The Treasury

Budget 2026 Information Release

September 2026

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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

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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

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Performance Plans: Implementing Fiscal Discipline through Baseline Reductions

Date:	19 June 2025	**Report No:**	T2025/1583
		File Number:	BM-2-1-2027-M119823

Action Sought

	Action Sought	Deadline
Hon Nicola Willis **Minister of Finance**	**Agree** to a baseline reduction approach that incorporates different savings expectations across agency groups **Agree** to progress this approach through the 2025/26 Performance Plan commissioning	25 June 2025

Contact for telephone discussion (if required)

Name	Position		Telephone	1st Contact
Katelin Livingstone	Analyst, Budget	[39]	N/A (mob)	✓
Tom Brooke	Principal Advisor/Head of Savings Policy, Budget		N/A (mob)	

Minister's Office Actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: No

Executive Summary

This report outlines a proposed approach for implementing a baseline reduction through agency Performance Plans, building on your earlier direction in the Budget 2025 Cabinet paper to explore further savings opportunities for Budget 2026.

We have made several judgements on the parameters of the baseline reduction to progress this work. Applying a multi-year, broad-based reduction will ensure agencies have significant lead-in time to consider medium-term efficiencies, rather than taking a ‘haircut’ to existing services. Performance Plans will be used as a reporting mechanism to see how agencies plan to deliver within reduced baselines. This approach gives agencies greater certainty of funding parameters across multiple years.

Delivering on the Government’s fiscal strategy will require different approaches to savings, to ensure that funding is either reprioritised toward higher-value activities or returned to the centre. To this end, we recommend:

- Frontline service agencies (Health, Education, Law and Order, and Defence) are not subject to a baseline reduction but are expected to find and reinvest savings as part of their envelope.
- Agencies with significant targeted policy savings potential (Ministry of Social Development, Inland Revenue, Ministry of Housing and Urban Development) also be excluded from a baseline reduction, with a stronger focus and expectation placed on delivering savings or additional revenue through policy reform.
- All remaining agencies be subject to a consistent rate, multi-year baseline reduction of between 5% to 10% over three years, encouraging planning and operational changes over time.

This proposed approach reflects feedback from a small group of public sector chief executives (through the Chief Executives Reference Group) and internal analysis completed by the Treasury. We estimate this approach could deliver around $375 million (5%) to $750 million (10%) in savings per annum when the baseline reduction is fully implemented (or around $1 billion to $2 billion across the forecast period).

Final parameters will need to be agreed to enable integration with the Performance Plan process ahead of Cabinet consideration on 21 July. Your feedback and direction on key decisions will allow us to finalise this work and begin broader agency engagement.

Purpose of Report

1. In the Budget 2025 Cabinet paper, you signalled an intent to return to Cabinet with options to deliver further savings in Budget 2026 through a baseline reduction actioned through Performance Plans for 2025/26. This report outlines that advice.

2. This report is intended to be read alongside advice on the commissioning of agencies second year Performance Plans [T2025/1676 refers]. That report outlines the overarching expectations for agency planning, while this advice provides a more detailed proposal on the structure of a baseline reduction that can be integrated within the Performance Plan process. We recommend this report be considered subsequent to the Performance Plan advice.

3. This report updates and refines the structure of a potential baseline reduction process, which incorporates feedback received through engagement with a small group of public sector chief executives, internal assessment and through our OECD engagement.

4. We seek your feedback on the proposed approach, as well as your decisions on key elements of the process, so if desired these can be incorporated into the Performance Plans paper being considered by Cabinet on 21 July.

5. Key decisions include if you are comfortable with:

   a The approach to baseline reductions that prioritises achieving overall savings without overlapping processes, where savings from a number of government spending areas are progressed through other savings processes;

   b A multi-year approach, which provides agencies with a greater level of certainty for forward planning;

   c Applying a 10% baseline reduction to areas of spending not covered by other savings processes, phased in over multiple years.

Background

6. Your fiscal strategy includes a commitment to fiscal consolidation over time. You have set tight operating allowances of $2.4 billion for future Budgets and delivering Budgets within those allowances will need a continued focus on savings. The more savings you deliver, the more fiscal space you will generate for priority investments, public services, measures to boost economic growth, and, if needed, further fiscal consolidation to meet your fiscal strategy.

