The Treasury

Budget 2026 Information Release

September 2026

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

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

[2] 6(b)(i) - to avoid prejudice the entrusting of information to the Government of New Zealand on a basis of confidence by the Government of any other country or any agency of such a Government

[4] 6(c) - to avoid prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Budget 2026 Strategy and Design

Date:	15 August 2025	**Report No:**	T2025/1902
		File Number:	BM-2-1-2027-M123111

Action sought

	Action sought	Deadline
Hon Nicola Willis **Minister of Finance**	Agree to the Budget 2026 strategy and design set out in this report	19 August 2025

Contact for telephone discussion (if required)

Name	Position		Telephone	1st Contact
Kevin Cho	Senior Analyst, Budget	[39]	N/A (mob)	✓
Emily Fulford	Team Leader, Budget		N/A (mob)	
Ben Gaukrodger	Manager, Macroeconomic and Fiscal Policy		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: Yes

Treasury Report: Budget 2026 Strategy and Design

Executive summary

Your fiscal strategy remains appropriate but will require ongoing fiscal restraint

While the conditions remain in place for a broad-based recovery, it is too early to say whether economic developments since the Budget will have a material impact on upcoming forecasts.

However the economy develops, implementing your fiscal strategy will continue to require constraint over multiple Budgets. Depending on how effectively the Government can constrain new expenditure, delivering a surplus in 2027/28 may require finding between $5-10 billion of savings over the next two Budgets (based on current forecasts), as well as sequencing capital investments.

You have work underway, including across medium-term expenditure levers, revenue, and the balance sheet, to generate options over multiple Budgets. Constraining new expenditure remains essential too, as it reduces the level of savings required to achieve your fiscal strategy, and so allows you to sequence significant policy decisions over multiple Budgets. While the gross spending on new initiatives has fallen over the last two budgets, it remains above levels before 2018, suggesting room for further restraint.

Given the near-term uncertainty, we recommend you retain your fiscal strategy and build in sufficient flexibility to your Budget strategy and invitations so that the Government has options for a range of circumstances in the next two Budgets. This includes considering commissioning further savings options than may be required, setting stronger expectations that Ministers look first to reprioritisation for spending commitments, and setting a range of envelope scenarios in priority areas.

There are significant pressures on the operating and capital allowances

Initial analysis estimates there are operating pressures of around [1] and [33] operating per annum at Budget 2026, which does not include any centrepiece initiatives that the Government may want to fund. We would expect a similar amount of pressure on next year's allowance.

The pressure on your capital allowance is even more substantial, with the draft Quarterly Investment Report for June 2025 signalling capital funding requests are likely to exceed $10 billion with $1.8 billion remaining in the capital allowance. While only around $3.2 billion of those requests are likely to be "investment ready" a significant proportion of those that are not include priority areas including health, education, and transport.

We recommend you take a broadly similar approach to Budget 2026 as Budget 2025

A broadly similar approach to Budget 2025 should give you the flexibility in options to deliver Budget 2026 within allowances under a range of circumstances. This includes a top-down invitation process, use of envelopes, and managing within baselines for most agencies. There are some areas that will need adapting, including how you want to treat KiwiSaver employer contribution costs, and how you want to approach prioritising within a heavily oversubscribed capital allowance (including whether you want to set capital envelopes to implement some realistic top-down constraint).

We will advise you on Budget invitations in September. Given the need for expenditure constraint, our first-best advice will be to set tight envelopes for expenditure in priority areas informed first by fiscal constraints (rather than by agencies' assessment of cost pressures or by portfolio Ministers' priorities), and a high bar for invitations outside of coalition commitments.

You have active savings workstreams in welfare reform, the tax policy work programme and baseline savings to realise savings for Budget 2026. Realising around [1] and [33] of savings from those areas will be possible but require difficult policy choices, particularly in welfare reform. If you wanted more flexibility in Budget 2026, you could commission additional savings workstreams (including bringing forward work currently on a Budget 2027 timeframe).

