The Treasury

Budget 2026 Information Release

September 2026

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[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: Gas Transition Loan Guarantee Scheme Design

Date:	26 February 2026	**Report No:**	T2026/221
		File Number:	SH-11-5-1-2-2-1-M133808

Action sought

	Action sought	Deadline
Hon Nicola Willis **Minister of Finance**	**Indicate** whether you wish to proceed with the scheme **Agree** to inform Cabinet of your intention to establish the scheme	6 March 2026

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Isabelle Hermes	Senior Analyst, Climate, Energy and Resources	[39]	N/A (mob)	✓
John Marney	Manager, Revenue and Economic Development		N/A (mob)	

Minister's Office actions (if required)

Return the signed report to Treasury.

Refer the report to the Minister for Energy and the Minister for Regional Development.

Note any feedback on the quality of the report	

Enclosure: No

Executive summary

This report seeks your direction on whether to proceed with the proposed gas transition loan guarantee scheme (the scheme), and the indicative design settings which would shape the scheme's scope, impact, and cost. The scheme would support businesses to invest in fuel-efficiency and fuel-switching projects, to transition away from gas or reduce gas consumption. The report outlines recommended design features, informed by engagement with banks and relevant agencies.

Businesses face a range of barriers to transitioning away from gas, including high upfront costs, uncertainty about future energy prices and gas availability, and internal capability constraints. A loan guarantee scheme could help address some of these barriers by reducing borrowing costs, but there is significant uncertainty about its likely impact. On balance, stakeholder feedback suggests uptake would be modest, as the scheme would not address all barriers to investment. The scheme may nevertheless provide a useful policy signal that gas users should be actively considering a transition away from gas, which could help inform firms' investment decisions.

Should you decide to proceed, we seek your direction on several core scheme settings, which determine who can access the scheme and will influence the extent to which it delivers meaningful reductions in gas use. We recommend a design that focuses on firms with material gas exposure and that continue to be viable, delivered through a bank-delegated model to support efficient implementation. Assuming a minimum threshold of 5,000 GJ, EECA data indicates that 226 firms across 271 sites would be in scope of the scheme. To ensure supported projects deliver meaningful reductions in gas use, we recommend requiring each project to demonstrate an expected gas reduction of at least 15 percent.

We also provide advice on a number of design features with material fiscal implications. We recommend setting a maximum borrower limit of $20 million and a maximum scheme limit in the range of $800 million to $1.2 billion. These parameters play a key role in managing the Crown's overall exposure and expected fiscal cost, while retaining some flexibility should uptake be higher than expected. We also propose including wrap-around support by the Energy Efficiency and Conservation Authority (EECA) as part of the scheme package to assist firms in developing and delivering viable transition projects.

Subject to your agreement, we will prepare a paper to inform Cabinet of your intention to establish the scheme and ensure the budget package is updated to reflect revised cost estimates. We will also begin negotiations with relevant lenders based on the indicative terms outlined in this report. After negotiations conclude, we will provide you with advice on the final scheme terms for your approval.

Treasury Report: Gas Transition Loan Guarantee Scheme Design

Purpose of Report

1. This report seeks your direction on the indicative terms of a proposed gas transition loan guarantee scheme (the scheme), and whether to proceed with the scheme. It outlines the key design choices and trade-offs, informed by engagement with banks and relevant agencies.

Background

2. In December 2025, we advised you on a potential loan guarantee scheme to support gas transition investments (T2025/2972). Since then, we have engaged with select banks and industry stakeholders and reported our findings in an aide memoire on 12 February (T2026/205). We discussed this with you at the weekly agency meeting on 18 February. This report focuses on the detailed design of the scheme, incorporating relevant stakeholder feedback. We have consulted the Ministry of Business, Innovation and Employment (MBIE), the Energy Efficiency and Conservation Authority (EECA), the Ministry of Foreign Affairs and Trade (MFAT), and the Ministry for the Environment (MFE) in preparing this advice.