7. You have multiple levers to support the Government's objective to returning to a fiscal surplus by 2027/28, with a baseline reduction being just one part of a broader strategy for Budget 2026.

8. Baseline reductions can contribute meaningful savings to this objective, but it is expected that a larger portion will have to be found elsewhere, from options such as targeted policy savings, revenue generation, and balance sheet management. More

fulsome advice on Budget strategy is yet to come, however, to enable the use of Performance Plans to deliver this, we recommend making headway on the design and parameters of a baseline reduction.

9. On 9 May, we provided initial advice on the key design choices that could be taken to structure a baseline reduction process for Budget 2026, along with how this could be implemented through Performance Plans [T2025/1081 refers]. Since then, we have continued to refine this advice.

10. The current assumptions that form the design of the baseline reduction are:

   a **Multi-year:** a multi-year approach could provide an ongoing stream of savings while giving agencies more certainty to enable planning and consideration of medium-term structural changes.

   b **Broad based:** we recommend applying the baseline reduction to eligible agencies as broadly as possible, aside from in areas where a focus on targeted policy savings may generate more significant savings.

   c **Tool for structural change:** we believe implementing a baseline reduction through agency Performance Plans will help to surface trade-offs and encourage operating model or structural changes. This will also help to encourage agencies to think about and reinforce potential data and digital efficiencies.

   d **Ensuring Ministerial buy-in:** getting Ministerial buy-in early in the process (such as through the Cabinet paper, then through their performance plans) will be critical to the levels of success achieved.

Breaking down government spending and the resulting approaches

11. We have updated our breakdown of total government spending with BEFU data (representing Budget 2025 decisions), now totalling $187 billion average per annum. The figure below provides that breakdown and a brief overview of where and how savings or opportunities for reprioritisation can be found.

