The Treasury

Budget 2026 Information Release

September 2026

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Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act).

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Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

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

Where information has been withheld, a numbered reference to the applicable section of the Act has been made, as listed above. For example, a [23] appearing where information has been withheld in a release document refers to section 9(2)(a).

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TE TAI ŌHANGA
THE TREASURY

Reference: T2025/3070 BM-2-1-2026-M132397

Date: 4 December 2025

To: Minister of Finance (Hon Nicola Willis)

Deadline: None
(if any)

Communicating additional baseline reductions

Purpose

This aide memoire provides you with a draft letter template to communicate additional baseline reductions to Ministers. We are seeking any feedback you may have on the overall letter template. We have noted our key assumptions made. If you wish to receive further advice on these assumptions, we can provide this in January 2026.

Key points

At the Weekly Agency Meeting on 26 November 2025, you indicated that you wish to communicate to relevant Ministers and their agencies the additional 10% baseline reduction savings targets before the end of 2025. Any communications would follow on from your joint Cabinet paper (with the Minister for the Public Service) on public sector transformation being agreed at Cabinet.

Annex One attaches a draft letter template to communicate the additional baseline reductions for agencies. There are several judgments within this letter that we wish to draw to your attention, outlined below.

Agency eligible baselines are not automatically updated

We are assuming that an agency's savings target remains unchanged, regardless of any changes resulting from Budget 2026. Eligible baselines provide a point-in-time basis for setting reasonable savings expectations.

If an agency's baseline changes significantly, the Treasury can assess if their savings target should change accordingly. In such cases, you would decide whether to adjust an agency's savings target, based on our advice on changes in the agency's baseline. For example, you may wish to reduce an agency's future savings target if they overachieve their Budget 2026 target.

Agencies in scope of baseline reductions are generally unlikely to receive additional funding. As a result, automatically updating their baselines would more often reduce (rather than increase) their savings targets over time. This change is because baselines would fall as savings are delivered or as time-limited funding expires. Not adjusting eligible baselines also avoids creating a precedent that once an agency achieves its first 5 per cent savings target, its subsequent 5 per cent target is automatically reduced.

Overall, automatic adjustments would likely reduce the savings generated through baseline reductions over time, but it would be difficult to quantify. This could present difficulties if you wished to recognise savings from outyears baseline reductions at Budget 2026.

Timing and process will be communicated later

The letter currently specifies that agencies do not need to submit any initiatives through Budget 2026, and that they will receive guidance and templates at a later point in time. We consider that initiatives could be progressed through either Performance Plans or through future budget processes. We are working to determine what realistic timeframes are that we can communicate in either instance, to provide agencies with sufficient detail while managing their expectations.

You will send letters to all agencies

We have drafted the letter as coming from you, rather than joint with Hon Collins. We have consulted the Public Service Commission on the letter's contents given its relationship to your joint Cabinet paper on public service transformation.

As your Budget invitation letters communicated to all agencies that you were "considering inviting further baseline reductions", we suggest that you send these letters to all agencies. For agencies not invited for baseline reductions, the letter will communicate the messages of the Cabinet paper only, then specify they are not invited for further baseline reductions.

Next steps

We will provide a further draft, following your feedback and outcomes of your joint Cabinet paper.

If you wish to receive more fulsome advice on the judgments outlined in this aide memoire, we can provide this in January 2026, noting that this would delay your communicating additional baseline reductions.

Darius Paschke, Senior Analyst, Budget, [39]
Tom Brooke, Acting Principal Advisor, Budget, [39]

Annex One: Draft letter to communicate additional baseline reductions

[Date]

Hon [Recipient's Full Name]
[Recipient's Title]
Parliament Buildings

Dear [Recipient's First Name]

The Government is committed to transforming the public service to ensure it is digitally enabled, efficiently structured and organised, fiscally sustainable, and a place that top talent comes to work. Taken together, this will help to support the delivery of high-quality public services, while effectively managing and reducing costs.

There are three key elements to this:

- **Digitisation:** the way government procures and delivers digital solutions needs to shift towards proven, off-the-shelf solutions, with a centrally driven model to improve services and drive down costs.
- **Operating model:** we need to assess how the public service is organised and to reflect the way New Zealanders and businesses want to engage with government.
- **Talent:** we need to attract and retain the best and brightest in the public service, as well as up-skill and re-skill people for our new and evolving context.