Considering a loan guarantee scheme

3. Businesses face several barriers to gas-transition investment, most notably high upfront capital costs, alongside uncertainty about long-term energy costs and gas availability, and internal capability and technical constraints. A loan guarantee scheme can help address these barriers primarily by reducing borrowing costs through lower interest rates, which could improve the viability of gas-transition investments for some businesses. The scheme could also help reduce policy and information uncertainty by providing a clear signal from Government that gas users should be actively considering a transition away from gas.

4. There is significant uncertainty about the likely impact of a loan guarantee scheme. Stakeholder views on expected uptake and impact varied. Many stakeholders expect uptake to be modest, noting that the scheme would not address all barriers to transition and that the interest-rate savings may be insufficient to incentivise large or complex investments. Others see potential for a more meaningful impact. On balance, stakeholder feedback suggests uptake under the scheme is likely to be modest, implying a limited overall impact on accelerating gas-transition investment and easing supply pressures. This would, however, also indicate that the associated fiscal cost is likely to remain constrained.

5. We anticipate an average interest-rate saving of around 0.5 to 1.5 percentage points per annum. The extent of the benefit to businesses will depend on their underlying credit profile. Credit ratings and lending terms vary significantly across firms, reflecting differences in size, balance-sheet strength, cash-flow stability, and access to capital

markets. Firms with a stronger credit rating can already access relatively low borrowing costs, meaning the additional interest-rate reduction passed through from a guarantee may be more limited. In addition, firms with unsecured borrowing are likely to benefit more than firms whose borrowings are well secured, as firms with more secured lending typically receive smaller interest-rate reductions with the benefit of the Crown guarantee.

Balancing competing objectives is central to the scheme's design

6. We suggest applying the following objectives when setting the scheme's design parameters:

   - **Supporting businesses** that continue to be viable to reduce reliance on natural gas, with a focus on those that are more exposed to gas use.
   - **Easing gas supply pressures** by freeing up gas for users that are harder to abate or unable to switch.
   - **Targeting support where it is most needed**, by avoiding where possible assistance to firms that are unlikely to face material barriers or that could proceed without government involvement.
   - **Minimising administrative complexity** to support efficient delivery and uptake.

7. The proposed design parameters discussed below aim to balance these objectives.

Targeting the scheme to deliver material reductions in gas use

8. To ensure the scheme delivers genuine reductions in gas use, we recommend requiring each supported project to achieve a minimum reduction in gas consumption. This requirement should be applied per project, rather than per business, recognising that many firms operate multiple sites with differing gas-use profiles.

9. We recommend setting a minimum gas-reduction threshold for eligible projects. EECA data suggests that a minimum 10-15 percent reduction in gas per project would accommodate both fuel-efficiency and fuel-switching investments, while ensuring meaningful reductions in gas use. Fuel-efficiency projects can play an important role in right-sizing demand and are often undertaken before fuel switching, particularly where switching is more complex. A materially higher threshold would risk excluding most efficiency projects, as these typically achieve less than a 20 percent reduction in gas use (Table 1 refers).

10. In practice, the scheme would need to apply a single minimum threshold rather than a range, as the lower end of any range would effectively operate as the minimum criterion. A lower threshold (e.g. 10 percent) would maximise access to the scheme by capturing a broader set of efficiency projects, while a higher threshold (e.g. 15 percent) would better support the policy objective of encouraging material reductions in gas use and focusing support on higher-impact projects. We recommend setting the minimum threshold at 15 percent, as this strikes a better balance between accessibility and policy intent.

11. The gas-reduction threshold would be used for upfront project eligibility and verification, based on reasonable ex-ante assessments of expected gas savings at the time of loan approval. The scheme would not require ongoing measurement or ex-post verification of actual gas reductions for the purposes of maintaining guarantee cover.