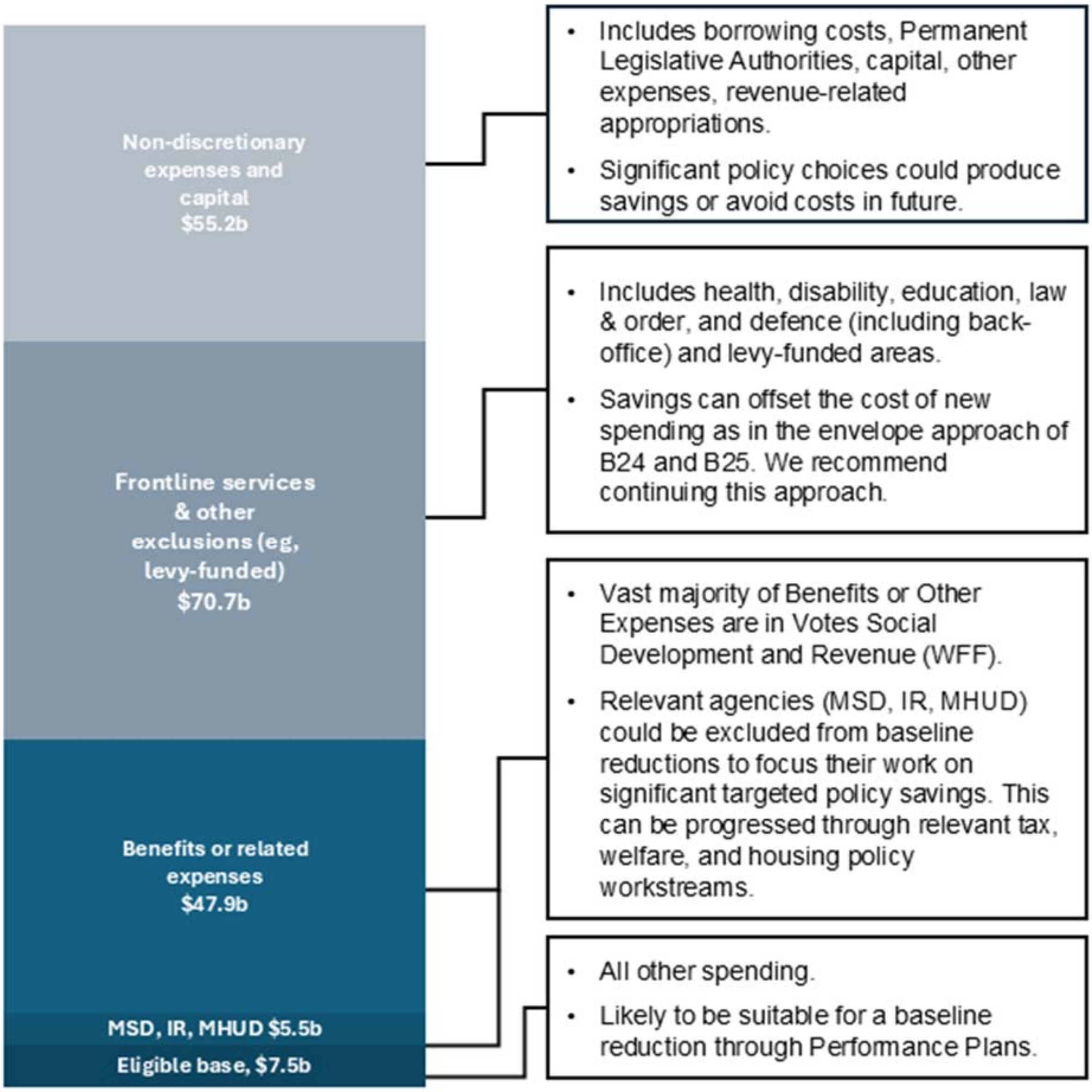
Eligible Base

12. We consider that there are areas of government spending that require a different mechanism for achieving savings. This consideration results in an eligible base of around $7.5 billion per annum, with a 1% reduction to this eligible representing around $75 million of savings per annum.

13. Annex One provides a more detailed breakdown of spending in each category. This includes the full list of agencies and their forecast spending per annum in the eligible base that we recommend you apply a baseline reduction to.

14. In the section below the figure, we provide a more detailed recommendation on the mechanism for achieving savings from each category of spending.

Figure One: Breakdown of Government Spend



Non-discretionary expenses and capital

15. A significant portion of this spend is likely to be unavailable for savings. This includes pass-through appropriations ($12.5 billion p.a.), debt servicing ($10.2 billion p.a.), allocation of NZ ETS Units ($2.4 billion), revenue-related appropriations ($1.9 billion p.a.), debt impairments and fair value write-downs ($2.0 billion p.a. in Inland Revenue alone). A further large portion is comprised of committed expenses such as capital appropriations and the National Land Transport Programme ($19.4 billion p.a.).

16. Savings could be made through policy changes that relate to other expenses (up to $5 billion p.a.), for example, the Overseas Development Funding ($961 million p.a.), and the Research and Development Tax Incentive ($751 million p.a.). If you are interested in considering these areas of spending for potential savings, we can provide advice on these areas through Budget 2026 strategy advice; note that a good portion of this spending was considered in Budget 2025.

Frontline services and other exclusions

17. You have indicated Education, Law and Order, and Defence agencies as priority areas for additional investment, particularly for frontline services. We have included Health in this category given its focus as a priority area for investment.

18. Based on the last two Budgets, we believe these are areas most likely to be prioritised by Ministers for cost pressure funding. As with Budget 2025, we recommend that these agencies should still be expected to find savings to offset the cost of new spending. To avoid overlapping savings processes, we recommend that these agencies are not subject to a separate baseline reduction. Instead, as with previous years, an envelope process with built-in savings expectations is likely to be simplest and most effective to ensure agencies are moving funding to the highest priority areas.

19. If you agree to this approach, we will provide further advice on the treatment of envelope agencies, including setting funding scenarios and expectations, as part of the Budget 2026 strategy.

