The Treasury

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Office of the Minister of Finance

Chair, Cabinet

Budget 2026: Protecting New Zealand's Future

Proposal

1 This paper seeks approval of the Budget 2026 package.

Executive Summary

2 Budget 2026 provides funding for front-line public services, invests in national resilience, and maintains this Government's record of careful fiscal management. Several initiatives respond to pressures placed on households and public services by higher fuel costs arising from conflict in the Middle East, and do so in a temporary, timely and targeted way.

3 The Budget package is summarised in Table 1. Notable initiatives in the Budget are:

3.1 An uplift in funding for health, education, and law and order, and further investment in the Defence Capability Plan.

3.2 Temporary, timely and targeted funding for households and public services facing immediate fuel price pressures.

3.3 Ending the Final Year Fees Free scheme, but doubling the number of Trades Academy places over the next few years and providing 1,000 more Youth Guarantee places.

3.4 Funding 1,800 to 2,250 additional social houses delivered by community housing providers or Kāinga Ora, and improving the fairness of housing support by reducing the difference between income-related rent subsidies for social housing tenants and the Accommodation Supplement for lower-income private renters.

3.5 Changing the Temporary Additional Support formula to reduce maximum payments as a proportion of the recipient's benefit rate.

3.6 Delivering an energy security package, implementing a new resource management system, and improving council incentives to support housing growth.

3.7 Funding the Cambridge to Piarere Road of National Significance.

3.8 A new prudential levy on banks, non-bank deposit takers, insurers and financial market infrastructures.

3.9 Revenue measures to reduce compliance costs, bolster the integrity of the tax system, and help attract capital and talent to New Zealand.

3.10 Baseline reductions for most public sector agencies, which have already driven efficiencies and reprioritisation and will continue to do so in the future.

4 The Budget 2026 package includes $3.8 billion per annum of new operating spending, offset by $1.6 billion of savings and revenue initiatives. The net operating impact is therefore $2.1 billion, well within the Budget operating allowance of $2.4 billion.

5 The Budget 2026 package also includes $7 billion of new capital spending, offset by $1.3 billion of savings. The net capital impact is therefore $5.7 billion.

Table 1 – Summary of the Budget package, including pre-commitments

Budget 2026	**Operating per annum ($million)**	**Capital ($million)**
Spending		
Health	[37]	682
Education	393	501
Tertiary Education	109	-
Law and Order	269	216
Welfare	187	-
Defence and Intelligence	388	2,348
Foreign Affairs	69	-
Energy and Fuel Security	50	198
Transport	122	2,878
Housing	173	-
Revenue initiatives	44	1
Other initiatives	[37]	133
Total Spending	**3,787**	**6,958**
Savings and Revenue		
Baseline Reductions	(597)	-
Fees free	(328)	-
Welfare & Social Housing	(212)	2
Revenue initiatives	(174)	-
Other savings	(336)	(1,257)
Total Savings and Revenue	**(1,647)**	**(1,256)**
Budget 2026 Package	**2,140**	**5,702**

Budget 2026

6 Prior to the outbreak of conflict in the Middle East, a broadening economic recovery was under way and inflationary pressures were expected to moderate. The economic outlook is now weaker and more uncertain, at least in the near term. Treasury's central forecast is that high fuel prices will push annual inflation to 4 per cent in the middle of 2026 before declining. The economy is expected to grow, but at a slower rate over 2026 compared to the 2025 Half Year Update. Around this central scenario there is uncertainty as to how the international situation will develop and how it will impact the New Zealand economy.

7 New Zealand has a well-established framework where, in all but exceptional cases, the task of macroeconomic stabilisation – providing or removing stimulus to reduce large swings in the economy – is given to monetary policy run by the independent Reserve Bank.

8 Fiscal policy, on the other hand, is concerned with funding effective public services, investing to build resilience and productivity, and ensuring the government's finances are sustainable over time. Budget 2026 delivers on all three of these fiscal objectives. In addition, temporary, timely and targeted government spending can help take the sharpest edges off the fuel crisis, consistent with those wider objectives.

9 Budget 2026 has a clear focus on resilience as it includes significant investments in defence, energy security, transport, and resource management system; temporary, timely and targeted spending; and meaningful progress on fiscal consolidation and debt repair. A more resilient New Zealand is in a better position to respond to current global events as well as future economic shocks and natural disasters.

10 Consistent with the objective to ensure the government's finances are sustainable over time, Cabinet agreed last year that the operating allowance for Budget 2026 would be $2.4 billion. The operating allowance is the key fiscal constraint on the Budget – the maximum amount of net new operating funding, on average per annum, the Government commits to spending. Actual net new operating funding in Budget 2026 comes to $2.1 billion – around $300 million below the allowance. The net allowance is made up of $3.8 billion of new spending less $1.6 billion of savings and revenue, continuing the Government's drive over successive Budgets to find savings and reprioritise spending.

11 Similarly, the capital allowance is the amount of net new "one-off" capital funding the Government intends to allocate to capital projects in the Budget. The Budget 2026 capital allowance was set at $3.5 billion but with flexibility to recognise that investment requirements can be large and uneven. Actual net new capital funding in Budget 2026, including expected capital receipts from the early monetisation of Chorus securities, comes to $5.7 billion.

12 Unless otherwise stated, expenditure or revenue figures in this paper are the average operating per annum across the forecast period, 2025/26 to 2029/30. Capital expenditure is a one-off total.