Table 1: Business data breakdown – analysis based on EECA Regional Energy Transition Accelerator (RETA) data[1]

Annual Gas Usage (GJ)	Number of sites	Number of businesses	Average fuel efficiency project cost ($)	Average gas reduction per site (fuel efficiency)	Average fuel switch project cost ($)	Average gas reduction per site (switching)
5,000-6,000	13	13	[37]	16%	[37]	86%
6,000-10,000	33	32		15%		84%
10,000–25,000	84	68		13%		84%
25,000–50,000	46	39		14%		85%
50,000–100,000	36	29		18%		73%
100,000–300,000	32	31		15%		70%
>300,000	27	14		17%		28%[2]
Total / Average	271	226		15%		76%

The scheme should be technology-agnostic, except for excluding more emissions-intensive fuel sources

12. We recommend a technology-agnostic approach[3], provided projects meet the minimum gas-reduction threshold. However, we would suggest switching projects that move from gas to a more emissions-intensive fuel source (for example, coal) be excluded to ensure the scheme is underpinned by a decarbonisation lens. This reflects stakeholder feedback, including from banks. [36]

13. Aligning the scheme with the Green Loan Principles could also provide material benefits. Many banks already offer discounted green loans to businesses and have advised that these could be stacked with the loan guarantee, increasing the effective level of support and improving scheme uptake without increasing fiscal cost. To ensure eligibility for green-loan discounts, the scheme would need to exclude switching to more emissions-intensive fuel sources as per the paragraph above.

[1] This table includes businesses that are part of RETA with annual gas consumption >5,000GJ. RETA data aims to include all users with fossil fuelled stationary heat plant over 500 kW capacity, and/or fossil fuelled emissions over 500 tonnes per annum.
[2] Gas reduction per site for fuel-switching projects undertaken by gas users consuming >300,000 GJ is lower than for other groups of gas users. This is because large gas users often have multiple gas-using processes on a single site. The total gas reduction achieved depends on how many processes or sites undertake fuel switching. We do not have data on the number of gas-using processes per business or site.
[3] Fuel switching options for businesses would include biomass (wood energy), electrification, biogas or geothermal.

14. We also recommend allowing other project-related costs to be covered by the scheme, beyond the capital cost of the core infrastructure investment, where they are directly attributable to achieving gas reductions. Stakeholder engagement has highlighted that some of these costs can themselves be significant barriers to transition, in some cases exceeding the cost of the core investment. In particular, connection upgrades have frequently been identified as a major cost for businesses considering whether to switch. Including these broader, project-related costs would therefore better address the barriers firms face, improving project viability and supporting delivery of gas-transition investments.

The scheme should be limited to firms that are considered to be viable

15. Focusing the scheme on firms that are viable is important to ensure value for money and to manage fiscal risk. Lenders will be able to apply their standard policies and practices for assessing firm viability.

Eligibility should be based on gas exposure, not sector

16. We had previously suggested limiting the scheme to industrial users, where the closure of industrial firms that are often significant regional employers would be difficult to replace. This reflects their historic reliance on gas and concerns about the risk of de-industrialisation.

17. Stakeholder feedback, however, highlighted the value broadening the availability of the scheme to other users (i.e. beyond industrial users). Stakeholders noted that reducing gas use in any part of the market can ease pressure for users that are less able to transition, and that defining which firms qualify as 'industrial' can be challenging in practice. A broader approach would also allow relatively lower-cost and technically simpler transition opportunities to proceed, supporting early gas reductions without the need for complex sector-based categorisation.

18. At the same time, the scheme can remain focused on firms that are materially exposed to gas use by applying a minimum gas-usage threshold, rather than sector-based eligibility. This approach ensures support is targeted to firms where there is meaningful scope to reduce gas demand and free up supply, while avoiding the limitations and complexity associated with defining eligible sectors.

Using a minimum gas-usage threshold to target support

19. We had previously recommended targeting firms with annual gas usage between 10,000 GJ and 300,000 GJ, to focus on firms that are materially exposed to natural gas but not so large that they could reasonably proceed without government support.

