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

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

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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

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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

Treasury Report: Capital Investment and Fiscal Strategy

Date:	5 September 2025	**Report No:**	T2025/2313
		File Number:	MC-1-5-2-2026-M125814

Action sought

	Action sought	Deadline
Hon Nicola Willis **Minister of Finance** Hon Chris Bishop **Minister for Infrastructure**	**Agree** the approach to capital invitations for Budget 2026. **Direct** officials to do further work on sequencing capital investments for Budgets 2027-29. **Discuss** this report with officials.	10 September 2025

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Amy Spittal	Analyst, Macroeconomic and Fiscal Policy	[39]	[35]	✓
Ben Gaukrodger	Manager, Macroeconomic and Fiscal Policy			
Stephen Bond	Manager, Budget Management			

Minister's Office actions (if required)

Return the signed report to Treasury.

Refer to the Minister for Infrastructure.

Note any feedback on the quality of the report	

Enclosure: No

Executive summary

At a meeting with Treasury officials on 19 August to discuss Budget 2026 strategy, the Minister of Finance asked officials for their views on the capital investment pipeline and implications for the fiscal and Budget strategy. This report responds to that request.

Our advice to date has focussed on the forthcoming Budget. We expect agencies to seek around $10-11 billion of capital at Budget 2026. Of this, the Quarterly Investment Report (QIR) indicates that $3.2 billion is expected to be investment ready, although many of those that are not have a good prospect of being good value for money and/or aligned to your priorities.

A more strategic approach to capital investment and fiscal strategy would involve you making decisions over time based on the investments that are highest value, rather than simply what is ready at any given Budget. That approach requires the system to collect the right information to inform decisions and for agencies to be planning a pipeline of well-aligned and high-quality initiatives that are investment ready when funding decisions are required.

While the work on improving the investment management system is incomplete, improvements in the information and pipeline of investments provides you with the opportunity to take a more medium-term approach over the next few Budgets.

A rapid assessment of that improved information suggests a significant pipeline of potentially high-quality (but not necessarily productivity-enhancing) investments

We have run a quick exercise to bring together different data sources to give a fuller picture of the forthcoming investment pipeline. This has indicated around $35 billion of intended investments over the next four Budgets, plus pressures of [33] on the National Land Transport Fund (NLTF), including the Roads of National Significance (RoNS). You have received initial advice on the RoNS programme and further advice is to come on the portfolio pressures (not all of which will require Budget funding) and the value of the investments.

Outside of transport, the infrastructure pipeline does not generally include investments that will have a significant impact on long-run productivity and growth; the investments are more focused on generating a social return (e.g., schools and hospitals). The transport sector has the highest growth prospects, but this depends on the quality of the projects. Many of the other growth-aligned infrastructure sectors are not part of the core Crown (such as energy).

Although not growth aligned, our initial assessment is that the majority of planned investments are in priority areas and have a reasonable prospect of proving value for money on their own merits. That reflects that agencies have improved their planning for investments, focussing on high priority and areas of genuine infrastructure need.

The scale of the pipeline likely represents a genuine increase in available investment in valuable projects, provided that the agency, market, and investment management system is able to deliver. However, funding a higher level of capital investment would require action across the balance sheet and may require trade-offs with your fiscal objectives.

We recommend an expanded list of Budget 2026 invitations in the first instance

You will receive detailed Budget 2026 capital invitations advice on 18 September. We recommend you prioritise inviting initiatives based on their likely value-for-money and priority, with a strong expectation that Ministers prioritise getting them investment ready. We recommend the use of envelopes for Budget 2026 capital to manage a broader group of invites and incentivise trade-offs in areas with high demands for capital (such as Health).

It is likely that based on the level of invitations we expect, capital allocations at Budget 2026 would exceed the current capital allowance. We recommend against any immediate changes to allowances for the Budget Policy Statement or the Half Year Update and basing your final capital package on the assessment of investment worthiness during the Budget process (including whether agencies demonstrate investment-readiness), as well as fiscal constraints.

We recommend you direct officials to provide you with advice on the approach to future Budgets by March next year

Although the medium-term pipeline suggests a level shift in possible high value capital expenditure, we do not recommend that you make any changes to future capital allowances at this stage. This is due to the uncertainty about the market and agencies' delivery capacity and the range of options available to manage a higher level of investment within your fiscal strategy. We recommend you direct officials to provide further advice across capital intensive agencies about the proposed sequencing and prioritisation of investments in Budgets 2027-29, the changes needed to ensure that the forward pipeline can be delivered, funding and financing (including the balance sheet), and the implications that analysis has for future capital allowances, the fiscal strategy, and the macroeconomy.

