The Treasury

Budget 2026 Information Release

September 2026

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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

[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

Reference: T2025/2289 SH-3-6-12-M125706

Date: 4 September 2025

To: Minister of Finance (Hon Nicola Willis)

Deadline: 8 September 2025

Meeting with Minister Upston on welfare reform

You are scheduled to meet with the Minister for Social Development and Employment, Hon Louise Upston, at 7pm on Monday 8 September, on welfare reform. Officials from the Ministry of Social Development (MSD) have prepared material to support discussion at this meeting, which Minister Upston's office is forwarding to your office. This aide memoire provides you with our views on this material.

Background – Budget 2026 savings

We have recently provided you with advice on Budget 2026 strategy, including the potential size of savings that may need to be found to manage within the remaining Budget 2026 operating allowance [T2025/1902 refers]. Welfare reform is one of the key areas where work is underway to identify savings options for Budget 2026. We expect to provide you with a report on commissioning advice on further savings options in other areas in the week of 8 September.

Officials have developed a range of broad welfare reform options

You met with Minister Upston on 23 July for an initial discussion on welfare reform. At that meeting you set the key objective for the work programme as maximising incentives to get people into work, and to do so within current fiscal constraints. Following that meeting, we have been working with officials from MSD to develop broad welfare reform options for discussion at the 8 September Ministers' meeting. We have engaged with officials from Inland Revenue on some of these options, where relevant. Following feedback from Ministers on 8 September, we will develop more detailed options, and packages of options, for Ministers to consider.

The material that MSD has provided for the meeting sets out a broad range of options that Ministers could consider for a welfare reform package for Budget 2026 and beyond. To be clear, at this point options have not been costed in detail (the material largely draws from costings undertaken previously), and we have not undertaken distributional analysis. Nevertheless, the material provides Ministers with a high-level sense of options, costs and impacts that can be further developed as this work progresses.

There are several welfare reform options identified [33]

These all involve either reducing rates of payments (e.g. by not proceeding with scheduled increases in payments, or by reducing rates in nominal terms), or restricting eligibility for payments. Given the nature of welfare reform, we would expect these [33] to have impacts on income adequacy and/or child poverty, with possible flow-ons to other areas of government spending.

MSD has also identified some "invest-to-save" options that would support people to move off benefit and into work, such as more case management and programme delivery for recipients of Sole Parent Support [33]

These options are worth considering, but they would deliver savings later in the forecast period rather than immediately, given sequencing with other work underway (such as delivery of the Budget 2025 invest-to-save initiative targeting young Jobseeker Support recipients, [33]

and the current weakness in the labour market.

[33] would involve difficult policy choices

If Ministers want to develop a welfare reform package [33]

this would likely need to include some combination of the following [33]

[33]	**Rough savings estimate to give a sense of scale**
[33]	

There is also a wide range of smaller savings options that you may want to consider, which are outlined in MSD's material. [33]

[33]

Only some savings options would improve work incentives

Some of the savings options outlined above would improve work incentives by increasing the financial gap between welfare and work, [33]

Other options would just generate savings, [33]

If Ministers want a welfare reform package to have a stronger focus on improving work incentives, you could also consider including options that involve spending more money. [33]

However, progressing these spending options would reduce the net savings achieved by a welfare reform package, unless you undertook additional offsetting savings.

Finally, while you can take steps to improve work incentives, the speed and extent to which this will translate into reductions in the number of people on working-age benefits will of course depend on a range of factors, including conditions in the labour market.

Other areas of government policy with an impact on the welfare system

As mentioned in our earlier advice [T2025/1782 refers], there are wider government policy settings that have an impact on welfare system outcomes. As Ministers are considering changes in these areas, the potential impacts or alignment with welfare reform options can be taken into account, and vice versa.

- The **review of social housing** is focused on reforming the social housing system to better match support levels with need type and duration. This includes consideration of how, and to whom, the government provides physical social housing, assistance with housing costs, and other supports. Through this review there will be options to generate short-term savings including for Budget 2026, and to shift to a less costly system over time. However, this will involve trade-offs with building a fit-for-purpose subsidy system and optimising the use of social housing stock. It may also make sense to sequence changes through time.

  The social housing and welfare systems are closely related, and changes to one will impact the other (e.g. narrowing social housing eligibility may increase Accommodation Supplement uptake). In our view, savings proposals from welfare reform and the review of social housing should be considered together by relevant Ministers to understand their overall impact and alignment.

- **Minimum wage settings** have an impact on the financial gap between welfare and work. Ministers will consider advice on a minimum wage increase for 2026 later this year. Given that main benefits are indexed to CPI, minimum wage increases below this level reduce the gap between welfare and work.
- The **early childhood education funding review** is about ensuring the funding system is simple, fair, and gets value for money. A Ministerial Advisory Group is due to report on its findings by mid-2026, with recommendations to be at least fiscally neutral for the Crown. Childcare is an important component of supporting parents and caregivers to be in work, education or training, though costs can be a barrier.
- **Education and training policies** can have an impact on the welfare system, particularly on Jobseeker numbers. Access to vocational training and other training programmes can support people in the welfare system to improve employment outcomes and lifetime earnings. There are variable tuition subsidy and student support costs associated with Jobseekers going into study, and variable post-study outcomes.
- **Immigration settings** that make it easier for low-skilled workers to enter New Zealand can have a displacement effect on Jobseekers.

Topics for discussion at the meeting

Officials have prepared an annotated agenda for the meeting. To take this work forward, from our perspective the key things that we would like Ministers to discuss are:

- the **size of fiscal savings you would like to achieve** from welfare reform in Budget 2026: [33]
- your preferences for the **balance of the package**: e.g. purely savings initiatives, [33] to enable spending on options to improve work incentives
- whether there are **options that you would like to rule out, or have actively developed further**, at this point, and
- how you would like to **bring other Ministers and officials into the next phase of advice**, given other reviews and streams of advice already underway.

Alex Harrington, Principal Advisor, Welfare and Oranga Tamariki, [39]
Shelley Robertson, Manager, Welfare and Oranga Tamariki, [39]