Treasury Report: Budget 2026 Strategy and Design

Purpose of Report

1. This report provides you with our advice on the Budget 2026 strategy and design and includes the draft Budget 2026 strategy Cabinet paper for your initial feedback.

Fiscal Strategy – Budget 2026 and beyond

2. On 28 July, Budget Ministers affirmed the Government's fiscal strategy goals, including returning OBEGALx to surplus by 2027/28 and putting net core Crown debt on a downward trajectory towards 40% of GDP. At the Budget 2025 Update, OBEGALx was forecast to be in a $3.1 billion deficit in 2027/28 and a $0.2 billion surplus in 2028/29.

3. Prior to Budget 2025, we advised (T2025/684 refers) maintaining your fiscal strategy goals despite discrepancies between the forecasts and those objectives. This is because fiscal consolidation remains essential to rebuild buffers and maintain credibility, while forecast uncertainty and future fiscal decisions mean that the targets are still achievable.

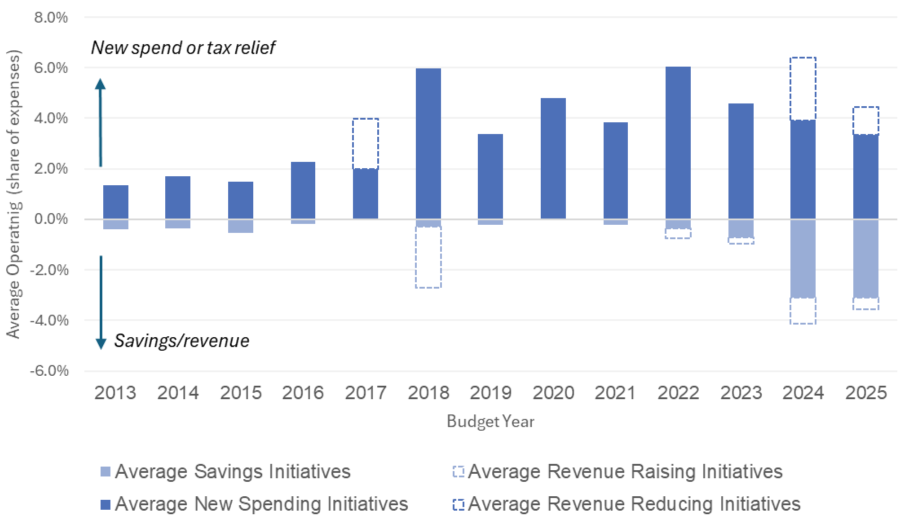
4. Since the Budget, real economic activity looks a bit weaker than we forecast. March quarter GDP has come in stronger than expected but more recent monthly data point to a flatter economy. However, nominal GDP has held up due to higher-than-expected inflation and it is too early to say whether recent economic developments will change the economic or fiscal outlook. Given the 2028/29 OBEGALx surplus is around $200 million, a small deterioration in the economic and fiscal outlook could result in this becoming a deficit.

5. More generally, conditions remain in place for a broader-based sustained recovery in the second half of 2025, on the back of improved business and consumer confidence, high export prices, and lower interest rates. If economic conditions do turn out worse than expected, there is still space for monetary policy to adjust and for further reductions in interest rates to cushion the impact, depending on the outlook for inflation.

Achieving this fiscal strategy will require fiscal restraint over multiple Budgets

6. The last two Budgets have reduced the amount of new spending initiatives and delivered more savings than in Budgets over the previous decade (see Figure 1). While gross spending on new initiatives has fallen, it remains above levels before 2018 – some of this may reflect higher cost pressures but does suggest there is room for continued restraint.