Benefit or related expenses (including MSD, IR and HUD)

20. Some agencies – including the Ministry of Social Development, Inland Revenue, and Ministry of Housing and Urban Development – have found significant policy savings or revenue options to date and more are available. While detailed design work will need to be undertaken on the scope of targeted policy savings as part of the Budget 2026 strategy, there are preliminary areas where we consider some agencies could target their focus:

    a Ministry for Social Development: [33]

    b Inland Revenue: further options for revenue generation will be provided through upcoming advice on the Tax Policy Work Programme, expected in July.

    c Ministry for Housing and Urban Development: a social housing review is currently underway, with a long-term focus on improving value for money. Significant reform options are estimated to take 3 to 5 years to implement. Rather than applying a baseline reduction, there is an option to leverage this review to identify both short and long-term savings opportunities (including settings for the Income Related Rent Subsidy [33] and how these changes could be sequenced to support Budget 2026 and longer-term fiscal sustainability.

21. For these agencies, you may wish to set incentives for achieving large-scale savings by excluding these agencies fully from a baseline reduction. This would allow them to focus their efforts on identifying and implementing significant savings (in excess of what a baseline reduction would achieve) through targeted policy savings.

22. Alternatively, applying a baseline reduction to these agencies would reinforce Government expectations for fiscal discipline and generate credible savings (these three agencies have an eligible base of up to $5.5 billion p.a.), but may take focus away from more significant savings through targeted policy savings.

23. On balance, we recommend that you do not apply a baseline reduction to these agencies at this stage, to focus their efforts on larger policy savings. Baseline reductions could be applied to these agencies through a later Budget, on the proviso that this would not risk the implementation of savings being progressed.

Approach to the baseline reduction: trend analysis and design elements

24. We have analysed expenditure trends in the eligible base outlined above, combined with previous Budgets' savings. At a high level, our findings are:

    a Almost all agency eligible baselines remain above 2017 levels, even when inflation adjusted. This may not mean that there are still 'easy' savings options available, as there are agencies whose scope of activity has expanded since 2017. We are also aware that agencies are facing additional challenges and pressures to their baselines since 2017. However, this should not preclude choices being taken to reduce agencies' scope of activities where necessary.

    b All agencies have provided savings, but a small number have provided significantly more than others, either through baseline savings or through targeted policy savings/revenue generation (e.g., Inland Revenue, Education, MBIE and MSD).

    c Around a third of applicable agencies have eligible bases of less than $100 million per annum and account for only around 4% of spending within the eligible base.

25. Based on initial feedback we have received from the Chief Executives Reference Group, experiences from previous baseline savings exercises and through our understanding of international experiences, we have undertaken further analysis on whether the target for a baseline reduction should vary across agencies.

26. Generally, we recommend avoiding too many distinct exemptions to ensure that there is a broad savings expectation across most agencies and Ministers. Therefore, we have set out options that try to keep a broad approach while recognising some bespoke features of individual agencies.

Departments with a baseline reduction

27. For the agencies within the eligible base, we recommend implementing a baseline reduction that applies a single, consistent rate across all agencies. We believe this will help avoid overly complex tailoring agency to agency.

Design and structure

28. We recommend a multi-year approach (e.g. two or three years), which enables agencies to achieve 'stacked' savings over multiple years. This gives agencies greater certainty over future baselines, and allows them to consider medium-term savings options, such as through operational or legislative changes.

29. Flexibility in how reductions are phased across the forecast period can support implementation. However, deferring savings to later years reduces the extent to which they are recognised within the forecast period.

Reduction rates

30. We recommend a target rate of around 10% as this would help to encourage medium-term thinking across multiple years as opposed to a 'haircut' approach. A rate of 10% across a three-year period could result in just over $2 billion of savings across the forecast period (or $750 million p.a. by the end of the forecast).

31. Towards the lower end of the spectrum, a total rate of 5% over a three-year period, could result in roughly $1 billion of savings across the forecast period (or $350 million p.a. by the end of the forecast). We would not recommend implementing a baseline reduction target rate of below 5% as the level of effort required would likely outweigh the fiscal value of savings achievable from the current eligible base.

32. Whichever rate is chosen, is should be noted that while agencies may be reducing baselines at a nominal rate through this process, the real impact of this is likely to be higher, as these baseline reductions come alongside an expectation of absorbing inflationary cost pressures of around 2-3% per annum.