20. Stakeholder feedback suggested two possible refinements to this approach:

    a) lowering the minimum threshold to 5,000 GJ to broaden access to firms with still-material gas exposure, including those that may find it easier to switch and free up gas; and

    b) allowing large gas users to access the scheme, given their greater potential to materially reduce gas use and ease supply pressures.

21. On balance, we recommend retaining a minimum gas-usage threshold but lowering it to 5,000 GJ, consistent with stakeholder feedback. This would maintain a focus on firms that are materially exposed to gas, while allowing broader access to the scheme (an additional 45 firms would be in scope when compared to the 10,000GJ threshold). Around 70 percent of these firms operate in industrial, agriculture, and food and beverage sectors, making them key target firms.

22. We recommend not applying a maximum cap on gas usage, as larger gas users have the greatest potential to materially reduce gas demand and ease supply pressures. On this basis, assuming a minimum threshold of 5,000 GJ with no maximum cap, EECA data indicates that 226 firms across 271 sites would be in scope of the scheme. However, not all firms in scope are expected to have viable transition options – likely uptake is discussed further below.

23. We considered applying an annual revenue cap to better target support and reduce the potential perception risk of undue support for businesses. On balance, we advise against this. For many industrial firms, high turnover does not necessarily reflect high profitability, and revenue is therefore a poor proxy for ability to self-fund transition investments.

Managing Crown exposure through a maximum borrower limit

24. We recommend applying a maximum borrower limit of $20 million per borrower. This would be sufficient to support most fuel efficiency and fuel-switching projects for businesses in scope, while limiting Crown exposure to very large individual loans. Only the largest gas users are likely to face project costs that materially exceed this level (see Table 1).

25. A maximum borrower limit would also reduce the need for an annual revenue cap. Larger firms could still access Crown-backed lending of up to $20 million, but because their total investment needs are typically higher, they would need to contribute additional equity or secure further commercial lending. This limits the relative benefit they receive from the scheme, helping address equity concerns while managing overall fiscal cost.

We recommend a maximum scheme limit in the range of $800 million to $1.2 billion

26. The maximum scheme limit represents the maximum aggregate value of all Supported Loans that can be provided under the scheme and therefore plays a key role in capping the total volume of supported lending and managing the Crown's overall exposure.

27. We have estimated the indicative size of the scheme by considering the likely costs if businesses undertook both fuel-efficiency and fuel-switching projects (subject to the maximum borrower limit) and applying assumptions about expected uptake. At this stage, we consider an uptake rate of around 35 percent to be a reasonable assumption. This reflects feedback from most stakeholders that uptake and overall impact are likely to be modest. For reference, uptake under the GIDI industrial funding programme was approximately 33 percent.

28. However, negotiations with participating lenders have not yet commenced, and there remains uncertainty around how final scheme settings may affect uptake. To manage this uncertainty we recommend allowing for uptake of up to 50 percent, together with a

10 percent buffer, when setting the maximum scheme size. On this basis, a maximum scheme limit in the range of $800 million to $1.2 billion would provide sufficient headroom to accommodate higher-than-expected uptake while managing fiscal risk. The table below illustrates different maximum scheme sizes under alternative uptake and borrower-limit assumptions (a 10 percent buffer is included in all scenarios).

Table 2: Maximum scheme size based on borrower limit and uptake assumptions

Assumptions	Maximum scheme size (including buffer)	
	No maximum borrower limit	**$20m maximum borrower limit**
100% uptake	$4.77 billion	$2.34 billion
50% uptake	$2.39 billion	$1.17 billion
35% uptake	$1.67 billion	$819 million

29. Setting the maximum scheme limit within this range would retain flexibility as scheme terms are finalised. We consider this approach to be prudent given that lender negotiations have not yet begun. Should you decide to proceed with the scheme, we expect negotiations with lenders to commence in April. Following this we will provide you with advice on the final terms of the scheme, including the appropriate specific maximum scheme limit, informed by lender feedback and agreed scheme terms.