Figure 1: Budget initiatives (exc. CRRF) as a share of core Crown expenses from 2013-2025



7. We estimate that around $5 – 10 billion of savings and reprioritisation will be required over the next two Budgets to fund critical cost pressures and existing coalition commitments, and close the deficit in 2027/28. This rough estimate is based on current forecasts and would be higher if the Government had large centrepiece policies to deliver, or forecasts deteriorate. The range reflects that fewer savings would be required if the downward trend in new expenditure continued or accelerated, or that not all cost pressures may require funding.

8. Implementing your fiscal strategy will therefore mean - over multiple Budgets - continuing to identify new savings, constrain new spending further, and sequence and alternatively finance investment decisions. Table 1 outlines the work underway to implement these levers, including work you have already commissioned.

Table 1 – current programme of work over multiple Budgets to deliver fiscal consolidation

Lever	Budget 2026	Budget 2027 and beyond
Constraining new spending to continue to reduce new funding required at Budgets	Performance Plans will continue to be a key tool for agencies to manage within baselines and reduce calls for new funding. Spending in priority areas can also be constrained over time through use of envelopes.	
Identifying savings to enable funding of government priorities within allowances and/or provide fiscal headroom	You have processes underway to identify savings options through: • a baseline reduction, • welfare reform, and • revenue.	• Implementing the second and third years of a baseline reduction • Areas agreed to focus on as part of the Expenditure strategy [33] • Expenditure reviews • Resetting the revenue strategy and tax policy work programme
Sequencing investment decisions to ensure a sustainable investment pipeline	We are working with you and Hon Bishop to improve quarterly investment reporting to Cabinet to support the Minister's ability to prioritise investments in planning on an ongoing basis. You will be able to set priorities through Budget invitations.	
Balance sheet options to free up some funding and capacity	You are considering one option this Budget for asset recycling.	Over the medium to long term, you will have further opportunities to optimise the Government's balance sheet.

9. Absent significant improvements in the fiscal forecasts, meeting your fiscal strategy objective to return to surplus in 2027/28 will require delivering Budgets 2026 and 2027 below the current allowances (although you would have choices on sequencing). Therefore, we recommend you retain some flexibility in the levers above during the next few Budgets (both in the strategy setting and decision-making) so that the Government has options between its policy, fiscal and economic goals. This includes commissioning more savings than required to provide options and ensuring that the delivery of savings is on a timeframe that will help meet your fiscal strategy.

10. It is unclear whether intended initiatives from Ministers for capital investment are consistent with your fiscal strategy, particularly on net core Crown debt. There are significant capital investment ambitions across Government (set out in the next section), and while balance sheet measures may help in the medium term, the near-term options are limited.

11. [34]

12. Once we have the HYEFU fiscal forecasts, we will have more information to inform any further changes for Budgets 2026 or 2027. We will provide further advice on this later this year and as part of the draft Budget 2026 package in the New Year.

Implementing your fiscal and economic strategies at Budget 2026

13. Budget 2026 represents the last opportunity to deliver outstanding coalition commitments for the Parliamentary term, and both Budget allowances are constrained due to existing pre-commitments.