Health

13 The Budget provides an uplift in funding for the health sector. By far the largest part of this uplift – $1.37 billion from 2026/27 to meet demographic, volume and price pressures for frontline health services – has already been pre-committed. Capital funding has also been pre-committed towards the Waikato Medical School and New Dunedin Hospital Inpatient Building projects ($80.9 and $174.3 million capital respectively).

14 Beyond these pre-commitments, new health initiatives in Budget 2026 include implementing three-day post-natal stays in hospitals ($8.6 million), extending eligibility for the national-bowel screening programme down to age 56 [33] increased funding for road ambulances ($8.8 million), and funding for a nationally coordinated and managed specialist paediatric palliative care service ($3.9 million).

15 To help offset rising fuel costs, the Budget includes one-off operating funding of $24.2 million across 2025/26 and 2026/27 for a temporary 30 per cent increase in mileage rates for home and community support workers, and for people who need to travel long distances or travel frequently for specialist treatment. It also includes a further contingency of [37] through to 2026/27 to cover other fuel related costs in the health sector, and ongoing operating funding of $13.5 million for Pharmac.

16 On the capital side, Budget 2026 contains a $408 million package of new health infrastructure investments in addition to the pre-commitments above, comprising:

17 [37] capital for a 158-bed tower in the second stage of the Whangārei Hospital redevelopment.

18 [37] capital for the Regional Hospital Redevelopment Programme Tranche 2, covering design and enabling work for Tauranga, Palmerston North and Hawke's Bay hospitals.

19 [37] capital to purchase land in southern Auckland for a future hospital.

20 [37] capital for the next tranche of the Mason Clinic Redevelopment.

Education

21 Budget 2026 invests $393 million in education to support the Government's commitment to lifting student achievement. This is funded, in part, by reprioritising [38] of existing funding towards higher-value activities. Key initiatives include:

21.1 A 2 per cent cost adjustment to schools' operational grant funding to enable schools to meet rising running costs ($40.1 million) and funding to address core cost pressures such as KiwiSaver changes ($39 million).

21.2 Continuing the Healthy School Lunches and Early Child Education Food programmes for the 2027 calendar year ($212.4 million across 2026/27 and 2027/28).

21.3 A $32.8 million package of measures to strengthen teaching and learning as part of achieving the Government's target of 80 per cent of Year 8 students at or above the expected curriculum level for their age in reading, writing, and maths by December 2030.

21.4 Support for curriculum and qualification reforms, including developing resources to support the refreshed curriculum for years 9-13 ($13.4 million) and professional learning and development to support secondary teachers to implement the refreshed curriculum and new national qualifications ($5 million).

22 This package includes [37] to cover the increased transport costs of delivering education services and anticipated policy changes to support in-person teaching and learning if fuel price pressures increase.

23 Building on prior investment, $469.6 million of capital funding is provided in Budget 2026 to grow and maintain the school property portfolio. This will fund the redevelopment of up to 10 schools, acquisition of land for new school sites in [37] Queenstown, and provision of an additional 223 classrooms.

Tertiary education

24 On average, the Government pays around 80 per cent of the cost of tertiary education. Evidence is that remaining costs are not a major barrier to New Zealanders accessing tertiary education. Budget 2026 therefore ends the Final Year Fees Free scheme and instead significantly increases funding for foundation programmes and for young people transitioning from secondary to vocational education. These initiatives comprise:

24.1 Ending Final Year Fees Free from 31 December 2026 (an operating saving of $327.6 million).

24.2 Doubling the number of Trades Academies places over the next few years, from 10,000 to 20,000 ($17 million). Trades Academies are partnerships between schools, vocational providers and employers to provide fees-free, trades training to year 11-13 school students, and have been shown to increase participation in apprenticeships and improve educational and employment outcomes.

24.3 Providing 1,000 more Youth Guarantee places from 1 July 2026 ($21.7 million). Youth Guarantee provides fees-free learning and intensive support for young people with no or low qualifications – again as part of a pathway to an apprenticeship or other vocational education.

25 Budget 2026 also increases foundation level subsidies by 2 per cent ($6.1 million) to support people who have been underserved by the compulsory education system to re-engage in further vocational education, training or employment. It provides funding for Industry Skills Boards to develop eight industry-led school subjects as part of wider NCEA reform ($2.5 million). And it maintains access to Level 3–10 courses for around 17,000 learners in tertiary education by funding volume pressures in the sector ($77.1 million).

Law and order

26 The law and order package in this year's Budget provides an uplift in operating funding for the Department of Corrections, Police and the Ministry of Justice to maintain essential frontline services that help keep communities safe [38] Key initiatives include:

26.1 An additional 710 frontline staff and other services to address projected prison population growth ($119.3 million).

27 Establishing Firearms Safety New Zealand as part of a reformed firearms system that will improve public safety and trust, and provide efficient, effective and responsive services [38]

27.1 Funding for Neighbourhood Support NZ, Community Patrols NZ and Pasifika Wardens to enable these organisations to help keep communities safe ($2.1 million).

27.2 Continued investment in frontline Police to give effect to the Government's commitment to reduce violent crime ($49.5 million in total across 2026/27 and 2027/28).

28 This package includes $4 million across 2025/26 and 2026/27 for New Zealand Police to cover the increased cost of travel as part of regular duties, given increased fuel costs. In addition to this, Fire and Emergency New Zealand receives $3.5 million across 2025/26 and 2026/27 for similar fuel cost pressures.