Your current fiscal strategy allows sufficient flexibility at this stage

The Treasury currently assesses 50 per cent of GDP to be a prudent level of net core Crown debt. The costs and risks of too high a level of debt need to be weighed against the costs of sub-optimal policy decisions and excessive constraints on investment.

Although sustained operating deficits and higher capital investment have increased debt, there is still some headroom available to increase capital investment within the Treasury's recommended debt limit. There is less headroom against the Government's current intention to put net core Crown debt as a percentage of GDP on a downward trajectory towards 40 per cent and then maintain it in a range of 20-40 per cent, subject to shocks. Eliminating the operating deficit faster would give you more headroom, but would require more expenditure constraint or savings.

Based on the investment pipeline, we think your fiscal strategy and Treasury's assessment of prudent debt allow sufficient flexibility to manage investment decisions at this stage. We consider that debt exceeding 50 per cent of GDP could still be prudent but it would depend on the circumstances, in particular:

- Raising the bar on what constitutes value-for-money, such that the proposed investments would justify the risks of increasing debt.
- Whether there was a clear and credible path to return to a sustainable operating surplus.
- That options to identify savings from within baseline capital expenditure and recycling capital on the balance sheet had been exhausted.
- How other measures to manage the pipeline had been used, including raising revenue for the NLTF and phasing Defence investment.

We will provide fiscal strategy advice later in the year that will cover recommendations on capital allowances and fiscal targets, including the timing of any change.

Purpose of Report

1. This report responds to a recent request from the Minister of Finance for views on the capital investment pipeline and its wider implications. It draws from the June 2025 Quarterly Investment Report (QIR), agencies' Long Term Investment Plans (LTIPs), and the Treasury's Budget Economic and Fiscal Update (BEFU) forecasts.

2. The report covers:

   a Forecast capital investment.

   b The pipeline of future capital investment for the next four Budgets.

   c The approach to capital at Budget 2026.

   d The approach to future Budgets and to the Investment Management System.

   e Implications of the investment pipeline for your fiscal strategy, including how the Treasury formed our current view of 50 per cent of GDP being a prudent level of debt.

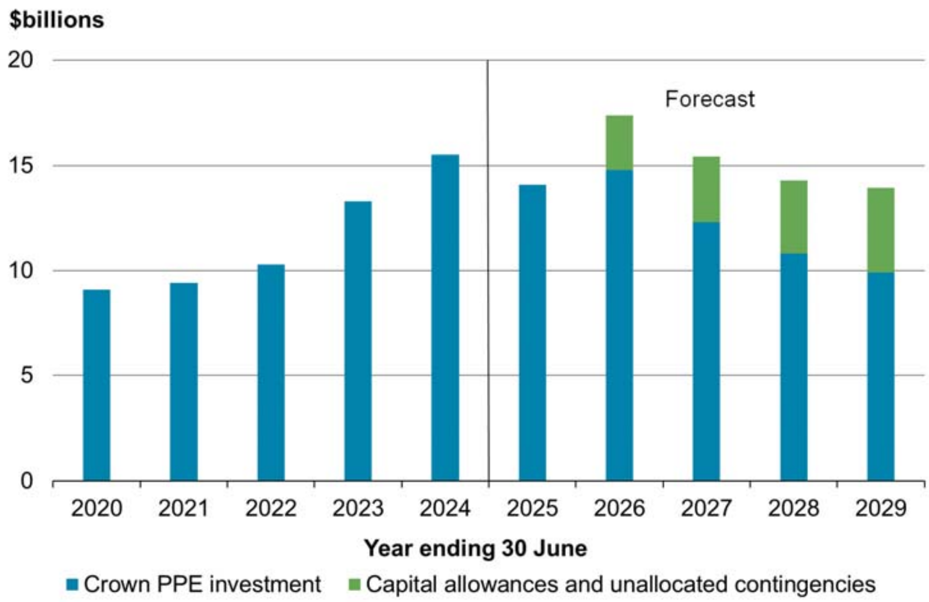
   f Next steps and related advice.