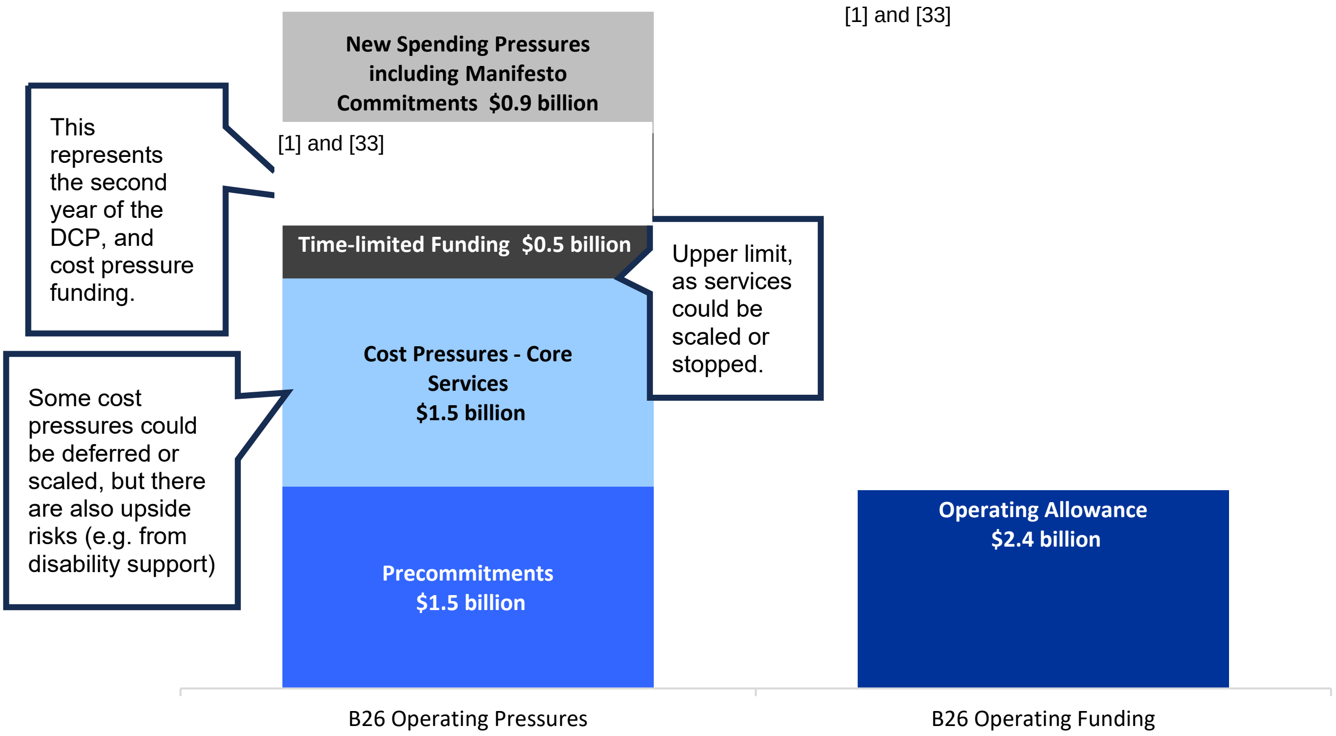
Table 2: Budget 2026 allowances position

B26 Allowance	Amount remaining	Pre-commitments
Operating	$0.9 billion per annum	• Health pre-commitment ($1.4 billion) • Defence Capability Plan ($102 million)
Capital	$1.8 billion total	• Defence Capability Plan ($1.6 billion) • Waikato Medical School ($81 million)

14. Our initial analysis indicates that there is approximately [1] and [33] of operating per annum of spending pressures for Budget 2026 (see Figure 2 below). That analysis is based on a "high" assessment of those pressures – some may come in below, but there are also upside risks (e.g. spending pressures we are not yet aware of). Funding all pressures could require around [1] and [33] operating per annum of savings and/or reprioritisation. Further savings would be required on top of this if you wanted to make progress towards meeting a surplus in 2027/28.

15. We anticipate that the spending pressures in Budget 2027 will be roughly similar, particularly as the Government will need to consider the next round of funding for health cost pressures and will have new commitments to fund. Given the level of funding remaining in the Budget 2026 capital allowance, there will also be a number of capital investments that need to be considered in Budget 2027 or future Budgets instead.

Figure 2: Stack graph on indicative gross spending and savings for Budget 2026



16. The operating pressures in Figure 2 do not account for the following and therefore, may mean additional offsetting savings are required:

    a. any centrepiece initiatives (such as an Investment Boost type proposal) that the Government may want to fund in Budget 2026, and

    b. further downside risks, such as implementation of existing savings, managing cost escalations and potential outcomes of the Wākatu litigation. We will keep you updated on any significant risks we think could alter your Budget 2026 strategy and could require intervention.

