The Treasury

Budget 2026 Information Release

September 2026

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[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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[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

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[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

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TE TAI ŌHANGA
THE TREASURY

DEPARTMENT OF THE
PRIME MINISTER AND CABINET
TE TARI O TE PIRIMIA ME TE KOMITI MATUA

Te Kawa Mataaho
Public Service Commission

AIDE MEMOIRE Title:	**Public Sector Transformation: Driving Efficiency and Fiscal Sustainability**		
Reference Number:	**MoSR 2025-0764**		
Date:	**18 November 2025**		
To:	**Hon Nicola Willis, Minister of Finance** **Hon Judith Collins, Minister for the Public Service**		
Encl:	Yes	**Priority:**	Medium
Security Level:			

Purpose	To discuss how a number of interrelated workstreams will contribute to fiscal sustainability and improved service delivery through future efficiency gains and cost savings.
Date of meeting	20 November 2025
Minister	Minister of Finance Minister for the Public Service

Key issues

Joint Ministers are meeting on 20 November 2025 to discuss alignment of key Public Service workstreams in contributing to savings and efficiencies across the Public Sector.

Officials from the Public Service Commission, Department of Prime Minister and Cabinet, and the Treasury will be in attendance.

Officials have developed advice, in the attached slide pack, that outlines a the key workstreams underway that together support a digitally enabled Public Sector that lowers cost over time to support fiscal sustainability as well as performance.

Priority areas for discussion

There are four key workstreams that Central Agencies have developed to improve how the Public Service will look, act, and deliver over the next decade. These include:

- **Digitisation:** delivering services digitally to citizens and businesses
- **Shape:** how the Public Service is organised and how agencies' roles integrate to drive delivery
- **Leadership and talent:** ensuring we have the right capability in the right places through investing in people, and ensuring that public service enhances people's career pathway.

	• **Fiscal consolidation (baseline reductions):** significant fiscal savings will be required from the public service and broader policy settings. There is a Ministerial choice around FTE caps to reinforce budget messages. There are key decisions and direction required from Ministers across these workstreams to drive progress on the overall delivery of the Government's priorities. This is particularly around the scale and pace of change required to deliver change. A key discussion point will be how the first three workstreams - and the broader Public Sector transformation - will contribute to the Government's fiscal priorities by driving efficiencies and delivering sustainable baseline savings. Officials are seeking Ministerial guidance on the appropriate pace and ambition of the workstreams, and how this can best support the Government's fiscal objectives and upcoming budget decisions over the next three years. Ministers' direction on priorities and trade-offs will be critical to shaping the scale, sequencing, and resourcing of the Programme.
Next steps	Following Joint Ministers meeting, officials will outline next steps in delivery.

Noted

Hon Nicola Willis
Minister of Finance

Hon Judith Collins KC
Minister for the Public Service

Te Kāwanatanga o Aotearoa
New Zealand Government

Central agency workstreams outline, timeframe accountabilities:

*** digitisation**
*** shape**
*** leadership and talent**
*** fiscal consolidation**

DPMC, TSY, PSC conversation with MOF / MfPS, November 2025

This presentation is classified **BUDGET-SENSITIVE**

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Overall, we are aiming for:

Fiscal & Budget context for public service reform

The next several Budgets will take place in a challenging environment.

Treasury analysis suggests each Budget may require savings of around [33] . to fund Government commitments (such as in the defence capability plan) and maintain frontline services in health, education, and law & order.

Additional savings may be required to meet the Government's fiscal strategy.

Deliver government services (including advice to Ministers) that are:

- Modern, digital and customer focused
- Efficient in time and cost
- Effective in outcomes
- Lower cost over time to support fiscal sustainability

To do this, need:

- Relentless focus on delivery through metrics, monitoring and holding to account
- Joined up, digital customer facing services for higher quality, faster and more efficient delivery
- Streamlined digital back office support meaning lower overhead costs
- Fewer agencies with simpler processes for interacting with each other and Ministers
- Fiscal incentives, rules and tools that facilitate the above and provide medium term planning certainty
- Talent attraction and development

Context

Four key workstreams will shape how the Public Service will look, act and deliver over the next decade.

Digitisation and customer experience

Delivering services digitally to citizens and businesses

Shape

How the Public Service is organised and how agencies' roles integrate to drive delivery

Leadership and Talent

Ensuring we have the right capability in the right places through investing in people and ensuring that public service enhances people's career pathway.

Fiscal consolidation (baseline reductions)

Significant fiscal savings will be required from the public service and broader policy settings. There is a Ministerial choice around FTE caps to reinforce budget messages.

These workstreams are critical – and they must work together.