3. Officials are scheduled to discuss this report with you on Wednesday 10 September.

Forecast capital investment

4. At BEFU 2025, we forecast $61.8 billion of spending on property, plant, and equipment by the Crown, Crown entities, and KiwiRail over the forecast period (2024/25-2028/29). This increases to $75 billion once capital allowances and unallocated contingencies are included. The unaudited results for the year ending June 2025 show Crown PPE investments have come in around $1.4 billion below forecast. Analysis of the variance to forecast, including a breakdown by agency, is included in T2025/2311.

Figure 1: Crown Property, Plant, and Equipment Investments as of BEFU 2025



BUDGET- COMMERCIAL SENSITIVE

Information on the investment pipeline reveals a much higher future capital pipeline

5. Our forecasts for capital expenditure are based on projects already agreed and unallocated allowances. They do not account for funding that agencies and their Ministers indicate they want to seek at future Budgets. We have reconciled different data sources to give a broader picture on the size of the investment pipeline for Budgets 2026-29, discussed below. The Infrastructure Commission's Infrastructure Needs Analysis provides a different picture but does not imply a need for a level shift in capital investment.[1]

New investment pipeline over the next four Budgets

6. The two sources of information on funding that departments and their Ministers indicate they want to seek through future Budgets are:

   a The Quarterly Investment Report (QIR) and agency intentions data. The quality of data is mixed in later years and it only covers medium- to high-risk projects.

   b Long Term Investment Plans (LTIPs), such as the Defence Capability Plan and Health Infrastructure Plan. These do not map neatly onto the QIR for future years.

7. There is therefore no comprehensive picture of the size of the capital pipeline across the next four Budgets. We have done a quick exercise to collate these sources with a focus on large ($200m+) investments. Through this rough assessment, our estimate is that the total capital that agencies will seek funding for over the next four Budgets is:

   a **Around $35 billion** for investments outside of the Transport Government Policy Statement (GPS) (including the Roads of National Significance (RoNS)). These investments are largely concentrated in your high priority areas (e.g., Defence and Health).

   b [33] of pressures on National Land Transport Fund (NLTF) including RoNS, which is on top of existing NLTF spend. This figure does not necessarily represent required Budget funding as it would depend on NLTF funding (including revenue sources) and financing structures.

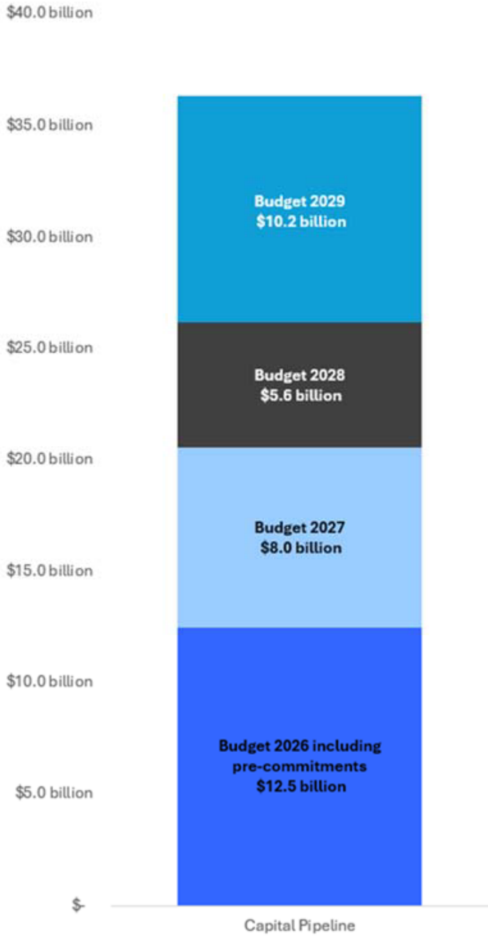
8. These figures do not include much digital investment, given this is largely software-as-a-service and therefore operating spend.

9. The large figures associated with transport, and the potential crown funding requirements, are critical to how you approach capital expenditure in the forecast period. We discuss more about how to approach Budget 2026, including transport, later in the report.

10. Even putting aside transport, this exercise makes plain that agency and Ministerial ambitions for capital investment in the next four Budgets are significantly larger than the current capital allowances. Figure 2 summarises the non-GPS intentions.

[1] The Infrastructure Needs Analysis models what the Commission considers an affordable level of infrastructure investment over the next 30 years, based on how investment responded to population and income growth in the past. The needs analysis likely represents a lower bound for future infrastructure investment, as it does not incorporate technological change, policy changes, and Ministerial priorities.

