The Treasury

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Report

Date:	20 February 2026
To:	Hon Nicola Willis, Minister of Finance Hon Chris Bishop, Minister of Housing Hon Louise Upston, Minister for Social Development and Employment; Minister for Child Poverty Reduction Hon Simon Watts, Minister of Revenue Hon Tama Potaka, Associate Minister of Housing
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Potential Budget 2026 welfare packages

Purpose of the report

1 This report provides costings and distributional information about potential welfare packages spanning income support, social housing and Working for Families, to support upcoming conversations at Budget bilaterals and Budget Ministers meetings. The packages are made up of different combinations of individual initiatives that have been submitted in the Budget process. The report also provides high level information about implementation and analysis of the impact on specific population groups.

Executive summary

2 This paper provides analysis of five different packages of welfare initiatives based around different objectives. The analysis shows the combined fiscal and distributional impacts. Due to the complex interactions between components of the packages, these impacts are different to a simple

summation of the individual initiative impacts (see summary table on page 3). The impacts for individual initiatives in isolation are provided in Appendix A for reference. [33]

All other initiatives use 4-year average.

3 While the packages modelled do include a specific package requested by the Minister of Finance’s office in December 2025 (Package 5), they do not include the preferred initiatives that the Minister of Finance indicated to Treasury officials on Monday 16 February 2026, due to the time it takes to complete the distributional impacts modelling and the integrated costings. Officials intend to undertake further modelling and costing of packages based on where Ministers get to in the first bilateral discussion on 4 March, which would be available for subsequent bilaterals in late March.

4 A high-level comparison of the impacts across the packages and for scenario families are provided in the tables on pages 4 and 5 below. More in-depth distributional analysis is included in the body of the report and appendices. Averages are provided to give a sense of magnitude, but are misleading when viewed on their own as the distribution of impacts is uneven across population groups. The impact on poverty for a package of initiatives is also generally greater than the sum of the parts. This reflects that the combination of multiple initiatives is more likely to shift a family’s income enough to push them over a poverty threshold, than any change on its own.

5 Due to an error in our costing specification, [33]

as they have been assumed to be impacted by the Temporary Additional Support (TAS) changes. The error does not substantively change the high-level impact or advice. [33]

We will provide analysis of the impact for this group in modelling for the final package.

6 [33]

7 [33]

Summary of impacts

		Package 1: Base package				
		Package 1: Base package This is a set of proposals that we understand are likely to proceed. This also forms the basis of four other packages.	[33]			
Proposals included		– *Social Housing: increase minimum tenant contribution for social housing (IRR) from 25% to 30%* – *Temporary Additional Support: formula changes including* [33] *maximum rate from 25% to 30% of relevant benefit* – [33] – [33] – *Income charging additional savings* – *Invest-to-save sole parents* – *Invest-to-save Emergency Housing* – *Working for Families: income definition and Customs info share*	*Package 1 and:* – *Social Housing: increase minimum IRR to 35% in 2029* [33]	[33]	*Package 1 and:* – *Social Housing: increase minimum IRR to 35% in 2029* [33] – *Accommodation Supplement: targeted Maxima Increases* [33]	*Package 1 and:* – *Social Housing: increase minimum IRR to 35% in 2029* [33]
Fiscals	**Savings** *(net annual allowance impact)* [1]	[33]				
	Estimated Implementation costs *(total over forecast)*					
Impacts *(Tax year 2029/30)*	**Total number of families worse off compared with current policy settings**					
	Average weekly income loss					
	Increase in child poverty [2]					
	Increase in adults in poverty					
Overall comments						

1. The options to increase minimum IRR to 35% [33]
2. Using After Housing Costs, fixed line measure (AHC50): The number of children in households with incomes less than 50% of the median equivalised disposable household income after deducting housing costs (AHC) for the 2017/18 base financial year, adjusted for inflation.