29 New capital investments funded in Budget 2026 are for:

29.1 Replacing the High Court, District Court and Māori Land Court in Rotorua ($100 million capital, $1.6 million operating).

30 New police stations in Greymouth and Whanganui [33]

31 Replacing Police's Automated Biometric Identification System, which is reaching end of life [33]

32 New Zealand Customs also receives Budget 2026 funding to disrupt transnational serious and organised crime groups by:

32.1 Establishing four new customs overseas liaison roles in Fiji, Colombia, the Middle East and the Netherlands ($1.4 million).

32.2 Lifting Customs ability to manage increased smuggling risks while maintaining rapid import and export clearance processes ($3.8 million operating, $19.5 million capital).

Social housing and welfare

33 The Government provides two forms of financial support for housing costs:

33.1 The direct provision of social housing for 87,000 households through Kainga Ora or a community housing provider, where most tenants pay 25 per cent of their income towards the rent and the remainder is covered by the Income-Related Rent Subsidy (IRRS).

33.2 A subsidy – the Accommodation Supplement (AS) – accessed by 378,000 beneficiaries and lower-income working households to cover some of the costs of renting in the private market, up to a maximum that varies by region.

34 The IRRS is the more generous scheme. On average, social housing tenants on a main benefit have $105 per week more in the hand after housing costs compared to their equivalents in the private market receiving AS.

35 People in similar financial circumstances can therefore receive markedly different levels of financial support, security of tenure and incentives to become more independent. Budget 2026 presents a fiscally neutral package that reduces the gap between the cost of private housing and social housing and therefore makes the system fairer. This package:

35.1 Increases the amount that people in social housing (and in transitional and emergency housing) pay toward their rent from 25 per cent to 30 per cent of their income, from 1 April 2027, bringing this closer to, but still lower than, the levels paid by low-income private renters (an operating saving of $96.8 million).

36 Increases the maximum rates of the AS, from 1 April 2027, by between $10 and $30 per week (an operating cost of $93.6 million).

37 At the same time, Budget 2026 provides for an additional 1,800 to 2,250 social houses over two to three years, delivered by community housing providers or Kāinga Ora, and funded from a top up to the Housing Flexible Fund ($65.9 million).

38 Increasing the maximum AS payments will reduce dependence on Temporary Additional Support (TAS) – a weekly hardship payment to help people meet essential living costs, including accommodation. Almost all recipients are beneficiaries. The maximum TAS payment is currently set at 30 per cent of the relevant net benefit rate. However, large, above-inflation increases in main benefit rates between 2020 and 2022 – in part to reduce hardship – were not offset by reductions in TAS, as might be expected. The Budget makes an adjustment to the TAS formula to reduce maximum payments to 25 per cent of benefits, to reflect those previous large increases. This formula change will affect an estimated 51,000 TAS recipients. It results in an operating saving of $49 million and, at the margin, improves financial incentives to work.

39 Budget 2026 also confirms one-off funding of $373 million for the temporary, $50 per week increase to the in-work tax credit announced on 24 March. This is supporting an estimated 157,000 low-to-middle-income working families as conflict in the Middle East drives up fuel prices and adds pressure to household budgets.

40 Other Budget 2026 welfare initiatives include greater employment support for sole parents ($24.3 million savings), changes to income charging that include removing

the ability for some beneficiaries to have their earned income assessed annually rather than weekly ($13.1 million savings), and providing funding for the Food Secure Communities and KickStart Breakfast programmes ($9.5 million).

Defence and foreign affairs

41 In 2025, the Government published its Defence Capability Plan (DCP) which provides a blueprint for investment to ensure the Defence Force can defend New Zealand's interests, support Pacific neighbours and contribute to upholding the international rules-based order.

42 Last year's Budget funded the first year of the DCP, with over $1 billion of capital investment. Another $1.6 billion was pre-committed against the Budget 2026 capital allowance [38]

43 Budget 2026 builds on these commitments by funding:

44 Remaining year 2 DCP investments ($120.4 million operating and $700.1 million capital), including extending the life of New Zealand's ANZAC class frigates [1] and providing for the initial costs for the Maritime Fleet Renewal Programme.

44.1 Remuneration and workforce restoration funding to ensure the New Zealand Defence Force is well-placed to retain existing staff [1] ($35 million).

44.2 Cost pressures to maintain defence outputs ($43.5 million).

45 Budget 2026 also provides $68.8 million to the Ministry of Foreign Affairs and Trade to:

45.1 Provide funding for International Development Cooperation ($27.4 million) to provide development cooperation and humanitarian assistance to countries in the Pacific and Indo-Pacific regions.

45.2 Ensure a resilient, safe and secure offshore diplomatic and trade network ($36.3 million), including improving the security of IT systems and increasing the Ministry's preparedness for crisis response.

45.3 Fund the multi-agency costs associated with New Zealand hosting the Pacific Island Forum Leaders' week in 2027 ($20 million in total across 2026/27 and 2027/28).

Energy security

46 Conflict in the Middle East has emphasised the importance of energy security to the resilience of New Zealand's economy. Budget 2026 provides funding for initiatives to promote secure energy supply. These are:

46.1 The purchase of approximately $200 million of new Genesis Energy shares as part of the company's $400 million capital raise (a pre-commitment against Budget 2026 allowances), to enable Genesis to bring more flexible capacity to the market which can be used to address dry-year risk.