Figure 2: Estimated capital investment intentions outside of the Transport GPS



[33]

Investment worthiness of the pipeline

11. Not everything that agencies are planning on seeking Budget funding for is going to be worthy of investment, and an even smaller subset would be productivity-enhancing infrastructure.

12. We have undertaken a rapid, point-in-time desktop exercise to consider the potential investment worthiness of the pipeline. As part of that we have considered whether investments are likely to be productivity-enhancing, are in Government priority areas, and have a good prospect of representing high value for money.

13. This exercise was high level, but the key conclusions are:

    a ***Economic growth and productivity:*** Projects in transport (both those related to the GPS and more broadly) are the most significant that could have positive long-run productivity and economic growth impacts. But delivering that impact depends highly on the quality of the projects and expenditure. You will receive advice on the value of those investments as part of setting the draft Transport GPS, but we note that based off initial RoNS assessments, a number of these have low benefit-cost ratios and therefore lower economic benefits than initially anticipated.

    The lack of directly productivity-enhancing projects outside of transport reflects that many of the key sectors linked to economic growth (e.g., energy) do not sit on the core Crown's balance sheet, where your key levers are likely to be regulatory.

b *Alignment with Government priorities:* The majority of other (non-transport GPS) signalled investments were in priority areas ($24 billion) or address the maintenance or renewal of existing assets ($4.8 billion). Quality education, health, and justice systems generate a social return and may have some flow-on economic benefits, but this is not their primary purpose and these projects will not materially alter our future growth curve in-and-of themselves.

c *Prospect of representing value for money:* Of the $35 billion of investments (outside Transport), we think at least $23 billion has good prospects of being investment worthy. That is, based on the information we have now, we think they are addressing a genuine need and/or infrastructure deficit. We are uncertain about $9-10 billion (largely reflecting investments in future Budgets).

While our information is limited and we will learn more about these investments as they progress through planning, this is an encouraging sign. It reflects some measure of improving investment planning maturity in the system, with investment intentions focussed on where there is a genuine intervention logic.

14. The conclusions above are not to imply that Treasury will recommend the significant level of investments across the next four Budgets, which balance fiscal considerations and fuller information. Importantly the department or market's ability to deliver each project in a timely way is harder to identify several years out at this point.

Implications for Budget 2026 Strategy and beyond

15. Some level of oversubscription of the allowance is normal and to be expected. **But we think that the gap between the capital allowances and this potential pipeline goes beyond that,** particularly given the concentration of proposed investments in priority areas for the Government.

16. A medium-term lift to your capital expenditure could therefore be justified on that basis. Ideally this would involve making decisions over time based on the investments that are highest value, rather than simply what is ready at any given Budget.

17. As summarised in this section, there have been (incomplete) improvements to the information available to support a more medium-term approach, and in agencies planning a pipeline of well-aligned and high-quality projects. However, there are still constraints on system, market, and agency capacity to deliver (as shown by the fact that the majority of signalled Budget 2026 investments are not investment ready), as well as broader fiscal and balance sheet considerations.

18. As a result, we do not recommend changes to future capital allowances right now. Instead, we recommend that you:

a agree an approach for Budget 2026 as set out below that aims to move towards this more medium-term approach to capital allocations, and

b direct further work (set out below) to allow you to take decisions on the approach to the capital pipeline at future Budgets.

Approach to capital at Budget 2026

19. Absent any top-down constraint imposed through the invitation process, agencies would seek around $10-11 billion of funding at Budget 2026 (in addition to any funding required for the NLTF). This section summarises what we know about the proposed investments and recommended next steps.

Investment worthiness of Budget 2026 intentions

20. The chart below shows the portfolio breakdown of projects that are expected to be investment ready or not. [33]

Figure 3: Capital intentions for Budget 2026 by current expected investment readiness (excluding pre-commitments)

[33]

21. The table below summarises our very high-level assessment of whether these projects are “good prospects” to offer value for money. This is not a complete value for money assessment, which will come as business cases are finalised. Our initial assessment is that the majority of projects – though not all – are good prospects to be high value for money.