Scenario families			
The example families below are designed to be reasonably 'typical.' The sole parent is assumed to live in South Auckland, the single beneficiary lives in provincial NZ, and the couple lives in Christchurch. Rents are based on average rents paid by AS recipients. Employment earnings are based on the minimum wage for the sole parent and single person, and $30 per hour for the couple family.			
	Total income after housing costs		
	Status quo	**Package 1: Base package** This is a set of proposals that we understand are likely to proceed. This also forms the basis of four other packages.	[33]
1a Sole Parent, benefit, private rental	$504	[33]	
1b Sole parent, benefit, social housing	$661		
1c Sole parent, in work (25 hours at minimum wage), private rental	$685		
2a Single person, on benefit, private rental	$266		
2b Single person, working (40 hours at minimum wage), private rental	$499		
3a Couple, 4 children, on benefit, private rental	$919		
3b Couple, 4 children, on benefit, social housing	$1,177		
3c Couple, 4 children, working (1 partner works 40 hours at $30 per hour), private rental	$1,149		

Notes:

These comparisons use MSD's Effective Marginal Tax Rate (EMTR) model to illustrate impacts on common household types.

The scenarios are modelled as at 1 May 2030 to show full package effect as far as possible.

Recommended actions

It is recommended that you:

1 **note** that this paper provides distributional and fiscal information on five indicative Budget packages across the Revenue, Social Development and Employment, and Housing portfolios to inform upcoming Ministerial discussions in March on the construction of a Budget 2026 Welfare Package

2 **note** that these indicative packages do not include the preferred initiatives that the Minister of Finance indicated to Treasury officials on Monday 16 February, due to the time it takes to undertake the distributional impacts modelling and the integrated costings

3 **note** that officials recommend considering the extent to which any of these packages meet ministers' objectives and which elements should progress, ahead of the Budget bilateral meetings

4 [33]

5 **note** that recommendations asking ministers to agree to the specific initiatives to be included in the package will be included in the meeting pack for the Budget bilateral on 4 March 2026.

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Date	Date	Date	Date

Hon Nicola Willis Minister of Finance	**Hon Chris Bishop** Minister of Housing	**Hon Louise Upston** Minister for Social Development and Employment; Minister for Child Poverty Reduction	**Hon Simon Watts** Minister of Revenue	**Hon Tama Potaka** Associate Minister of Housing
Date	Date	Date	Date	Date

Government Objectives

8 Ministers have previously discussed their objectives for welfare in the context of Budget 2026. At a high level, we understand ministers' objectives to be:

- to make work pay and reduce benefit dependency and material hardship for children
- continuing to build on previous initiatives to rebalance the welfare system in a way that makes it firm in its expectations while also being simpler and fairer to taxpayers and beneficiaries
- reaching the Government's Jobseeker Support target (Target 5)
- fixing the inefficient system of housing supports via the Review of the Social Housing System (RoSH)
- [33] and reducing the overall cost of welfare provision.

9 Officials have used these objectives to inform the development of the packages below but, given the inherent tension between some of the objectives, the balance between these objectives and the final form of any package is still to be decided. Within each proposal, there are possibilities to scale or amend the settings as well as alter how the proposals come together in an overall Budget 2026 Welfare package.

Approach to forming packages

10 Ministers have expressed interest in progressing a set of interrelated welfare system initiatives through Budget 2026. Ministers have received several reports on options and the ministers of Finance, Housing, Social Development and Employment, and Revenue have had meetings to progress the work.

11 Final decisions will be taken through the Budget. However, based on discussions to date, we understand there to be a short list of initiatives that are very likely to proceed to final decisions, and a longer list where decisions have not been made.

12 The full list of the proposals submitted into the Budget, that have been included in this analysis and the fiscal impact if implemented in isolation is provided in Appendix A. This list includes the major initiatives with significant distributional impacts, but there are also other initiatives in the Budget process that have not been included in this modelling, because:

- they cannot be modelled by the available whole-of-population models, or
- their impacts are expected to be minor, or
- their development is at too early a stage.

13 [33]

s

14 We have developed packages based around different core objectives to illustrate the types of impacts and trade-offs involved in possible packages of the initiatives currently under consideration.

15 The five packages include:

- Package 1: **Base package** –this is a set of proposals we understand to be more likely to proceed to final decisions. This also forms the core of the four other packages
- [33]
-
-
-

Impacts are cumulative

16 Analysis from Treasury’s Tax and Welfare Analysis (TAWA) model is the basis for the distributional analysis in this report. As expected, the analysis shows that the impacts of these packages differ from the impact of the sum of the individual components. Of particular note is that poverty impacts are larger in the packages than they would be if you added together the individual impacts of each option. This is because each component alone may not necessarily move a family below a poverty line, but in combination they sometimes do.