46.2 Establishing a loan guarantee scheme to support commercially viable businesses to undertake new investments to transition away from gas or reduce gas consumption ($12 million). A Crown guarantee will enable better interest rates and lending terms when banks extend credit to firms transitioning off gas.

46.3 The previously agreed roll-out of solar power generation and replacement of diesel boilers in State and State-integrated schools.

47 The last two initiatives are funded by reprioritising expenditure from elsewhere in the energy and education portfolios.

48 The Budget also sets aside $150 million operating across 2025/26 and 2026/27 for negotiations with fuel importers to provide additional stockholdings to secure New Zealand’s fuel supply.

Transport

49 Budget 2026 provides funding for one Road of National Significance. SH1 Cambridge to Piarere will link the Waikato Expressway to the new SH1/SH29 roundabout at Piarere [33]

50 To help offset the cost of this project, [33] of capital savings has been found from within the National Land Transport Fund. Construction will begin in 2026/27.

51 Three years of funding for maintenance renewals on the national rail freight network as part of the Rail Network Investment Programme ($598.2 million capital and $477.1 million in total from 2027/28 to 2029/30). The Budget also provides one year of additional funding for the metropolitan rail overdue renewals programme ($106.9 million capital).

52 To manage the fiscal impacts of a technical adjustment by the New Zealand Transport Agency (a capital-to-operating swap), [33]

Housing

53 Budget 2026 introduces a new financial incentive to councils to encourage housing growth ($100 million). This funding will support councils to manage the impacts of

housing growth on existing communities, such as pressure on local amenities, and provides a clear incentive for councils to consent additional housing development.

Resource management reform

54 Through its Resource Management Act reform programme, the Government is establishing a new, modern planning and environmental management system which will result in significant administrative and compliance savings, fewer delays and better allocative efficiency. This will have significant benefits for economic growth and productivity.

55 Budget 2026 provides funding to implement this new system effectively, including through investment in high quality data, a centrally managed digital platform for planning, consenting and compliance, and clear and consistent national directions. Funding in the Budget is $73.5 million although this is heavily front-loaded and reduces as the new system is implemented.

Resilience to natural hazards

56 New Zealand is vulnerable to natural hazards and disasters. The above investment in resource management reform will enable the development and delivery of a national flood map to provide property-level flood risk information. Budget 2026 also provides funding for:

57 Investments to improve the National Emergency Management Agency's capability to manage the emergency management system, including an upgrade to the National Warning System [38]

58 A detailed business case for a public infrastructure risk management scheme for the Crown ($2 million capital).

Banking sector

59 Budget 2026 introduces a new prudential levy on banks, non-bank deposit takers, insurers and financial market infrastructures (such as clearing and settlement systems), to help cover the costs of their prudential regulation and supervision by the Reserve Bank.

60 Such a levy is consistent with other jurisdictions such as Australia and the United Kingdom, and with levies imposed by other regulators in New Zealand such as the Financial Markets Authority and the Commerce Commission. It will ensure that the costs of managing financial system risks are covered, at least in part, by those who create the risk.

61 The prudential levy helps the Reserve Bank recover costs which will flow through to the Crown via a higher dividend ($52.1 million revenue).

62 The Government is also updating the thin capitalisation rules for foreign-owned New Zealand banking groups to better align with the Reserve Bank's new capital rules and provide greater certainty ($10.6 million revenue).

Revenue

63 Budget 2026 contains revenue measures to reduce compliance costs, bolster the integrity of the tax system and help attract capital and talent to New Zealand. These initiatives include:

63.1 Simplifying fringe benefit tax rules for private motor vehicle use by removing the requirement for detailed logbooks and taking a “close enough is good enough” approach that will significantly reduce compliance costs ($0.1 million).

63.2 Ensuring membership subscriptions received by not-for-profit organisations continue to be non-taxable (a fiscally neutral change), and increasing the tax-free threshold for not-for-profits from $1,000 to $10,000 ($0.2 million).

63.3 Introducing an annual donation cap of $100,000 for the donation tax credit, thereby allowing a maximum annual credit per person of $33,333 ($13.0 million revenue). Currently, people can claim back a third of donations up to the amount of their taxable income, although before 2008 there was an annual donation cap of $1,890.

63.4 Taxing outstanding loans that companies have made to their shareholders six months after those companies are liquidated or otherwise removed from the Companies Register ($36.5 million revenue).

63.5 Ensuring the Research & Development Tax Incentive scheme continues to support genuine R&D by reducing the compliance burden for businesses, improving access for small businesses, and improving value for money by limiting eligible expenditure on internal software development ($21.8 million revenue).

63.6 Measures to support increased foreign investment into New Zealand, including encouraging new migrants to stay by reducing the overall tax burden of their overseas investments, and removing and reducing cross-border tax barriers and compliance costs for businesses.

64 Some of the smaller Revenue initiatives above, including the changes to thin capitalisation rules for foreign-owned New Zealand banking groups, have been charged against the Tax Policy Scorecard, which offsets small revenue-negative and revenue-positive tax changes outside the Budget allowance.

Baseline savings and public sector transformation

65 Budget 2026 includes a baseline reduction package totalling $597.1 million of savings. Most agencies delivered savings of 2 per cent of their eligible baseline funding, delivered through a combination of workforce reduction, efficiencies such as property consolidation, and scaling of lower value programmes.