These changes aim to ensure a high-performing public sector that delivers better services for New Zealanders, is highly skilled, and is lean and efficient. To provide greater certainty for workforce planning, we have set the public service a target to reduce total FTEs to 60,000 by 30 June 2029. This will support this Government's commitment to fiscal discipline.

As part of this ongoing transformation, we need to ensure that fiscal benefits of improvements are returned to the centre, while at the same setting the right fiscal incentives to drive efficiencies and improvements in service delivery.
Recent work on potential operating model change has shown that high levels of savings can be generated through reducing duplication and accelerating digital initiatives.

[not invited for baseline reduction]

Budget Ministers have agreed to implement further baseline reductions of 10 per cent, to be phased in over two financial years from Budget 2027 onwards. Your agency remains exempted from the baseline reduction exercise, and consequently no target has been set. However, we expect all agencies to be engaged in exploring and developing opportunities in support of a more efficient public service.

[invited for further baseline reductions]

Further Baseline Reductions
To realise these fiscal benefits, Budget Ministers have agreed to implement further baseline reductions of 10 per cent, to be phased in over two financial years. **This is in addition to the 2 per cent baseline reduction being progressed through Budget 2026.**

This reduction will be applied as follows:

- A 5 per cent reduction to be implemented by 2027/28, and
- A 5 per cent reduction to be implemented by 2028/29.

[Note that MSD's letter would communicate this as only a 5 per cent reduction to be implemented at Budget 2028]
Your agency's additional 10 per cent savings target is $[target1] million per annum, with $[target2] million to be achieved in 2027/28 and a further $[target3] million in 2028/29. Annex A attached to this letter outlines your agency's eligible base and how it was calculated, in line with earlier Budget 2026 invitations.

Next Steps
The Treasury will provide updated guidance and templates to assist your agency in preparing its savings proposals by [date]. You do not need to submit any initiatives for these additional savings for Budget 2026.

Thank you for your continued efforts to support the Government's fiscal objectives and ensure that public spending is efficient and effective.

Yours sincerely,

Hon Nicola Willis
Minister of Finance

Annex A – Further baseline reductions parameters - [agency]

Your overall 10 per cent savings target is $[target1] million per annum. This will be applied as two reductions:

- A $[target2] million per annum reduction to be implemented by 2027/28, and
- A $[target2] million per annum reduction to be implemented by 2028/29.

More detail will be provided by [date] on the process and detailed requirements for submitting initiatives that meet your savings target.

Methodology for baseline reduction targets

Baseline reduction targets are based on the average baseline spend across the forecast period (2026/27 to 2029/30), as presented at Budget 2025, with certain expenditure areas excluded. This forms the agency's **eligible base.** The methodology for exclusions is detailed below.

Agency eligible bases will not automatically be updated following Budget 2026 to account for changes to agency baselines. Where there are significant changes in an agency's baseline, this should be communicated to the Treasury to assess if savings targets should be adjusted.

The following methodology has been used to calculate agency's eligible bases, from which baseline reduction targets are derived:

a. All departmental and non-departmental operating expenditure is in scope.

b. The following non-discretionary or unsuitable expenditure areas are excluded from scope across all agencies:

   - Benefits or Related Expenses
   - Finance Costs
   - Permanent Legislative Authorities
   - Capital
   - Departmental third-party revenue/levy-funded, departmental revenue from other departments/State Owned Enterprises/Crown Entities, and other cost-recovered expenses (where these are known)
   - Most "Other Expenses" appropriations (except for where these have been identified as discretionary)
   - By exception, other case-by-case amounts of spending deemed unsuitable for including in an eligible base

c. Departmental depreciation was not excluded up-front, but your agency should have worked with the Treasury to exclude the appropriate amount.

Savings can be found from across the Vote.

Areas to consider for identifying savings options

The Government is committed to delivering a leaner, efficient public service by modernising operating models, digitising services, and focusing resources where they deliver the greatest value.

In line with these goals, it is Budget Ministers' strong expectation that targets should be, in the first instance, met from reductions in agencies' operating costs, for example, through:

a. Structural changes through consolidating Crown entities or back-office functions,

b. Scaling or closing lower-value programmes or those not aligned with Government priorities,

c. Departmental efficiencies (such as through realising benefits from digitisation or automation, reducing contractor and consultant spending), and

d. Invest-to-save initiatives (where these are realistic, can be booked, and result in overall savings over the forecast period and that are ongoing).

You can also put forward savings from third-party providers, but I expect you to carefully consider any reductions that may impact frontline services.