30. Further detail regarding the associated fiscal costs for the Crown are provided in the financial implications section below.

We recommend that the Crown charge a modest fee to partially offset risk

31. Charging a fee would help manage precedent risk, by reinforcing that access to Crown guarantees is not cost-free and should not be assumed as the default approach for future interventions. As the use of balance-sheet instruments becomes more frequent in an environment of increasing fiscal pressure, a modest fee would also ensure the Crown is at least partially compensated for the contingent risk it is assuming, supporting the long-term sustainability and discipline of such interventions.

32. However, any fee charged to lenders will be passed through to borrowers in the form of reduced interest-rate savings. As the primary benefit of the scheme is reduced borrowing costs, this will reduce the effectiveness of the scheme. This risk is particularly relevant given the impact of the scheme is already likely to be quite marginal, and reducing the interest saving for firms will further reduce its impact.

33. On balance, we propose charging a modest fee of 0.1 percent per annum on drawn loans. Based on indicative uptake and amortisation assumptions, this is expected to generate between $2.5 million and $9.8 million in revenue over the life of the scheme – this would not directly reduce the cost of the scheme as the expected credit loss would remain the same. We would expect the revenue to be returned to the centre.

Additional loan terms for your consideration

34. **Maximum lender limit:** To manage the risk of excessive exposure to individual lenders, we suggest setting a maximum total cap for all supported loans each lender can hold. This cap would be assigned per lender, taking into account their exposure, market share, and type of lender.

35. **Loss-sharing arrangements**: We recommend a Crown guarantee of 80 percent of supported loans. Bank feedback indicates that this level strikes an appropriate balance between maximising impact and maintaining lender incentives, while avoiding moral hazard. This is the same level of guarantee as for previous schemes.

36. **Loan tenor**: We recommend lending terms of up to 10 years. While this is longer than typical bank tenors (generally under five years), stakeholders – including banks – have advised this is necessary to accommodate the longer payback periods associated with gas transition investments. A 10-year tenor increases Crown risk exposure relative to standard bank lending; however, we can help mitigate this risk through scheme design features, including the maximum lender limit and requirements that borrowers be assessed as viable under standard lender credit assessment processes.

37. **Availability period**: We recommend making the scheme available for a time-limited period to encourage firms to bring forward investment. We initially considered an availability period of one to two years; however, stakeholder feedback indicated this would be insufficient given the technical complexity of many gas-transition projects and the time required for firms to plan, design, and secure financing for investments. Stakeholders generally suggested that an availability period of between two and five years would be more appropriate. On balance, we recommend an availability period of three years, which should allow sufficient time for businesses to plan and deliver complex transition projects, while also encouraging earlier investment decisions.

38. **Benefit pass through**: Lenders should be required to pass through lower interest rates that reflect the benefit of the guarantee. We also recommend requiring that the guarantee complements, rather than replaces, existing green lending products, allowing benefits to be stacked and improving uptake without increasing fiscal cost.

39. **Refinancing**: We do not recommend allowing refinancing under the scheme. Supporting refinanced lending would undermine additionality, create moral-hazard risks by incentivising lenders to de-risk existing exposures, and raise questions about the need for Crown intervention where lending was already commercially viable. The scheme should therefore be limited to new investment only.

40. **Eligible lenders**: We are considering allowing both banks and non-bank lenders to participate but note that non-bank lenders typically have higher risk profiles and may pass on fewer benefits to borrowers. They were excluded from the Community Housing Provider (CHP) loan guarantee scheme for similar reasons, but were included for previous loan guarantee schemes (NIWE and BFGS). We recommend revisiting this as scheme details are finalised.

41. **Delivery model**: Given the likely scale of the scheme (over 200 firms in scope), we recommend a bank-delegated model, rather than a bespoke scheme. A bespoke

approach would be appropriate only for a much smaller scheme, due to administrative complexity.