66 Cabinet has recently agreed to reforms to transform New Zealand’s public service to become digitally enabled, efficiently structured and more effective at embracing and developing talent. These reforms will improve the quality and responsiveness of public services to New Zealanders and ensure the public service is more cost

effective. They will also generate significant savings that can be reprioritised to frontline service delivery. Cabinet noted that Budget Ministers have agreed to an additional baseline reduction target for eligible agencies of 5 per cent in 2027/28 and 2028/29.

67 I am therefore seeking agreement to a 5 per cent baseline reduction from 2027/28 onwards and another 5 per cent baseline reduction from 2028/29 onwards. These reductions will apply to most agencies and to a similar expenditure base as the current 2 per cent baseline reduction. They will not apply to law and order agencies, Oranga Tamariki, health, education and defence and intelligence, as savings generated by public service transformation should contribute to improving delivery of these frontline services.

68 These baseline reductions will generate savings of $393 million from 2027/28 and $785.9 million from 2028/29. Having to make these savings will drive agencies to deliver a streamlined operating model and realise the efficiencies required to reduce public service FTEs to 55,000 by June 2029.

69 I will write to Ministers following agreement of the Budget 2026 package to inform them of their targets for 2027/28 onwards and for 2028/29 onwards. Shortly after, the Treasury will issue guidance to agencies on the process for identifying and agreeing savings.

70 These targets need to be reflected in agencies' Performance Plans. To give agencies more time to do this, I am proposing to shift the deadline for submission of Performance Plans from June 2026 to July 2026.

Other Budget initiatives

71 Budget 2026 provides funding for the Māori media sector to address a fiscal cliff after the current financial year. It will ensure the sector can deliver better outcomes for te reo Māori for audiences in a rapidly changing environment ($12 million).

72 Funding is also provided to continue the domestic component of the New Zealand Screen Production Rebate to support a sustainable and resilient domestic screen industry ($46.3 million). This addresses a fiscal cliff after the current financial year, maintaining funding for the Rebate without changing its scope or settings beyond those previously agreed by Cabinet.

73 The Budget provides additional funding to Oranga Tamariki to ensure children are well supported in care, including funding to respond to an increased number of reports of suspected abuse ($22.6 million) and to increase staff for children with high and complex needs ($23.4 million).

74 The Budget provides funding to progress agencies' implementation of the recommendations in the Dame Karen Poutasi review of the children's system ($19.3 million). Dame Karen's recommendations aim to strengthen safety nets to identify and respond to children at risk of harm.

75 Budget 2026 supports older New Zealanders by introducing a version of the SuperGold Card that can be used as official identification, meeting a need for older

people who have difficulty assessing services, like banking services, that require photo identification. Many older people are no longer able to drive, for example, and therefore do not hold a driver license.

76 A funding package of $109.2 million over the next three years has been developed to continue the control of wilding conifers. This includes a total of $25.2 million new operating funding from Budget 2026, together with funding from baselines, the International Visitor Levy and the Emerging Priorities Contingency.

77 [33]

Between-Budget spending

78 The initial high levels of uncertainty around the economic impacts of conflict in the Middle East have abated. However, there is still a possibility that global events will have a more damaging impact than is currently forecast. I therefore believe it is prudent to set aside some funding for Budget 2026 in case further temporary, targeted and timely measures are required in the next 12 months to alleviate effects of the conflict. I do not want to establish a large, general between-Budget contingency (see below) as this would be an incentive for Ministers to seek funding for a wide range of initiatives outside the normal Budget process. I would also prefer that any measures required in 2026/27 are funded from this year's Budget rather than being pre-committed against Budget 2027. Therefore, I propose to establish a one-off $450 million operating tagged contingency for the Middle East response. This contingency expires on 31 March 2027, and any drawdown would be subject to agreement by Cabinet.

79 The Budget 2026 package includes a general contingency for between-Budget operating spending of $60 million. Ministers should only seek funding from the between-Budget contingency for urgent issues that cannot be deferred, could not have been foreseen, and cannot be funded through the reprioritisation of lower-value activities. Ministers who wish to use this contingency will be expected to demonstrate that they have exhausted opportunities to fund the initiative through reprioritisation of lower-value activities.

Tagged contingencies

80 To encourage a focus on delivery, I intend to take a firmer approach to the management of funding set aside in tagged contingencies, particularly for capital projects. Where funding for an investment has been provided in a contingency, I expect it to be drawn down to deliver the project or new policy ahead of the expiry date of the contingency. I will otherwise require that Ministers re-submit their case for continued funding, which will be traded off against other investment-ready priorities.

Monitoring and reporting

81 I am seeking agreement for Cabinet to delegate to me decisions on whether to require monitoring and reporting for any major Budget 2026 spending, savings and revenue initiatives.

82 I am also proposing to postpone the deadline for initial reporting on grants and funds to 31 October 2027 – a year later than originally envisaged – to allow agencies to focus capacity and effort on public service transformation.

Fiscal strategy

83 The Government's headline operating balance measure, OBEGALx, has been in deficit since the 2019/20 financial year and net core Crown debt has risen sharply. Fiscal consolidation is required to bring revenue and expenses back into balance and start reducing debt.

84 The Government's fiscal strategy is to achieve this consolidation through consistent spending restraint. By having tight Budget operating allowances over the next few years, and making good decisions about capital investment, the Government aims to reduce core Crown expenses towards 30 per cent of GDP, return OBEGALx to surplus by 2028/29, and put net core Crown debt as a percentage of GDP on a downward trajectory. This fiscal strategy remains appropriate.