This slide pack provides for each:

What we're aiming for, key milestones, key decisions and potential bold choices for Ministers and importantly, accountability.

Digitisation and customer experience

Delivering a digital citizen experience that NZers expect for minimum cost. GCDO has the mandate from Cabinet – implementing it is the challenge.

AIMING FOR:

- **One Government app:** one front door making it easy for people to access services, manage payments, communicate with government, provide proof of identity etc
- **Government digital investment** clustered to enable cloud based, re-used, lowest cost, modular and agile systems.
- **GCDO** fulfilling Cabinet mandate to centralise government procurement and delivery

ACCOUNTABLE:

- Currently sits with GCDO – Paul James. Propose to move to PSC under a Functional CE / Sir Brian Roche.

BOLD CHOICES:

- ***Pool money currently allocated for digitisation across government and deliver centrally***
- ***How we organise ourselves to deliver (e.g. Joint Ventures)***
- ***Change in scope and capability to achieve GCDO mandate***

CX target (TBD)
Improvement in experience of joined up digital services

15% or up to $330m savings
in digital investment pipeline by June 2028.

2%
GDP growth opportunity

	2025	2026				2027 & Beyond
	Q4	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**
GOVT APP	Release App 1.0 and digital wallet sandbox to enable issuers to test credentials	Digital wallet released into app, credential issuance in wallet	Secure messaging in app, IRD and MBIE issue digital credentials.	AI assistant added.	NZ Digital drivers licence.	Payment capability (IRD, MSD) Small business interactions, spatial information access.
GOVT DIGITAL INVESTMENT	DECISION: Agreement of digital target state, and near term targets. DECISION: GCDO shifts to PSC GCDO agency review: functions and capability	DECISION: Agreement on agency clusters that work together on digital investment across the cluster.	Rolling 5-year target state developed; PSC designate agency digital leads as dual key roles (pending leg change)		GCDO establishes new procurement services, Cloud consolidation.	

Shape: Operating Model

Simplify and streamline to lift effectiveness through connectivity, and reduce cost

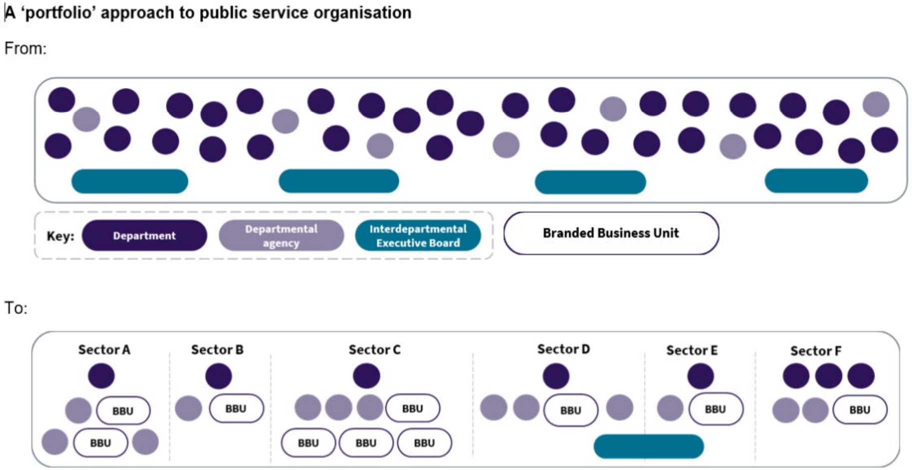
Reform is needed to enable a future-oriented public sector operating model to create a more efficient, citizen-centric, and fiscally disciplined Public Service.

This can be achieved by reducing the number of government departments by grouping them into portfolios with greater use of branded business units.

The test case for this is a proposed new Ministry for Cities, Regions and the Environment. Modelling indicates that this new Ministry would be able to achieve savings without negatively impacting service delivery.

In preparation for hard structure change**, there are soft change options that can realise benefits such as clustering**. These options could include grouping agencies to use the same systems and services (corporate, regulatory, digital). This can be an interim step and is easier to scale than hard change.

Not a pre-requisite for operating model change, but Ministerial portfolios could be aligned with the clusters, providing additional benefits of simplification and focus.



Key decisions and timeframes:

- MCRE – Go/No Go – Nov 25
- Soft Changes – Options for consideration

BOLD CHOICES:

- Proceed with MCRE
- Consider Ministerial portfolio clusters

Leadership and Talent

Aiming for the public service as employer of choice that delivers through deploying the best capability to the most pressing priorities for NZers.

Underpins the operating model and is critical to deliver customer centric, digitally enabled services.