42. **EECA wrap-around support:** Stakeholders and previous analysis highlighted that a loan guarantee on its own will not overcome key barriers to gas-transition investment, including high upfront costs, capability constraints, as well as technology and delivery risks. Complementary wrap-around supports could help address these challenges, including an information campaign to raise visibility of the scheme as well as providing technical support, (e.g. with business cases). Stakeholders have particularly emphasised the value of EECA's technical expertise for small and medium-sized firms. We therefore recommend including EECA wrap-around support as part of the scheme package to maximise uptake, effectiveness and gas-demand reduction outcomes. Scaling options are outlined in the financial implications section.

Financial Implications

Scheme costs

43. As discussed in the December advice, the loan guarantee would give rise to a contingent liability equal to the guarantee's face value, which would need to be disclosed in the Economic and Fiscal Updates. This disclosure would have no impact on the operating balance or net debt. However, a provision for expected credit losses would be recorded in the Government's financial statements and would directly impact the operating balance, though not net debt. Any claims arising from credit defaults would impact net debt.

44. Estimates of the scheme's potential fiscal cost depend on several key assumptions, including:

- whether a maximum borrower limit is applied, and at what level;
- the expected uptake of the scheme;
- the size of any buffer applied to the scheme limit;
- the assumed rate of expected credit loss.

45. Table 3 illustrates the estimated cost of the scheme under different borrower-limit and uptake assumptions. These estimates assume that businesses in scope undertake both fuel-efficiency and fuel-switching projects across all sites. As discussed earlier, there is considerable uncertainty around expected uptake, hence we suggest applying a 10 percent buffer to provide headroom in the event uptake is stronger than expected.

Table 3: Expected credit loss for the Crown at different borrower-limit and uptake assumptions, including a 10% buffer

Assumptions	Expected credit loss for the Crown	
	No maximum borrower limit	**$20m maximum borrower limit**
100% uptake	$191 million	$94 million
50% uptake	$95 million	$47 million
35% uptake	$67 million	$33 million

46. At this stage, our best estimate assumes a 35 percent uptake rate, with a 10 percent buffer, and an expected credit loss rate of 5 percent[4]. Subject to the recommended $20 million maximum borrower limit, this implies an expected credit loss attributable to the Crown of approximately $33 million.

47. However, as discussed earlier, there remains significant uncertainty around uptake, and negotiations with participating lenders have not yet commenced. To manage this uncertainty and retain flexibility to adjust the final scheme size, we recommend allowing additional headroom in the Budget bid. In particular, we recommend that the Budget bid accommodates funding of up to $50 million, reflecting a scenario with uptake of up to 50 percent with a 10 percent buffer.

48. This amount would be appropriated in 2026/27, subject to funding being approved through the Budget process, with no further costs in outyears aside from administration, discussed below. The initial expected credit loss would be recognised progressively over the 3-year availability period, to reflect when the exposure to the Crown guarantee is established through the fund capacity being accessed.

49. A placeholder bid has been included in the Budget process, pending decisions on whether to proceed with the scheme. This bid assumed an estimated cost of up to $100 million, reflecting a potential scheme size of up to $2 billion, but was based on very limited information about the businesses in scope, their investment needs, and likely uptake. We will ensure the budget package is updated to reflect the revised cost estimates for the scheme, including the expected credit loss, administration costs and potential EECA funding.

Administration of the scheme

50. While previous loan guarantee schemes were administered by the Treasury, there is currently no funding or resourcing available to administer a further scheme. Funding would therefore need to be allocated through Budget 2026, and we have included provision for administration costs in the Budget bid that has been submitted.

51. We estimate that administering the scheme would cost around $300,000 per annum over the forecast period and in outyears for the duration of the scheme – this includes one FTE for the administration of the scheme as well as the cost of audits. In addition,

[4] The 5 percent expected credit loss estimate has been made in absence of having any data relating to the credit quality of the underlying borrowers, and as such is based on our experience with other delegated schemes.

we have assumed one-off establishment costs of approximately $50,000, which would cover legal and set-up costs.