Table 1: High-level assessment of Budget 2026 capital intentions

	Expected to be investment ready	Not expected to be investment ready	Total
Not expected to be value for money	$1.0 billion	$0.6 billion	**$1.6 billion**
Not enough information	$1.2 billion	$1.2 billion	**$2.4 billion**
Good prospect to be value for money	$1.0 billion	$5.7 billion	**$6.7 billion**

22. However, the projects that are likely to offer value do not neatly match to the projects expected to be investment ready. For example, we have previously recommended against the [33] based on the relative cost and economic benefits.

Proposed approach to capital invitations and expenditure at Budget 2026

23. We recommend the following overall approach to Budget 2026 capital:

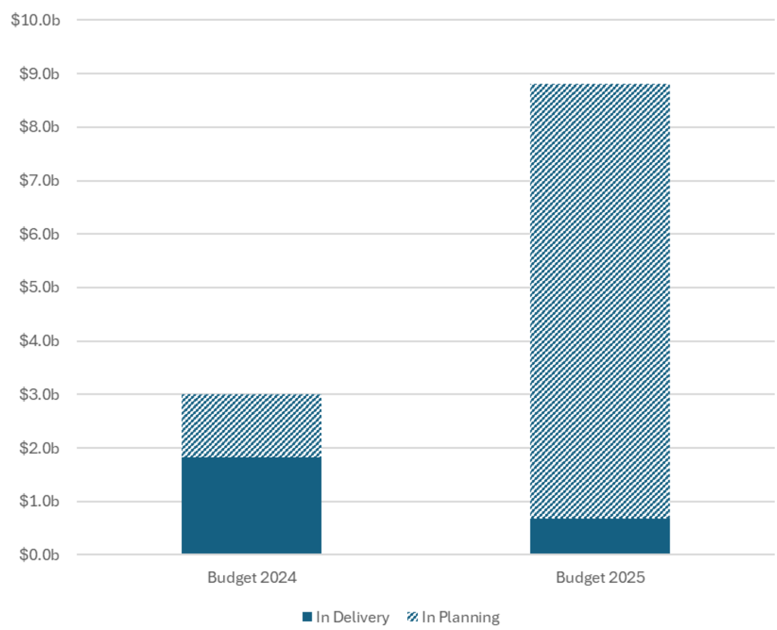
   a **Base invitations on priorities and value (not just readiness)**. When this means inviting initiatives that are not expected to be investment ready, make accelerating investment readiness a condition of the project being funded.

   b **Set envelopes in areas with multiple projects**. This includes Education and Health. This can expose prioritisation trade-offs. You could set "low" envelope options to cover only investments currently expected to be investment ready, and medium/high envelope options that could be funded if you had additional delivery confidence.

   c **Base funding decisions, and the overall size of the capital allowance, on both delivery and value**. This will be based on the latest information on value including input from the Investment Panel, and on delivery readiness (including progress from any agencies on accelerating readiness). You could still choose to fund initiatives that are not investment ready in contingencies. However, the more of those that are funded the slower the progression of projects to delivery will likely be – for example over 1/3 of the allocated funding at Budget 2024 remains in planning (Figure 4).

24. Consistent with this broader approach, we recommend that the RoNS and other major Transport projects be considered as part of GPS 27 and the associated National Land Transport Plan [33] A portfolio approach to Transport investments will ensure that proposed investments are assessed and traded off against other priorities and made in the context of the wider fiscal and economic picture.

Figure 4: Capital funding allocated at Budgets 2024 and 2025



Opportunities for reprioritisation

25. Reprioritising capital funding from investments that are in delivery is challenging without affecting these projects. It can have an adverse impact on market and investor confidence, and so we generally recommend against it unless there are strong concerns with a project, in which case those decisions are best made on their own merit, or as part of a broader pipeline review (as was conducted at Budget 2024).

26. On the other hand, funding set aside in tagged contingencies represents projects that are not yet in delivery or with outstanding investment conditions. There is a smaller impact from stopping or scaling these projects, depending on whether the agency has approached the market.

[33], [37] and [38]

29. We recommend you review whether to reprioritise any funding in capital tagged contingencies alongside other operating contingencies through Budget 2026. Upcoming Budget invitations advice will provide you with a path to do this.

Approach to future Budgets and to the Investment Management System

30. The recommendations on Budget 2026 would be a stepping stone to taking a more medium-term approach to setting capital investment. Fully realising that ambition requires ensuring that you have the right information, delivery confidence from agencies, and advice on the fiscal, economic and balance sheet options.