CURRENT WORK PROGRAMME

DEFINE	What "good" looks like for CEs and key technical roles is defined and embedded in their recruitment, performance management & development approaches
ATTRACT	Attraction and retention strategies are in place for our senior leaders and priority technical roles, including drawing talent from the private sector
DEVELOP	CEs focused on talent for system benefit. Supported by tools and offerings to develop experience, technical and personal skills
DEPLOY	Active brokering and deployment of talent to support individual development and system priorities
LEAD	Public Service Talent Board with public service, private sector representation is advising on systems approaches and initiatives for most impact

BOLD CHOICE: FUTURE LEADERSHIP OPTIONS

Public Service Academy

- We have the option of powering up the LDC into a “Public Service Academy” (similar to comparable jurisdictions) to accelerate our programme for growing/mobilising our leadership talent pipeline, upskilling of digital and financial skills and centralised development of core public service “craft” (e.g. integrity and conduct).
- It will require some investment, though not significant, and will be an important enabler and signal to valuing our people (the “right brain”).

Budget & fiscal consolidation

To deliver fiscal consolidation, savings are going to be required from both the public service and from significant policy reform.

Baseline reductions

- This is the key link to broader work in this slide-pack and ensures that efficiencies in the public service contribute to overall savings.
- Budget Ministers have agreed to a multi-year baseline reduction (2%+5%+5% on agencies eligible baselines). These savings will have to come from a range of sources. The public service reform actions in this slide-pack would support but may not be sufficient to meet all short-term savings targets, as they may require an invest-to-save approach with longer time horizons.
- Other near-term savings for a baseline reduction include **scaling back or stopping lower-value activity** and ongoing work within agencies to operate more efficiently and with constrained FTE.
- Public service reform plays an important role in **ensuring lower baselines are sustainable over the medium term**. Slower action on this work would put more pressure on other short-term savings levers.

Significant policy savings

- Policy reforms that reduce expenditure (or raise government revenue) are the source of the largest fiscal savings. At Budget 2026 this includes changes to welfare policy settings, and other structural policy settings are planned to be considered at future Budgets.

ACCOUNTABLE:

Treasury to set parameters of savings programmes, and individual Ministers/Agencies once commissioned.

BOLD CHOICES:

Delivery of baseline savings backed up by transformation. Complements significant policy reform [33]

[33]

	25Q4	26Q1	26Q2	26Q3	26Q4	27Q1 and beyond
SAVINGS	Communication of baseline reduction targets to agencies [33]	Budget 2026 decision making (initial 2% savings and welfare reform)	Budget 2026 2026/27 performance plans due	Budget 2027 commissioning [33]	Budget policy statement 2027	Budget 2027 decision making

FTE Management

- A workforce cap can serve as a clear fiscal and operational signal, encouraging agencies to reassess workforce needs, drive efficiencies, and prioritise core functions. However, it must be applied with strategic oversight and flexibility to avoid unintended impacts on service quality and delivery.
- Any further reduction in size of the Public Service is likely to be achieved though the Government's fiscal strategy, delivered through Budget and Performance Plan processes. They can be further complemented through investment in digital transformation and structural reform.
- PSC and Treasury do not think a cap is required, as the FTE will decrease with the reduced funding and other initiatives discussed previously (such as digital and operating model changes). FTE implications will be included as part of Budget material. DPMC see a cap at a whole of public service level (similar to the contractor and consulting cap) as a useful reinforcing lever for driving efficiency and surfacing tradeoffs / prioritisation.
- If you wish to progress with the establishment of a formal cap, there are four options canvassed in a paper you have received:
    - **Option One:** Targeted Back Office Reduction (not recommended)
    - **Option Two:** Public Service-Wide Cap (recommended)
    - **Option Three:** Inclusion of Crown Entities
    - **Option Four**: Utilising the Existing Cap on Personnel Spend

Timeframe:

Decide pre-Christmas what do for consideration as part of Budget 26

Decisions and next steps

These four workstreams are reliant and mutually reinforcing to achieve a coherent programme of reform to deliver government services effectively and efficiently:

Digitisation and Customer experience

- Implementation of GCDO mandate through move to PSC, and associated transformation
- Decide on digital target state including a move to agency clusters
- Decide whether to pool and centralise digitisation budgets

Shape

- MoG: proceed with MCRE
- 'Soft' shape changes: move to clusters across public service – for aggregation and economies of scale. Could be reinforced by Ministerial allocations

Leadership and Talent

- Develop the compelling offer and pathway to work in the public service, with active career management to work on the most pressing problems and opportunities for NZ.
- Explore potential public service academy.

Budget and Fiscal consolidation

- Communicating baseline reduction targets to agencies with confidence that digitisation and MoG changes will support medium-term sustainability of lower baselines.
- FTE cap or not

A relentless focus on delivery / implementation and change management will be required to deliver