Areas and agencies for further consideration

Areas where judgement is required

33. Included within the eligible base are two areas of spending where judgement is required:

    a Treatment of departmental depreciation, specifically for asset-intensive agencies (e.g. Department of Conservation). We recommend consulting with agencies to determine their level of depreciation spending as a portion of their eligible base. You could then consider excluding some agencies' depreciation costs from their eligible base.

    b Areas that have received funding uplifts in Budget 2025 are included within the eligible base and therefore would be subject to a baseline reduction (e.g. Ministry of Foreign Affairs and Trade and Social Investment Agency). A full list of agencies that make up the eligible base is included in Annex One.

Small agencies where there may be overlap or potential for consolidation

34. For small agencies (those with less than $100m p.a. in total funding in the eligible base), significant levels of fiscal savings could fundamentally change the nature of what the agency delivers. For these agencies,[1] applying a 'high rate' reduction (e.g. 10% over three years) would collectively generate only around $30 million p.a. in savings once fully implemented.

35. We can provide further advice around whether to apply specific criteria to savings identified as part of a baseline reduction, including around the viability of these agencies if a reduction is applied.

36. Opportunities to achieve efficiencies in this group may include consolidating functions into larger entities [33]
reconsidering the 'role of Government' in certain areas, or implementing operating model changes (for example, refocused objectives). We note the Public Service Commission is currently considering small agencies' form and function, including options for consolidation of overhead functions to make efficiencies.

Ministry of Business, Innovation, and Employment

37. While targets and processes are set at the agency level, you may wish to approach MBIE differently due to its many portfolios that can make a joined-up process at the agency level difficult. You could:

   a direct MBIE Ministers to work together to meet a single agency target. We believe for this approach to be effective, you would need to, in your role as the Minister for Economic Growth, lead this process helping Ministers to identify savings and trade-off priority areas within each of their portfolios; or

   b set distinct reduction targets for individual portfolios, together making up the overall MBIE target. This would see savings in these areas overseen by the relevant Minister (which has been the de facto process previously).

Implementation and next steps

38. You have received advice (alongside this report) on the next stage of the Performance Plans, and a draft of the related Cabinet paper [T2025/1676 refers]. To ensure that agencies' plans for baseline reductions can be appropriately reflected in their Performance Plans, we recommend aligning the release of guidance on implementing baseline reductions with the next round of Performance Plan documents.

39. To enable baseline reductions to be implemented through Performance Plans, we recommend Cabinet agrees the full scope and parameters of the baseline reduction process at the same time as considering year two Plan improvements.

[1] Ministry for Pacific Peoples, Ministry for Women, Serious Fraud Office, Education Review Office, Public Service Commission, Charter School Agency, Executive Board for the Elimination of Family Violence and Sexual Violence, Ministry for Regulation, Ministry of Disabled People, Social Investment Agency.

40. We recommend including the full set of parameters in an Annex to the Cabinet paper, similar to how the Budget 2024 Initial Baseline Exercise was managed. We will provide further advice in the coming weeks to finalise these parameters of the baseline reduction (e.g. setting target rates for all agencies).

41. Based on feedback from the Chief Executives Reference Group, we consider engagement with affected agencies would be valuable for shaping and confirming the final parameters of the baseline reduction before finalising this with Cabinet. We are therefore seeking your agreement to begin broader public sector engagement.

42. Following your feedback from this report, we will provide you with further advice on the baseline reduction process, as well as its incorporation into Performance Plans. You can expect to receive:

    a advice on individual agencies and the quantum of savings that can be expected;

    b a draft annex to the Performance Plans Cabinet paper, which will seek Cabinet agreement to a baseline reduction; and

    c any further advice required following your feedback on this paper.