31. We propose to provide this further, more detailed advice by March next year (or earlier depending on interactions with other Budget decisions). That timeline would allow you to take decisions ahead of any Budget 2027 strategy setting.

32. This work programme would be across capital intensive agencies and consider the proposed sequencing and prioritisation of investments in Budgets 2027-29, the implications for your capital allowance and fiscal strategy, and the macroeconomic implications of higher capital investment and associated operating expenditure. This would cover:

    a Whether the investment pipeline reflects an appropriate balance of new investment and renewals and maintenance.

    b How to sequence and prioritise projects to meet needs and to ensure the highest value projects are considered.

    c Whether the scale of funding outlined in LTIPs is in fact deliverable, in light of market constraints and agency capability, and what would need to change in agency planning or the investment management system to achieve a level shift.

    d The appropriate way in which this should be funded, including the integration of balance sheet options and whether to set constraints with multi-year envelopes.

    e Implications for the Investment Management System, including the role of existing work (on which you are already receiving advice on) to improve long-term planning, fit-for-purpose business cases, improving investment reporting and the National Infrastructure Plan.

33. This could then be combined with other streams of advice (see Table 3) to give you a full picture before you take decisions on Budget 2026 and future capital allowances at Budget 2026.

Implications for the fiscal strategy

34. A large capital pipeline presents trade-offs between the benefits of investment for economic growth, productivity, and service delivery and the costs of that investment through higher debt. This section sets out Treasury's conceptual approach to fiscal targets, how we approached our 2022 advice, and considerations in the trade-off between prudent debt and investment.

Treasury's approach to recommending fiscal targets

Operating balance

35. Balancing operating expenses and revenues over time should be at the core of New Zealand's fiscal targets and is a requirement of the Public Finance Act. A focus on balancing the operating budget underpins the fiscal sustainability of the Crown balance sheet and is intergenerationally fair as new debt is only taken on for investment and therefore backed by an asset. In order to maintain a zero operating balance on average over time, we have recommended that governments aim to run small surpluses to offset deficits run in the wake of shocks.

Debt

36. Ideally, debt should be available to finance high-value capital investments. We do not recommend adopting a binding debt target for the purpose of rationing and prioritising investment decisions. Debt forecasts will change and we generally would not recommend that government investment activity respond to these changes.

37. Nonetheless, there are levels of debt that we consider would not be prudent and this could constrain investment. There is no exact threshold at which debt becomes imprudent. There are risks and costs associated with too high a level of debt. As debt approaches 90-100 per cent of GDP:

   a We would have some debt market access concerns, most likely materialising in a significantly higher interest rate being paid on our debt.

   b There could be some negative economic growth impacts (though this finding is complex).

   c With a larger stock of debt, higher interest rates and, possibly, lower growth rates, it would be harder to get debt on a downward trajectory to rebuild the buffer for the next shock.

   d The government balance sheet would be restricted from responding to a further economic shock.

38. The exact point at which these costs materialise is unknown and will depend on the context, but the costs are potentially very large. New Zealand is a small, shock-prone country with a high level of external debt and a weak productivity record. For these reasons, the Treasury has taken a conservative approach to recommending debt limits.

Legally privileged [36]

39. [36]

[36]