17 For the purposes of the modelling, we have defined people who gain or lose income support from a package by comparing their net financial position in the 2029/30 tax year to what they *would have been receiving* if there were no changes to policy. Within that, we differentiate between two types of impact:

- a direct impact is a reduction in a person’s income in the hand at a point in time compared with status quo policy settings
- an indirect impact is foregoing an increase in income that a person would have expected to receive in the absence of the policy change [33]

18 Appendix A outlines which options in this paper have a direct versus indirect impacts on individuals and families.

19 The initiative to increase the minimum tenant contribution for social housing by increasing Income Related Rent (IRR) from 25% to 30% is a pivotal element of the RoSH programme. This change would reduce the disposable income differential between people in social housing and those in the private market, improving equity. While it has a direct impact on disposable incomes (averaging $30 per week viewed in isolation and affecting around between 80,000 - 90,000 families), its effect is to improve equity and more clearly signal the use of social housing for people with housing access problems.

20 [33] The option to increase IRR to 35% is included in packages 2, 4 and 5 [33]

Package 1: Base Package, based on ministerial indications to date

21 The proposals that we understand are most likely to proceed have been combined to form a base package. This section provides information on the impacts and fiscal costs of Package 1 which consists of:

- Increase minimum Income Related Rent (IRR) from 25% to 30% in 2027 (no change to Transitional Housing and Emergency Housing contribution rate)
- Reduce Temporary Additional Support (TAS) [33] the maximum rate from 30% to 25% of relevant benefit (excludes New Zealand Superannuation recipients)
- [33]
-

22 The package also includes four initiatives that have not been modelled by TAWA but are included in the overall fiscals:

- Income Charging Phase 2 – savings from further policy decisions
- Invest in employment support for sole parents to reduce welfare costs and material hardship for children
- Emergency Housing – Extending scaled-down support services
- Working for Families – Simplifying eligibility settings and improving information sharing with Customs.

Impacts

23 Analysis from Treasury's TAWA model has been used to show the impacts of packages by family income, family type and for Māori.[1]

[33]

[1] These results have been created for research purposes from the Integrated Data Infrastructure (IDI) which is managed by Stats NZ. The outputs use tax year 2029/2030.

Scenario families – sole parent

26 MSD's Effective Marginal Tax Rate (EMTR) model has been used to analyse three example families to illustrate impacts on common household types. The scenarios are modelled as at 1 May 2030 to show full package effect as far as possible.

27 While the full impact analysis is included on page 4, with graphs showing percentage income change provided in Appendix B. The sole parent[2] family is used for comparison in each impact section below. [33] This increases the difference in after housing cost income between social housing and private renting. The differential will look different for households with older children.

28 The sole parent's current budget is:

Net income or housing costs	Weekly income after housing costs, tax and transfers		
	On benefit, private rental	On benefit, social housing	In work, private rental
Main Benefit	$566	$566	-
Net earnings	-	-	$495
MFTC	-	-	$232
Accommodation Supplement	$235	-	$235
Temporary Additional Support	$47	-	-
Winter Energy Payment	$32	$32	-
Best Start	$83	$83	$83
Family Tax Credit	$162	$162	$162
In-Work Tax Credit	-	-	$98
Total Income	**$1,124**	**$843**	**$1,305**
Housing Costs	$620	$182	$620
Income after housing costs	**$504**	**$661**	**$685**

29 In the example above, the sole parent has $504 per week to live on after housing costs. If she works 25 hours a week, that increases to $685 – a return of $181 per week. If the same family was in a social house, their on-benefit disposable income would be $661 per week, and they would be worse off by $157 if they moved out of their social house. They are also only $24

[2] The sole parent example lives in South Auckland and has one child aged under two years. Her rent is $620 per week, which is around the average for an AS recipient in her situation. She is assumed to work 25 hours a week at the minimum wage when in employment.

per week worse off than the working family. This illustrates some of the rationale for the changes to IRR proposed in the base package.

[33]

32 The TAS and IRR changes both focus impacts on a similar but not overlapping population group – predominantly beneficiaries, and in the case of TAS those with high private housing costs.

33 The rationale for the changes to TAS stems from its role as an income support payment as part of the broader benefit system, but in practice it functions partly as a housing subsidy. Because the proposal would reduce the incomes of private renters relative to social housing tenants, this change works against the Review of Social Housing (RoSH) goals of improving incentives to move toward independence, and more clearly using social housing to address housing access barriers while Accommodation Supplement (AS) and TAS address affordability issues. The change to IRR is a key element of the RoSH reforms. It begins the process of shifting the provision of social housing away from focusing so strongly on addressing housing affordability needs so it is more clearly focussed on those with housing access needs, and also starts to improve the incentives for social housing tenants to move toward independence.