17. [25] The draft Quarterly Investment Report for June 2025 signalled that agencies are planning on capital funding requests of over $10 billion. This figure represents agencies' and portfolio Ministers' intentions, rather than assessment by us or by Ministers of whether investments are a priority, should proceed, or should be deferred to a later Budget.

18. While only around $3.2 billion of investments identified in the draft June Quarterly Investment Report are "investment ready", this does not include some projects likely to be Government priorities in education, health, transport, and defence. [37]

The next section of the report sets out options for how you could approach managing the capital package.

Implementing your economic strategy at Budget 2026

19. An 'economic growth package' formed the centrepiece of Budget 2025. A key choice for the upcoming Budget is whether you want to maintain a similar level of focus on economic growth as a centrepiece Budget priority.

20. We recommend that you continue to focus on addressing the long-standing causes of New Zealand's weak economic performance, including structural issues such as competition and capital intensity. We also see a case for focusing on areas such as energy supply and cost to lift our international competitiveness, and economic resilience considering growing geopolitical and climate-related risks.

21. In the July Budget Ministers meeting, you asked your colleagues to report back to you with ideas for fiscal and non-fiscal growth-related initiatives. Given the fiscal constraints, you may also want to consider running an invitation-only process for any fiscal initiatives focused on a small number of targeted initiatives.

22. Looking across the current set of emerging policy options for Budget 2026, potential changes to welfare settings that focus on improving work incentives could have a positive impact on economic performance (excepting any short term impacts on consumption). You could also pursue additional tax measures (e.g., increasing the rate of Investment Boost), if this can be achieved within your fiscal strategy.

23. In your capacity as Minister for Economic Growth you could also ask MBIE to run a process for surfacing potential non-fiscal measures that could be progressed in the remainder of the current term (and potentially announced alongside Budget 2026) through the Going for Growth architecture.

In general, we recommend you take a broadly similar approach to the strategy and design of Budget 2026 as Budget 2025

24. The remaining sections of this report focus on how we recommend you approach constraining new expenditure and delivering savings at Budget 2026.

Budget 2026 strategy – constraining new spending

25. To constrain new spending, the table below outlines the elements of the Budget 2025 strategy that we recommend you retain or change. We consider a similar approach would need to be taken in future Budgets too.

Retain from Budget 2025 Strategy	Change or new issue for decision
• Top-down invitation process • New spending invites limited to outstanding coalition commitments, time-limited funding and centrepiece policies • Most agencies to manage cost pressures within baselines • Envelopes for priority areas for critical cost pressures and commitments	• Which Priority areas to provide an envelope to • Treatment of KiwiSaver employer costs for agencies • Approach to constraining and prioritising capital investments

We recommend you continue the use of envelopes in priority areas

26. Envelopes in Budget 2025 were effective in providing top-down constraint, giving portfolio Ministers flexibility to prioritise and trade-off initiatives, and incentivising agencies to develop reprioritisation options. We recommend that you continue this approach, including requesting options to meet low, medium and high envelope sizes.

27. We recommend envelopes in priority areas for the Government, where we expect:

    a. there is likely to be a reasonable number of spending initiatives;

    b. initiatives are not discrete and can be traded-off against one another – and you want portfolio Ministers to take ownership of these decisions; and

    c. there is likely to be credible reprioritisation options available.

28. We recommend the following for the below priority areas:

    a. **Education (Hon Stanford), Law and Order and Defence** – continue the envelope approach as it worked well last year to identify reprioritisation options and to make enforced prioritisation decisions in the portfolios.

    b. **Health** – set an envelope for Health focused on outstanding coalition commitments and KiwiSaver costs. We expect reprioritisation options to be more limited in health but an envelope will encourage prioritisation decisions.

    c. **Education (Hon Seymour) and Tertiary Education** – no envelope for these areas as there are likely to be a small number of specific and discrete initiatives. We suggest instead that these are invited as standalone initiatives instead.