85 I propose that operating allowances for Budgets 2027, 2028 and 2029 remain at $2.4 billion per annum. Managing within these allowances will be challenging, particularly considering higher inflationary pressures in the next 12 months. There will be a need for offsetting savings in future Budgets.

86 I also propose that capital allowances for Budgets 2027 and 2028 remain at $3.5 billion. However, I propose to raise the Budget 2029 capital allowance to $5 billion to reflect expected investments in defence and hospital projects. Delivering value-for-money and productivity-enhancing capital investments will help address New Zealand's infrastructure deficit and support economic growth and resilience, but must be consistent with the overall fiscal strategy.

87 I am required to present a Fiscal Strategy Report alongside the Budget, including a formal statement of the Government's short-term fiscal intentions and long-term fiscal objectives. I propose to keep the same fiscal intentions and objectives as stated in the most recent Budget Policy Statement with one exception. The short-term intention for net worth is currently to "maintain net worth at around 40 per cent of GDP". I am receiving advice on this intention and may replace it, moving away from a point target. Any change would be inconsequential.

88 The two key fiscal indicators that observers follow are the headline operating balance (OBEGALx) and government debt (net core Crown debt). The fiscal forecasts for the Budget Update have not yet been finalised, but it is almost certain they will show OBEGALx returning to surplus in 2028/29, a year earlier than forecast in the Half Year Update in December, despite events in the Middle East. The forecasts will also likely show net core Crown debt-to-GDP peaking in 2027/28 before beginning to reduce, in line with the Government's fiscal strategy.

Moratorium on papers with financial implications

89 Once Cabinet has agreed to a Budget 2026 package, production of the Budget documents must be completed. To ensure that the documentation tabled in the House

of Representatives on Budget Day is accurate, Ministers cannot submit papers that have fiscal and/or appropriation implications for agreement by Cabinet Committees, Cabinet, or joint Ministers between now and 28 May.

Cost-of-living implications

90 Budget initiatives have various cost-of-living implications. Such initiatives include the increase to the in-work tax credit, the reduction in maximum payments of Temporary Additional Support, the increase in maximum payments of Accommodation Supplement, the increase in income-related rents for social housing tenants and the end of the Final Year Fees Free scheme. Overall impacts will depend on individual circumstances. More broadly, the Budget's fiscally disciplined approach is consistent with the Government's objective to support the Reserve Bank in ensuring low and stable inflation.

Legislative implications

91 The Appropriation (2026/27 Estimates) Bill, the Appropriation (2025/26 Supplementary Estimates) Bill, the Imprest Supply (First for 2026/27) Bill, and the Imprest Supply (Second for 2026/27) Bill will give legislative effect to Budget 2026 and support the ongoing cycle of parliamentary scrutiny over spending. These bills are customarily instructed, approved and introduced to the House by the Minister of Finance without reference back to Cabinet, and this paper includes recommendations to that effect.

92 The Leader of the House and I are currently considering which legislation to progress under urgency on Budget Day as Budget night legislation.

Regulatory impact statement

93 The Ministry for Regulation has confirmed that some parts of the Budget 2026 package are exempt from the requirement to provide a Regulatory Impact Statement (RIS) on the grounds that they are requests to authorise spending in Appropriation Bills and Imprest Supply Bills.

94 Where individual Budget initiatives have regulatory impacts (beyond simply authorising spending), agencies are required to provide a draft RIS to the relevant portfolio Minister, for referral to the Minister of Finance and the Minister for Regulation. Final RISs will be submitted to Cabinet Legislation Committee prior to the relevant legislation being made or introduced and will be published in line with normal requirements.

Climate Implications of Policy Assessment

95 The Climate Change Interdepartmental Executives Board Unit has assessed the climate impacts of the Budget package as at 30 April 2026, and the scale of cumulative emissions impacts meets the threshold for a Climate Implications of Policy Assessment (CIPA), attached at Annex D.

96 The Unit has identified 12 initiatives with emissions impacts, three of which have been quantified. The quantified emissions impact of Budget initiatives indicates a net reduction in emissions in the second emissions budget period (EB2). Including unquantified initiatives, the overall net emissions impact is expected to be more neutral or to result in a relatively small decrease which is unlikely to be material for EB2.

Population implications

97 Budget 2026 benefits a broad cross-section of New Zealanders through significant investment in frontline services, and good fiscal management is a key contributor to New Zealanders' long-term standard of living. Initiatives with distributional impacts include changes to income-related rents, Accommodation Supplement and Temporary Additional Support. Modelling by the Ministry of Social Development shows that, taken together, these initiatives are expected to impact 240,000 families. Compared with current policy settings, 111,000 families would receive an average increase of $14.91 per week, and 129,000 families would receive an average decrease of $24.04 per week. Compared to their proportion of the New Zealand population, Māori are over-represented in families with increases and also in families with decreases.

Human rights

98 The proposals in this paper are consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Use of external resources

99 No external resources were used in the preparation of this paper.

Consultation

100 This paper was prepared by the Treasury on behalf of the Minister of Finance. The Budget 2026 package has been developed in line with the strategy agreed by Cabinet on 29 September 2025, submissions by Ministers, and a series of meetings of Budget Ministers (the Prime Minister and Associate Ministers of Finance), and between me and relevant portfolio Ministers.