34 [33]

increasing IRR to 35% to rebalance the incentives [33]

[33]

- Increase minimum IRR to 35% in 2029 (no change to Transitional Housing and Emergency Housing contribution rate)

[33]

[33]

[33]

[33]

[33]

- Increase minimum IRR to 35% (no change to Transitional Housing and Emergency Housing contribution rate)

[33]

[33]

[33]

- Increase minimum IRR to 35% from July 2029 (no change to Transitional Housing and Emergency Housing contribution rate)

[33]

[33]

[33]

[33]

66 [33]

67

68

69

Other considerations

70 This section provides brief advice on implementation and implications for child poverty, [33] The advice is indicative at this stage, and more detailed advice will be provided when the Budget 2026 package is refined.

Child poverty and material hardship implications

71 [33]

72 Officials have modelled child poverty using both before and after housing cost measures, but as changes to housing subsidies are included in all packages, the AHC50 fixed line measure is given precedence. There is also an historical association between this measure and the child material hardship measure.

73 In 2024 there were around 208,000 children in AHC50 poverty according to Stats NZ official statistics. [33]

74 [33]

[33]

[33]

Implementation

82 The implementation dates for the packages are spread over the four years from 2027/28 [33]
This may tie up resources in addition to Budget 2025 roll out, which may constrain operational capacity of agencies for future Budgets. Agencies will advise Ministers on operational impacts of packages, final timelines and legislation.

Connection to Budget 2024 and 2025 initiatives

83 We have not been able to include the impact of successive Budgets on families. However, we would expect the changes to housing subsidies (AS/IRR for those with income from boarders) agreed in Budget 2024 which go live on 2 March 2026 would be further impacted by the Budget 2026 decisions.

Next steps

84 We recommend that Ministers consider the information contained in this report, and discuss their views and preferences at the bilateral meeting on 4 March in the first instance. Officials will need clear directions from Ministers to put together the Budget 2026 Welfare package. We will seek agreement to specific initiatives in the meeting pack for the Budget bilateral on 4 March 2026.

85 Agencies will provide their Ministers with material to support the Bilateral discussions over March.

Appendix A: Titles, descriptions and costs of individual initiatives submitted in December 2025

Initiative title	Description	Costs (savings), $m annual average	Direct or indirect impact*
INCOME SUPPORT (submitted by the Minister for Social Development and Employment)			
[33]			
Temporary Additional Support - Formula changes	Reducing expenditure on Temporary Additional Support by adjusting the formula to account for above-indexation increases to main benefits between 2018 and 2023. This change does not apply to NZ Superannuation and Veteran's Pension recipients. This proposal also removes Child Support as an allowable cost.	[33]	
[33]			
Income Charging Phase 2 – savings from further policy decisions	Improving the information the Ministry of Social Development uses to charge as income against income-tested financial assistance.	(13)	Direct
Invest in employment support for sole parents to reduce welfare costs and material hardship for children	Funding additional front-line staff and programmes to reduce the number of Sole Parent Support recipients	(24)	
Emergency Housing – Extending scaled-down support services	Funding emergency housing support services to generate net savings in emergency housing spending.	(4)	
Accommodation Supplement – Targeted Maxima Increases	Making targeted adjustments to the Accommodation Supplement by increasing the maxima for Areas 3 and 4.	40	Direct (increase)

WORKING FOR FAMILIES (submitted by the Minister of Revenue)			
[33]			
Working for Families – simplifying eligibility settings and improving information sharing with Customs	Simplifying the Working for Families scheme's income definitions to improve the accuracy of payments and customer debt outcomes, and improve information sharing between Inland Revenue and Customs to support this.	(11)	Indirect
SOCIAL HOUSING (submitted by Minister of Housing)			
Tenant contribution to housing costs – increasing the minimum IRR for social housing	Increasing the Income Related Rent contribution paid by tenants from 25% to 30% in 2027.	(91)	Direct
Tenant contribution to housing costs – increasing the minimum IRR for social housing	Increasing the Income Related Rent contribution paid by tenants from 25% to 30% in 2027, and to 35% in 2029.	(227) using 10 year rule	Direct

*In this table a direct impact is a reduction in a person's income in the hand at a point in time. An indirect impact is considered to be the loss of an amount of money a person would have received in the absence of the policy change.