29. From our understanding, there are no outstanding **Foreign Affairs** initiatives that require funding, and given there are credible reprioritisation options within the vote we have not recommended an envelope. However, if you do want to issue an invite:

    a. you could invite a small number of specific and discrete initiatives, or

    b. an envelope if you wish to place an upfront fiscal constraint, either standalone, or a sectoral envelope covering both Defence and Foreign Affairs.

30. We will provide you with recommendations on the quantum for envelopes and specific initiatives through our invitation advice in early September. Given the need to constrain new expenditure, we intend to recommend reasonably tight envelopes based on fiscal constraint and prioritising cost pressures and existing commitments.

Managing capital investments

31. In Budget 2025, capital invitations were for investment ready proposals only, focused on (but not excluded to) Government priority areas with trade-offs to fund these decided in the usual way during the decision-making phase. The Government ultimately funded $6.8 billion of investments through a higher capital allowance and one-off savings, excluding Budget 2026 pre-commitments.

32. That approach is likely to be less effective this year. The scale of projects that could seek funding this year is much greater, and there are no additional balance sheet options (or one-off savings like pay equity) that could unlock significant headroom.

33. Given this we expect that a stronger upfront process will be needed to set priorities and your overall approach to capital. This will allow you to set realistic invites and expectations with Ministers upfront, and have more targeted trade-off discussions during the decision-making phase. There are two broad sets of options:

    a. further limiting invitations, even in priority areas, and deferring remaining investment decisions to future years; and/or

    b. reallocating funding allocated to existing projects in planning or early delivery (though options would be limited without broader impacts on sector confidence).

34. Implementing these options could involve setting top-down capital envelopes this year in addition to the operating envelopes discussed above. You could consider resetting your capital allowances, but this would require a trade-off with your fiscal targets, given that net debt only falls slightly to 45.5% of GDP in 2028/29. We recommend you look first to options to prioritise and sequence, and avoid increasing the capital allowance unless you have confidence that the investments it would fund are deliverable and aligned to your priorities (particularly economic growth).

35. We recommend that you meet with the Minister for Infrastructure and the Treasury to discuss the above ahead of issuing Budget invitations, which could include a role for long-term infrastructure plans and sequencing their implementation.

Management of KiwiSaver employer contribution costs

36. Agencies will incur additional costs for Crown employees as a result of the Budget 2025 decision to increase employer contribution rates by 0.5% in April 2026. IR and PSC initially estimated the impact of the 0.5% increase at around $100 - $120 million per annum for directly employed staff, although there are risks to this figure. We do not currently have agency-by-agency estimates of costs. We had originally intended to gather this information through Performance Plans [T2025/1521 refers]. However, Performance Plans will be completed after Budget invitations are issued.

37. Given the need to constrain and focus new spending on priority areas, we recommend that you treat these costs consistently with other cost pressures (which is the approach taken the last time contribution rates were increased in 2013), and:

    a. expect most agencies to fund them within baselines – while they are significant costs, they are small relative to overall wage growth and inflation; and

    b. where you are setting envelopes (e.g. in education, health, or law & order), allow agencies to seek funding for the costs within the envelopes.

38. If you agree with the above approach, then we would informally seek this information from priority areas only to inform envelope setting. If you want a fuller picture of the impacts on all agencies before making a decision on approach, we would collect the information and provide you with advice alongside Budget invitation advice. However, doing so would raise expectations of funding outside of priority areas.

39. The table below outlines the elements of the Budget 2025 strategy that we recommend you retain or change.

Retain from Budget 2025 Strategy	Change or new issue for decision
• Agencies expected to fund new initiatives via at least partial reprioritisation • Review tagged contingencies	• Savings workstreams for Budget 2026 and whether they are sufficient • Approach to baseline savings • Balance sheet strategy

Current Budget 2026 savings workstreams

40. There are currently three workstreams underway to find savings in Budget 2026: welfare reform, baseline savings, and the tax policy programme. The scenario below presents an indicative mix of savings that would reach [1] and [33] (the gap between pressures and the allowance), based on our current understanding of your relative priorities and where work has been commissioned.