EECA wrap-around support

52. EECA advises that an effective wrap-around support package would target key stages of the project lifecycle, including building awareness of the scheme, supporting early-stage project development, assisting lenders with scheme alignment and eligibility verification, and undertaking ongoing programme analysis and reporting.

- **Option 1: Reprioritisation within baseline (Treasury recommended):** EECA would repurpose existing support for gas users to promote the scheme. EECA considers this approach alone is unlikely to significantly increase uptake or address key barriers. Any additional support beyond promotion would require reprioritisation of discretionary baseline funding, with potential trade-offs against other initiatives.

- **Option 2: Core package (MBIE recommended):** This option is estimated to cost around $6 million over the project delivery period (2026/27–2028/29). It would build on Option 1 by providing targeted information services for eligible gas users, alongside co-funding for feasibility studies and business-case development for efficiency and switching projects. EECA considers this option to be the minimum viable product.

- **Option 3: Core package and additional support (EECA recommended):** This option is estimated to cost around $7.8 million over the project delivery period (2026/27–2028/29). It would build on Options 1 and 2 by providing on-the-ground technical support, guidance for lenders, formal verification of project eligibility, and ongoing forecasting and monitoring.

53. Treasury recommends Option 1, reprioritisation within baseline. While option 2 could help increase the overall efficacy of the scheme, Treasury considers option 1 to be better as EECA is likely to have discretionary baseline funding available for reprioritisation. Such funding could be redirected towards priority actions for wrap-around support, such as business case development and guidance for lenders. Any reprioritisation could be progressed through the Budget Technical Process.

54. Given the range of barriers businesses face in transitioning off gas, including coordination failures and information gaps, MBIE supports the provision of targeted additional funding to EECA to increase the uptake and effectiveness of the scheme.

Risks

55. We have previously outlined the key risks associated with a loan guarantee scheme, including the potential for market distortions and moral hazard (T2025/2972 refers).

56. There is a risk that the final scheme settings do not fully strike the intended balance between the objectives described in this advice. This can be mitigated by retaining flexibility to refine the final terms following detailed negotiations with participating lenders. We will seek your approval for the final scheme terms once negotiations conclude.

57. There is also a risk that interest in the scheme is higher than expected. We think this is risk is low as we have used a relatively high take-up assumption, plus a buffer. Funding will be provided through a permanent legislative authority (PLA), which can be adjusted through the forecast process as better information on uptake and risk emerges, subject to the maximum scheme limit, which would continue to provide a hard cap on the Crown's exposure.

58. There is a risk that the scheme does not result in additional investment if support is provided to firms that are already able to proceed without government involvement. This risk is mitigated to some extent through design features such as a maximum borrower limit, which constrains the relative benefit available to any single firm, and the scheme's focus on reducing borrowing costs rather than providing grants.

59. Delivery risks include potential administrative complexity or delays if scheme processes are perceived as burdensome by lenders or borrowers. Banks indicated these risks are generally manageable, reflecting their experience implementing previous loan guarantee schemes, but noted potential pressure points such as operational and technical overheads, challenges verifying eligible projects, and reduced efficiency for smaller loans.

60. [36]

61.

Implementation and next steps

62. The establishment of the scheme would require providing an indemnity. This would be subject to your consideration of the public interest test as required by section 65ZD of the Public Finance Act 1989. You should also inform Cabinet in advance of your intention to establish the scheme.

63. Should you wish to proceed with the scheme, we will prepare a Cabinet paper to inform Cabinet of your intention to provide a loan guarantee. The paper would set out the proposed scheme design parameters, noting that the final terms remain subject to negotiation and your statutory discretion.

64. Funding for the scheme would need to be agreed by Cabinet. A Budget initiative is currently under consideration as part of Budget 2026 and will be updated to reflect revised cost estimates and any additional funding for EECA support.