Communications

101 Budget Day is 28 May 2026. The Office of the Minister of Finance and the Prime Minister's Office will coordinate all communications relating to Budget 2026 through a Budget communications committee, including requests for early announcements. Written approval of the Minister of Finance, and sign-off from the Prime Minister's Office, is strictly required for any early announcements.

Proactive release

102 Every year after the Budget, the Treasury coordinates a proactive release of Budget documents. The 2026 release of documents will include this paper and the Budget strategy Cabinet paper. Budget Ministers briefings will also be released. I will consult with other Ministers on the proposed release.

Recommendations

The Minister of Finance recommends that Cabinet:

Budget 2026 Significant Initiatives Package

1 **agree** to the following final operating and capital Budget 2026 packages, as set out in the detailed financial recommendations accompanying this paper in Annexes A and B:

1.1 net operating package of $2.1 billion average operating per annum;

1.2 net capital investment of $5.7 billion total capital;

2 **note** that policy decisions to give effect to Budget 2026 initiatives are set out in the detailed financial recommendations in Annexes A and B;

Budget 2026 Technical Initiatives Package

3 **agree** to the technical Budget initiatives for Budget 2026 as set out in the financial recommendations accompanying this paper in Annex C;

Appropriation Matters

4 **agree** that, unless indicated otherwise in detailed financial recommendations accompanying this paper (Annexes A and B), significant initiatives are managed against the Budget 2026 operating allowance and the Budget 2026 capital allowance;

5 **approve** changes to appropriations and/or capital injections to the administering department (where applicable) to implement the initiatives included in the detailed financial recommendations in Annexes A-C;

6 **agree** to establish new appropriations where required to implement Budget 2026 initiatives;

7 **agree** to establish new tagged contingencies, and to the full or partial return of funding held in a contingency outlined in the detailed financial recommendations in Annexes A-C accompanying this paper;

8 **note** that Cabinet Office Circular (18) 2 outlines that tagged contingencies cease to exist on 1 February of the year following their establishment, but that this expiry date can cause issues with the extension to the expiry dates of tagged contingencies through baseline update processes;

9 **agree** that for tagged contingencies agreed as part of this Budget package, unless otherwise agreed in individual initiatives, the expiry date be 31 March 2027;

10 **agree** to changes in appropriations (including the establishment of new appropriations if necessary) and/or capital injections for 2025/26 to be included in the 2025/26 Supplementary Estimates and that, in the interim, the increases are met from Imprest Supply;

11 **agree** that expenses or capital expenditure incurred against appropriations, and capital injections authorisations, set out in the 2026/27 Estimates and being sought in the Appropriation (2026/27 Estimates) Bill be met from Imprest Supply until that Bill is enacted;

12 **authorise** the Minister of Finance and Associate Minister of Finance (Hon Chris Bishop) jointly to approve changes to appropriations to correct technical errors or inconsistencies that do not alter the intent of the agreed Budget 2026 package, including for technical Budget initiatives;

13 **agree** that relevant appropriation Ministers be informed of any changes to appropriations approved by the Minister of Finance and Associate Minister of Finance (Hon Chris Bishop) under recommendation 12 above;

14 **agree** that the delegations to the Minister of Finance and Associate Minister of Finance (Hon Chris Bishop) under recommendation 12 above expires on 30 June 2026;

15 **agree** recommendations 4 – 14 above give effect to the financial recommendations in Annexes A-C attached to this Cabinet paper;

Moratorium on Papers with Financial Implications

16 **agree** that no papers with fiscal and/or appropriation implications be submitted for agreement by Cabinet, Cabinet Committees or joint Ministers between 7 May and Budget Day, 28 May, so that Budget 2026 documentation is accurate and complete;

Between-Budget Operating Contingency

17 **agree** to establish a Between-Budget Operating Contingency as set out below:

$m – increase/(decrease)					
Item	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Between-Budget Operating Contingency	-	60.000	60.000	60.000	60.000

18 **agree** that proposals for funding from the Between-Budget Contingency must be for urgent issues that cannot be deferred to Budget 2027, could not have been foreseen, and cannot be funded through reprioritisation of lower-value activities;

19 **agree** to establish a Tagged Operating Contingency as set out below:

$m – increase/(decrease)					
Item	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Conflict Response Operating Contingency	-	450.000	-	-	-

20 **agree** that:

20.1 drawdowns for funding from the tagged contingency must be for temporary, targeted and timely proposals in the next 12 months that alleviate the effects of the Middle East conflict;

20.2 Ministers are required to seek pre-approval from the Minister of Finance through the out-of-cycle funding process before a drawdown request is made;

20.3 the contingency will expire on 31 March 2027;

Future baseline reduction

21 **agree** to a baseline reduction target for eligible agencies of 5 per cent from 2027/28 onwards and another 5 per cent from 2028/29 onwards;

22 **agree** that the expected savings from these baseline reduction targets are managed against the Budget 2026 operating allowance:

$m – increase/(decrease)					
Item	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30 & Outyears**
Savings from 5% baseline reduction in 2027/28 and 2028/29	-	-	(392.950)	(785.900)	(785.900)

Welfare changes

23 **agree** to increase all maximum rates of the Accommodation Supplement by $10 to $30 per week;

24 **agree** to reduce the maximum rate of Temporary Additional Support to reflect the above-inflation increases in main benefit rates that occurred over the last two terms of parliament, and remove child support liability as an allowable cost;

25 **agree** to lift the Income-Related Rent contribution rate for social housing tenants and household contribution rate for emergency housing and transitional housing tenants from 25 to 30 per cent of their income;