Recommended Actions

We recommend that you:

a **note** that this advice should be read in conjunction with Treasury's advice on Performance Plan commissioning, which sets out the broader agency planning framework

b **agree** to exclude ‘envelope’ agencies (Health, Education, Defence, Law and Order) from a baseline reduction, but require savings to be made to offset new spending

Agree / Disagree

c **agree** to exclude agencies with significant policy savings available (MSD, IR, MHUD) from a baseline reduction to focus their effort on policy savings

Agree / Disagree

d **agree** to a baseline reduction, applied as broadly as possible across eligible agencies, actioned through agency Performance Plans

Agree / Disagree

e **agree** to a multi-year approach for the baseline reduction phased over two to three years

Agree / Disagree

f **agree** to a target baseline reduction rate for eligible agencies of either 5% or 10%

5% / 10% (Treasury recommended)

g **agree** for Treasury to undertake targeted and limited consultation with agencies to refine eligible baseline calculations, including agency depreciation requirements

Agree / Disagree

h **agree** to either progress an all-of-MBIE baseline reduction in your role as Minister for Economic Growth, or to progress portfolio-by-portfolio baseline reductions

All-of-MBIE approach / Portfolio-level approach

i **note** that the Treasury will provide further advice in the coming weeks to finalise target rates and sequencing with the Performance Plan timeline.

Tom Brooke
Principal Advisor/Head of Savings Policy

Hon Nicola Willis
Minister of Finance

_____/_____/_______

Annex One: Breakdown of total approximate spending of 187 billion p.a. over the forecast period

Note exclusions are made in the descending order of the table – for example capital expenses relating to Health and Education would be captured through the removal of capital expenditure in the first section.

Category (total spend, $ billions)	Detail of category
Non-discretionary expenses and capital (55.2)	Includes, for example: • Permanent Legislative Authorities (PLAs): $28.8b (eg, debt servicing - $10.2b; KiwiSaver pass-through – $12.5b) • Capital Expenditure: $14.6b • Other Expenses: $9.5b (NZ ETS Units 2.4b; Inland Revenue impairment of debt and write offs – $1.4b, MFAT International Development operation $1.0b; RDTI $0.8b; Fair Value Write-Downs on Student Loans – $0.6b) • Revenue-related Appropriations: $1.9b. This spending has commonly been excluded in previous savings exercises, including Budget 2024 Initial Baseline Exercise and Budget 2025 Baseline Savings Programme.
Frontline services & other exclusions (e.g., levy-funded) (70.7)	Includes, for example: • Health – $29.4b • Education – $21.6b • NZDF – $4.1b • NZ Police – $2.9b • ACC – $2.9b • Offices of Parliament & Parliamentary agencies (Parliamentary Service – $252m, Auditor General – $24m, Office of the Ombudsman – $54m)
Benefits or Related Expenses (BOREs) (47.9)	Includes, for example: • NZ Superannuation - $26.8b • Jobseeker Benefit - $4.6b • Supported Living Payment - $2.9b • Family Tax Credit $2.5b • Sole Parent Support - $2.3b
Eligible spending base (remaining spending broken down by agency below) (13.0)	

Eligible base broken down by agency:

Agency	Eligible base ($m)
Ministry of Housing and Urban Development	2,725.8
Ministry of Business, Innovation and Employment	2,337.5
Ministry of Social Development	1,949.5
Inland Revenue Department	779.1
Department of Conservation	639.9
Ministry for Primary Industries	633.3
Ministry of Foreign Affairs and Trade	580.0
Ministry of Māori Development - Te Puni Kōkiri	478.7
Ministry for Culture and Heritage	450.4
Ministry of Transport	353.8
Department of Internal Affairs	347.1
Government Communications Security Bureau	236.3
Statistics New Zealand	217.6
Ministry for the Environment	207.3
Land Information New Zealand	145.6
The Treasury	119.6
New Zealand Security Intelligence Service	104.9
Crown Law Office	102.7
Department of the Prime Minister and Cabinet	94.0
New Zealand Customs Service	89.3
Education Review Office	48.9
Charter School Agency	41.6
Social Investment Agency	40.7
Ministry for Pacific Peoples	39.9
Public Service Commission	38.9
Ministry of Defence	26.5
Ministry for Regulation	20.4
Executive Board for the Elimination of Family Violence and Sexual Violence	20.2
Ministry of Disabled People	18.7
Serious Fraud Office	16.9
Ministry for Women	12.2
Total eligible base	**12,917.3**
Total eligible base (excluding MHUD, MSD and IRD)	**7,462.9**