this stage).
 	
These options reflect early preferences from my meetings with Hon Upston,
[33]
 	
Costings are indicative from previous work.
	• [33]
	•
		• As part of the ongoing Review of Social Housing, officials are developing options to amend
		    • Income Related Rent Subsidy,
		    • Accommodation Supplement, and
		    • Temporary Additional Support.
		
		These will need to be considered as part of a coherent package of options linked to welfare reform.
		
		I am discussing this work further with Housing Ministers on 13 October.
		
		[33]

Baseline Reduction and Public Service Reform

- The Government is considering reforms to deliver a leaner, efficient public service by modernising operating models, digitising services, and focusing resources where they deliver the greatest value.
- To realise the expected benefits of public sector reform, I propose a **baseline reduction over three Budgets** for most agencies outside of those we are providing envelopes to. This reduction will be calculated on agencies' eligible baselines (excluding some spending, such as benefits).
- I intend to set an **initial 2% baseline reduction target for Budget 2026,** which will generate around $100 million per annum in savings initially. This will be followed by **higher rates of 5% p.a. at each of Budget 2027 and 2028** to drive system-wide transformation in the public service.
- To ensure appropriate prioritisation through the baseline reduction process, I intend to communicate expectations to guide Ministers. In the first instance, **targets should be met from reductions in agencies' costs**, including through public service reform, and carefully consider any reductions to services from third-party providers that may impact frontline services. Further, Ministers could make savings from areas such as low-value programmes and policy areas, or through invest-to-save initiatives.

Decision sought:	**Agree** to progress a baseline reduction with the parameters outlined above

Actions from previous meeting

Action from September Budget Ministers	Status update
Treasury to provide an Aide Memoire to Budget Ministers on what level of expenditure reduction would be required to return to pre-COVID levels of expenditure as a share of GDP (around 28%), and the broad policy options that would be required to accomplish that	An aide memoire will be circulated to Budget Ministers as soon as possible.
Minister of Finance’s Office will refer the advice on fiscal modelling of the capital expenditure pipeline to Budget Ministers	**Completed.** Treasury report was circulated to Budget Ministers on Wednesday 24 September.
Budget Ministers to provide any feedback on Budget Strategy Cabinet paper before lodgement	**Completed.**