26 **note** that further details relating to recommendations 23 – 25 above are included in financial recommendations in Annexes A and B;

Capping the donation tax credit

27 **agree** to introduce a donation claim limit of $100,000 per annum, providing a maximum donation tax credit of $33,333, with further details in financial recommendations in Annexes A and B;

Ending Final-Year Fees Free while increasing fees-free vocational education provision and funding

28 **agree** to end the Final-Year Fees Free scheme at the end of the 2026 calendar year, with savings providing for increasing fees-free vocational education provision and funding as outlined in recommendation 29;

29 **agree** to:

29.1 expand the number of places in Trades Academies by 10,000 by 2030;

29.2 increase Youth Guarantee places by 1,000 on an ongoing basis;

29.3 increase foundation level subsidies by 2 per cent;

30 **note** that further details relating recommendations 28 – 29 above can be found in Annexes A and B;

Prudential levy

31 **agree in principle**, subject to consultation with industry which will take place following Budget Day on 28 May, to implement a prudential levy on deposit takers, insurers, and financial market infrastructures, under section 294 of the Reserve Bank of New Zealand Act, with an anticipated start date of mid-2027;

32 **authorise** the Minister of Finance to make further decisions relating to a prudential levy as needed to allow consultation to take place;

33 **agree** that Cabinet will make final policy decisions on a prudential levy after the 2026 election;

Monitoring and reporting

34 **authorise** the Minister of Finance to make further decisions on whether any Budget 2026 major spending, savings and revenue initiatives should be subject to additional monitoring and reporting requirements;

35 **note** that, in September 2025, Cabinet agreed to new performance reporting requirements for funds, with the first reporting required by 31 October 2026 [ECO-25-MIN-0140 refers];

36 **agree** to adjust the first reporting date for the performance reporting requirements for funds to 31 October 2027;

Tagged contingencies

37 **note** that extensions to capital tagged contingency expiry dates will only be granted in exceptional circumstances, and that funding will otherwise be returned to Budget allowances or the centre;

Legislative Implications

38 **invite** the Minister of Finance to instruct the Parliamentary Counsel Office at the appropriate time, and introduce to the House without reference back to Cabinet, the Appropriation (2026/27 Estimates) Bill, the Appropriation (2025/26 Supplementary Estimates) Bill, the Imprest Supply (First for 2026/27) Bill and the Imprest Supply (Second for 2026/27) Bill to give effect to Budget 2026 and to support the ongoing cycle of parliamentary scrutiny over spending in the current (2025/26) and upcoming (2026/27) financial years;

39 **invite** the Minister of Finance to instruct the Parliamentary Counsel Office at the appropriate time, and introduce to the House without reference back to Cabinet, the Appropriation (2025/26 Confirmation and Validation) Bill, which will confirm and validate financial matters relating to the current 2025/26 financial year;

40 **note** that the Minister of Revenue will seek Cabinet's approval to introduce a Taxation (Budget Measures) Bill giving effect to a donation tax credit cap, taxing outstanding shareholder loans of liquidated companies, reducing non-resident contractors' tax for asset leasing in the airline industry, and Working for Families improvements;

41 **note** that changes to fringe benefit tax rules, taxation of charities and not-for-profits, thin capitalisation rules for foreign-owned New Zealand banking groups, the Research and Development Tax Incentive, and various taxation measures to support increased investment in New Zealand will be progressed in the 2026–27 Annual Rates taxation Bill, which would be introduced in September 2026 and enacted before 1 April 2027;

42 **authorise** the Minister of Finance and the Leader of the House to agree which legislation will progress under urgency on Budget Day as Budget night legislation;

Regulatory Impact Statements

43 **note** that, where appropriate, agencies have been directed to provide Regulatory Impact Statements for individual Budget initiatives to the relevant portfolio Minister (and for referral to the Ministers of Finance and Regulation), and that these will be submitted to Cabinet Legislation Committee prior to the relevant legislation being made or introduced and published in line with normal requirements;

Communications

44 **note** that all communications relating to Budget 2026 are coordinated by a Budget communications committee, and that any requests for early announcement will need to both have the written approval of the Minister of Finance and sign-off from the Prime Minister's Office;

45 **authorise** the chief executives of departments that monitor Crown entities directly affected by Budget decisions taken by Cabinet to inform the chair and/or chief executive of a Crown entity, on a Budget-sensitive-until-Budget-Day basis, of decisions that directly affect that Crown entity for the purpose of planning and preparation of their Statement of Intent and/or Statement of Performance Expectations;

Performance Plans

46 **agree** to shift the submission of Performance Plans from June 2026 to July 2026;

Fiscal Strategy

47 **agree** to set the Budget operating allowances for Budgets 2027, 2028 and 2029 at up to $2.4 billion per annum;

48 **agree** to set the Budget capital allowances for Budgets 2027, 2028, and 2029 at $3.5 billion, $3.5 billion, and $5.0 billion;

49 **agree** to retain the Government's fiscal strategy as expressed in the Budget Policy Statement, which targets a return to OBEGALx surplus by 2028/29, a reduction in core Crown expenses towards 30 per cent of GDP and putting net core Crown debt on a downward trajectory towards 40 per cent of GDP; and

50 **agree** that the Minister of Finance can make minor changes to the short-term intentions and long-term objectives in the Fiscal Strategy Report if required.

Authorised for lodgement

Hon Nicola Willis

Minister of Finance