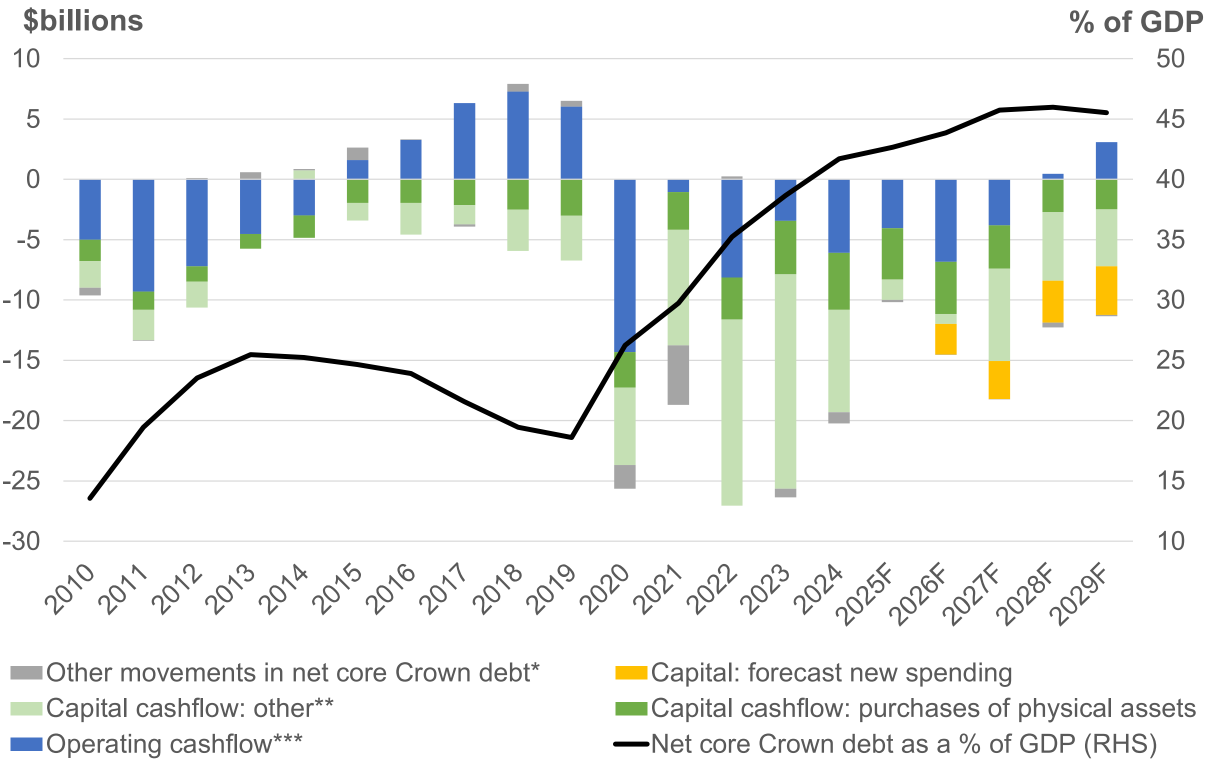
40.

Treasury's 2022 debt limit recommendation

41. The Treasury's analysis from 2022 estimated the maximum level at which net core Crown debt could still be put on a downward trajectory was around 90% of GDP. There are significant subjective elements to the assumptions underpinning this and other limits could be justified.

42. It is prudent to build in some headroom (a debt buffer) between the debt target and this maximum sustainable level of debt. In 2022, we recommended a 40 per cent debt-to-GDP buffer would be prudent. This is a large buffer but recent experience justifies this recommendation; at BEFU 2025, net core Crown debt is forecast to peak at 46% of GDP in 2027/28, approximately 27 per cent higher than in 2018/19 (Figure 5). The increase in net core Crown debt since 2018/19 has been driven by accumulated operating cash deficits, net cash outflows to purchase physical assets, and other capital cashflows including advances, and New Zealand Superannuation Fund contributions.[2] It is plausible that we will experience another shock before debt-to-GDP has declined, which could result in a cumulative impact exceeding 40 per cent of GDP.

Figure 5: Net core Crown debt – Annual movements and stock as a percentage of GDP



** Other movements in net core Crown debt include currency issued and valuation gains on financial instruments.*

[2] GDP growth over the period has offset some of the increase in net core Crown debt when expressed as a proportion of GDP.

*** Capital cashflow: other includes advances (e.g., the Funding for Lending Programme, lending to Crown entities such as Kāinga Ora and the New Zealand Transport Agency), purchases of investments (e.g., one-off items such as the Kiwibank ownership change), and New Zealand Superannuation Fund contributions.*

**** Operating cashflows do not include several large accrual-based operating items such as gains/losses on financial instruments (e.g., the New Zealand Superannuation Fund), depreciation expense, and the cost of concessionary lending (e.g., student loans).*

43. As a result, Treasury recommended core Crown net debt should be maintained below 50 per cent of GDP. Whilst we considered that this was conservative, it was 20 per cent of GDP higher than we had recommended in 2019 and 30 per cent of GDP higher than the pre-COVID consensus of 20 per cent core Crown net debt.

What does this mean for investment and the fiscal strategy?

44. The costs and risks of too high a level of debt need to be weighed against the costs of sub-optimal policy decisions and excessive constraints on investment. However, we think there is sufficient flexibility in your fiscal strategy and Treasury's assessment of prudent debt at this stage.