Figure 3: Indicative scenario for a broad savings package of [1] and [33]

[33]

Assumes around 20-25% of new funding is met via reprioritisation (excluding defence). Meeting this would require clear expectations and considering not funding bids if they do not provide options.

Requires a baseline reduction of 3% per annum. Final amount could increase depending on scope. Giving departments more flexibility to phase reductions could reduce the per annum allowance impact.

Could be achieved through a combination of:
- Integrity options – Shareholder loans (from $3.75m for shareholder liquidation option)
- Bank measures, including an Australian-style bank tax [33] and [34]
- Charity measures, including reducing expenditure on donation tax concessions ($32.5m p.a.) and charity business income tax exemption ($28m p.a.)

Larger amount is possible, e.g. full deemed dividend option for shareholder loans ($338m p.a.)

[33]

Further options to explore are outlined below in paragraph 46.

Reaching this level of savings through welfare reform alone would require several choices, e.g.:
- [33]
-
- Making significant savings from housing supports.

41. This is an indicative scenario only: you may need less savings (if you constrain spending more), or more savings (if you want a fiscally significant centrepiece). You could also drive higher levels of reprioritisation to reduce the pressure on other workstreams [33]

42. You have the following choices as part of commissioning savings:

    a. **Change the composition of the** [1] and [33] – by pushing for a higher or lower share of the savings in different areas, and/or

    b. **Commission additional savings workstreams, either to exceed** [1] and [33] **or reduce savings from other areas.**

43. You have had recent engagement with Hon Upston and Hon Watts on the welfare and revenue workstreams. We recommend that in upcoming engagements (including Budget invitation letters) you set clear expectations with portfolio Ministers and with their agencies on the level of savings or revenue you may expect or require from them, so that there is sufficient lead-in time for work to progress.

44. If you want to increase the scale of savings ambition or find other options from which savings can be found, then your options include:

    a. increasing the ambition of savings from existing workstreams;

    b. inviting previously deferred options (e.g. R&D Tax Incentive, [33]

    c. broader revenue-generating options beyond the tax work programme (e.g., [33]

    d. bringing forward other elements of the expenditure strategy [33] although this would limit the scope of more fundamental reforms you could consider over time.

45. In addition to these larger savings areas, we are reviewing our broader set of savings ideas to identify whether there are any that you should invite as part of Budget 2026. We will include any conclusions in the Budget 2026 invitations advice.

46. Alongside these savings streams, we are undertaking work on several balance sheet initiatives. Some of these initiatives may release capital for Budget 2026. You will receive regular updates on how these initiatives are progressing through to the end of 2025 – the first update will be provided before the end of August.

Approach to baseline savings

47. As we discussed the Weekly Agency Meeting on 17 July, Treasury and PSC have been engaging with agency CEs to identify thematic areas of savings, operating model savings, and efficiencies across the system that can support baseline reductions.

48. We have completed phase one of that engagement. While that engagement has not identified any significant savings (particularly in the near term) that would increase our assessment of the feasibility or trade-offs associated with a baseline reduction, there have been useful insights:

    a. <u>*System changes that could help agencies operate more efficiently*</u>: including centralising common back office functions such as finance/HR, consolidation of aligned functions (e.g. regulatory functions in transport, public-facing services), integration of data across government, consolidation of Crown entities, and current barriers to digital solutions (e.g. Privacy legislation).

b. *Agencies are already investing in changes to how they deliver services*: this includes, for example, digitisation efforts that reduce the labour hours associated with record keeping. Currently, the benefits of these changes automatically re-invest in the system, while a small baseline reduction could return more to the centre.

c. *Preparation for a small baseline reduction over time*: many agencies generally expect some form of savings or reduction to their baseline, and have started preparing. Some, but not all agencies, have indicated that a small reduction of around 3% over multiple years would be achievable within current policy settings.

d. *Thematic areas within individual agencies*: most agencies could identify some broad savings areas, including benefit realisation from current digitisation and efficiency efforts, invest to save ideas, and returning some revenue from charging regimes.