65. Following negotiations with lenders, we will provide you with advice on the final terms of the scheme for your approval. This advice will assess the scheme against the public interest test and seek delegated authority for the Secretary to the Treasury to execute and administer the scheme, including entering into deeds of indemnity.

66. You will also be required to present a statement to Parliament under the Public Finance Act. Treasury can assist with preparing this statement.

67. The indicative timeline is as follows:

- **26 March** – Draft Cabinet paper provided for Ministerial consultation
- **16 April** – Cabinet paper lodged
- **22 April** – Consideration at Economic Policy Committee (ECO)
- **28 April** – Cabinet consideration
- **29 April** – Budget package considered by Cabinet
- **April/May** – Final terms negotiated and draft indemnities prepared
- **21 May** – Treasury report seeking agreement to final scheme terms
- **June** – Execution of indemnities and implementation of the scheme

Recommended actions

We recommend that you:

a **indicate** whether you wish to proceed with the scheme

Yes/No

b **indicate** your preferred settings for the indicative terms of the scheme:

Indicative terms	Options	Decision
Project eligibility	Projects must be expected to achieve a minimum reduction of at least 15%, with reduction not being the result of decreased production or output	*Yes / No*
	and exclude fuel switching projects that switch from gas to a more emissions intensive fuel source, (e.g. coal)	*Yes / No*

	and include other costs and expenses which are directly related to the project (e.g. connection upgrades, technical support/consultancy)	*Yes / No*
Eligibility criteria	Borrower must be a current natural gas user with annual gas consumption of at least 5,000 GJ	*Yes / No*
	and borrower must be considered by the relevant Lender to be viable under the relevant Lender's Supported Loan Policies, Practices and Processes	*Yes / No*
Maximum borrower limit	Maximum value of Supported Loans per borrower is $20 million	*Yes / No*
Maximum scheme limit	Maximum aggregate value of all Supported Loans under the Scheme is in the range of $800 million to $1.2 billion	*Yes / No*
Maximum lender limit	To be allocated on a per lender basis based on exposure, market share and lender type.	*Yes / No*
Crown guarantee	80% of Supported Loans	*Yes / No*
Availability period	3 years	*Yes / No*
Maximum Tenor	Lending of up to 10 years	*Yes / No*
Type of financing	The scheme should be limited to new investment only (no refinancing)	*Yes / No*
Benefit pass-through	General requirement for lenders to pass on lower interest rates reflective of the benefit provided by the guarantee. The guarantee should complement, rather than replace existing green lending products.	*Yes / No*
Fee to offset risk	No fee **(not recommended)**	*Yes / No*
	or applying a fee of 0.1%	*Yes / No*

c **indicate** your preferred option (if any) for EECA wrap-around support

i. Option 1: Reprioritisation within baseline (Treasury recommended)

Yes/No

ii. Option 2: Core package – $6 million over 2026/27-2028/29 (MBIE recommended)

Yes/No

iii. Option 3: Core package and additional support – $7.8 million over 2027/2-2028/29 (EECA recommended)

Yes/No

d **note** that if you select Option 1, this will require engagement with the Minister for Energy; we would discuss next steps with MBIE in the first instance e **note** that updated costings indicate an estimated scheme cost of up to $50 million

f **note** that, through the Budget process, officials will revise the estimated cost of the loan guarantee initiative and reflect any decision on EECA wrap-around support

g **agree** to inform Cabinet of your intention to establish the scheme as set out in this paper, subject to final Budget decisions, and that you would make decisions on the final terms of the scheme following negotiations with lenders

Agree/Disagree

h **agree** for officials to begin negotiations with lenders based on the indicative terms outlined in this report

Agree/Disagree

i **refer** the report to the Minister of Energy and the Minister for Resources

Refer/not referred.

John Marney
Manager, Revenue and Economic Development

Hon Nicola Willis
Minister of Finance

_____/_____/_______