45. At BEFU 2022, when the Treasury recommended a 50 per cent core Crown net debt target, the Treasury forecast core Crown net debt to peak at 41 per cent of GDP, providing nearly 9 per cent of GDP of headroom for additional investment (on top of capital allowances), or approximately $37 billon. On current forecasts, this has almost halved to $20 billion, partly due to operating deficits and partly due to capital expenditure.

46. While there is still some headroom within the Treasury's recommended debt limit, there is less headroom against the Government's current intention to put net core Crown debt as a percentage of GDP on a downward trajectory towards 40 per cent and then maintain it in a range of 20-40 per cent, subject to shocks. As at BEFU, net core Crown debt only starts to move downwards in 2028/29. Whether higher capital expenditure in the short-term would be consistent with your debt objective would depend in part of the phasing of the expenditure across years. It would also depend on operating expenditure. Reducing operating deficits would give you more headroom for capital expenditure.

47. In the medium-term, scenario 2 of the 2025 Fiscal Strategy Report included higher capital allowances ($7 billion in Budget 2029, growing at 3 per cent per year in subsequent Budgets) and incorporated the operating expenditure associated with higher capital investment. This scenario did not see net core Crown debt breach 50 per cent, but it remains above 40 per cent in 2039.

48. We consider that debt exceeding 50 per cent of GDP could still be prudent but it would depend on the circumstances, in particular:

- Raising the bar on what constitutes value-for-money, such that the proposed investments would justify the risks of increasing debt.
- Whether there was a clear and credible path to return to operating surplus, such that the higher debt limit was not used to fund additional deficits. It would also be important to sustain small surpluses over time that help to rebuild fiscal buffers.
- That options to identify savings from within baseline capital expenditure and recycling capital on the balance sheet had been exhausted.

- How other measures to manage the pipeline had been used, including raising revenue for the NLTF and phasing Defence investment.

49. [34]

Next steps

50. The Minister of Finance will be receiving several pieces of related advice in the upcoming months. This advice will support you to manage short-term decisions on Budget 2026 invitations and your fiscal strategy. It will also support medium-term decisions on active management of the balance sheet and managing the capital investment pipeline for future Budgets before Budget 2026.

Table 3: Upcoming related advice

Date	Topic
18 September 2025	Budget 2026 invitation advice (capital)
Early-mid November 2025	Fiscal strategy advice on capital allowances and fiscal targets in light of updated forecasts
[33]	
February 2026	First Budget package advice based on Treasury assessment
By March 2026	Advice on medium term options for consideration in progressing the Balance Sheet Strategy
By March 2026 (or earlier depending on interactions with Budget operating decisions)	Capital investment for Budgets 2027-29 *[report back recommended in this advice]*

Recommended actions

We recommend that you:

a **note** that a rapid assessment of Quarterly Investment Reporting, Budget 2026 investments, large investments from Long Term Investment Plans, and vote team sources has indicated around $35 billon of investment intentions over Budgets 2026-2029, and pressures on the NLTF of [33] .

b **note** that approximately $10-11 billion of the non-NLTF figure is intended for Budget 2026, of which $3.2 billion is expected to be for investment ready at this stage.

c **agree** the following approach to capital invitations and expenditure at Budget 2026:

   a Base invitations on priorities and value (not just readiness);

   b Where inviting initiatives that are not expected to be investment ready, ask agencies and Ministers to accelerate work on investment-readiness;

   c Set envelopes in areas with multiple projects; and

   d Review whether outstanding capital tagged contingencies can be returned.

Yes / No	*Yes / No*
Minister of Finance	*Minister for Infrastructure*

d **note** that, if you agree to the approach above, you will be receiving detailed advice on Budget 2026 capital invitations on 18 September 2025.

e **direct** officials to do further work on sequencing investments in capital-intensive areas for Budgets 2027-29 by March 2026.

Yes / No	*Yes / No*
Minister of Finance	*Minister for Infrastructure*

f **note** that we consider there to be sufficient flexibility in your fiscal strategy to manage capital investment at this stage.

g **discuss** this report with officials on Wednesday 10 September.

Ben Gaukrodger
Manager, Macroeconomic and Fiscal Policy

Stephen Bond
Manager, Budget Management

Hon Nicola Willis
Minister of Finance

_____/_____/_______

Hon Chris Bishop
Minister for Infrastructure

_____/_____/_______

[33], [37] and [38]

[33], [37] and [38]

[33], [37] and [38]