49. We are combining feedback we have received with Treasury's own work on savings areas, as well as with further planned engagements with agencies. We intend to provide you with this advice later in August which will cover:

    a. if setting a baseline reduction, the appropriate target levels for agencies, where our current assessment is that we would continue to recommend a broadly consistent target across agencies with the identified thematic areas; and

    b. the conclusions from the broader system settings work with PSC.

50. Based on that advice, you could choose either to set specific baseline reduction targets in the Budget strategy cabinet paper (if you want broader cabinet buy-in for those targets), or to get Cabinet agreement to the broad parameters to be invited in your Budget invitation letters.

Next Steps and Budget 2026 Cabinet Paper

51. We suggest that you present your Budget 2026 strategy to Budget Ministers at the September meeting. We will provide you with the draft slides next week.

52. We have attached a draft Budget 2026 strategy Cabinet paper for your feedback. The draft Cabinet paper provides an update for and seeks decisions from Cabinet on Performance Plans as per your direction on 17 July in response to T2025/1753. We are also particularly seeking your direction on whether you want to incorporate:

    a. any additional Budget priorities that you want to signal to Cabinet colleagues; and

    b. further detail on a baseline reduction, or to set targets in invitation letters.

53. We propose that you take the Budget 2026 strategy to Cabinet on 15 September.

54. We will provide with an updated version of the cabinet paper in late August/early September.

Recommended actions

We recommend that you:

a **note** the delivery of your fiscal strategy will require ongoing restraint and reprioritisation over multiple Budgets;

b **discuss** your priorities for Budget 2026 with officials on Tuesday 19 August;

c **agree** to the approach for new spending and investments for Budget 2026;

Agree / Disagree

d **agree** to an envelope approach for the following priority areas:

Provide an envelope at Budget 2026	
Education (Minister Stanford)	*Agree / Disagree*
Defence	*Agree / Disagree*
Law and Order	*Agree / Disagree*
Health – New Spending only	*Agree / Disagree*
Do not provide an envelope at Budget 2026	
Foreign Affairs	*Agree / Disagree*
Education (Minister Seymour)	*Agree / Disagree*
Tertiary Education	*Agree / Disagree*

e **indicate** if there are any centrepiece proposals that you are considering for an invitation at Budget 2026 (e.g. economic growth or cost of living measures);

f **agree** to meet with the Minister for Infrastructure and the Treasury to discuss the approach to capital for Budget 2026 ahead of setting Budget invitations;

Agree / Disagree

g **agree** to manage costs to the Crown as a result of changes to employer contributions for KiwiSaver consistently with other cost pressures (i.e. envelope agencies can seek funding and remaining agencies manage within baselines);

Agree / Disagree

h **indicate** potential additional areas to identify savings from for Budget 2026;

- Previously deferred options *Yes / No*
- Bring forward specific elements of the expenditure strategy *Yes / No*
- Broader revenue-generating options *Yes / No*

i **agree** for baseline savings, either:

- Set specific baseline reduction targets in the Budget strategy Cabinet paper; or — *Agree / Disagree*
- Seek Cabinet's agreement to the broad parameters to be invited in Budget invitation letters. — *Agree / Disagree*

j **provide** feedback on the draft Budget 2026 strategy Cabinet paper.

Emily Fulford	Ben Gaukrodger
Team Leader, Budget	**Manager, Macroeconomic and Fiscal Policy**

Hon Nicola Willis
Minister of Finance

_____/_____/_______