The Treasury

Budget 2026 Information Release

September 2026

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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: T2026/230 BM-2-1-2026-M133843

Date: 13 February 2026

To: Minister of Finance (Hon Nicola Willis)

Deadline: None
(if any)

Aide Memoire: Additional Baseline Reductions and Public Service Transformation

Purpose

You have received an updated version of the Public Service Transformation Cabinet paper that responds to feedback from yourself and the Minister for the Public Service provided to Central Agency Chief Executives on Tuesday 10 February.

We will be providing you further advice in the March report back on the implications of the FTE target on future budget processes. The upcoming baseline reductions (5% + 5%) will be a significant lever in achieving the target and accordingly has been set out in some detail in the draft Cabinet paper. This aide memoire provides you with supplementary information on the additional baseline reductions and explains the key judgements underpinning how the baseline reduction elements of the Cabinet paper has been drafted, including topics that the Cabinet paper highlights will be considered in the March report back.

Cabinet paper reflects the baseline reduction

Cabinet agreed, through the Budget Strategy Paper [CAB-25-MIN-0340 refers], to implement a baseline reduction and delegated authority to Budget Ministers to determine its application. Budget Ministers subsequently agreed the parameters of the programme for Budget 2026, including scope, scale, and sequencing. It was agreed that a 2% reduction should be processed through Budget 2026 with further work to be completed on the additional 5% + 5%.

The Cabinet paper has therefore been drafted based on those delegated decisions. If you prefer, the paper could instead seek Cabinet re-agreement to the approach and parameters of the additional reductions. In either case, we agree that the paper should include the baseline reduction to give visibility to the savings programme and to make the link to the broader transformation work clear.

You may choose whether to include agency-level reduction targets in the Cabinet paper (set out in Annex One). If you do, we can add this into the draft Cabinet paper next week. If you prefer not to specify these in the Cabinet paper, we recommend including a delegation authorising you (or Budget Ministers) to set and communicate those targets directly.

Coverage of the baseline reduction

At this stage, the baseline reduction applies to a subset of agencies, for example, core education, health and law and order agencies are not currently in scope.

This narrower scope was developed before the FTE target was being considered by Cabinet. As we have discussed with you, there are a few issues worth considering in the proposed report back. In particular, agencies out of scope (including “envelope” agencies) may not be subject to the same level of fiscal incentives to scrutinise operating models, workforce growth, and back-office functions (and those agencies have a significant proportion of public service FTE).

During the proposed report-back, we will be able to provide you with options for broadening expectations beyond the current scope [33] as well as other agencies partially excluded such as the Ministry of Social Development. These could include expanding the eligible base or applying parallel expectations to excluded agencies. We expect these will be used in a complementary manner to the levers available to the Public Service Commissioner (e.g. a revised Government Workforce Policy Statement) and Ministerial expectations.

Design expectations and implementation

Under the initial 2% baseline reduction exercise, agencies were expected to prioritise departmental efficiencies, including contractor and consultant expenditure, and operating model changes. Most but not all agencies met these expectations, but our initial observation is that agencies have prioritised non-FTE savings first. This is set out in more detail in the draft Budget package advice you have received today [T2026/109 refers].

It may be helpful to make expectations regarding personnel expenditure more explicit and required of Ministers (a “personnel-first” expectation). That would align the fiscal lever (baseline reduction) more explicitly the workforce objective (FTE target).

We can confirm and refine these expectations through the March report-back, including providing advice on how strongly this expectation should be framed and how it would interact with other implementation levers.

Fiscal treatment

Once the eligible base and indicative savings targets by agency has been agreed and communicated, this will support the recognition of baseline reduction savings in the fiscal forecasts.

You have indicated that you may wish to utilise savings from future years to fund the Budget 2026 package.

This is ultimately a Ministerial decision, but Treasury's first-best position is that savings from the additional reductions should be made spread across Budgets (with future savings added to the Budgets 2027 and 2028 allowances respectively). This reflects that:

- the savings are intended to drive medium-term structural change and will require time to implement;
- using outyear savings to fund near-term initiatives could create fiscal risks if savings are delayed, lower quality, or require further policy decisions to realise; and
- using savings for future Budget choices preserves flexibility while maintaining the credibility of the programme.

Should you choose to use future savings to fund the Budget 2026 package, this will likely be reflected within Budget documents (i.e., the BEFU) in the box we include on the fiscal impact of budget packages in the Fiscal Outlook.

Next Steps

We understand the Cabinet paper is expected to proceed through the Cabinet process in late February. As signalled in the paper, central agencies will report back in March on implementation settings.

We are available to discuss this aide memoire and the draft Cabinet Paper with you at Fiscal Matters on Monday 16 February, should you wish.

Indicate if you would like to include agency-level reduction targets in the Cabinet paper

Yes / No

Indicate if you would like this Aide Memoire referred to the Minister for the Public Service

Yes / No

Tom Brooke, Acting Principal Advisor, Budget, [39]
Stephen Bond, Manager, Budget, [39]

Annex One: Baseline reduction design and targets for Cabinet paper

1. We propose to continue to drive fiscal discipline through a baseline reduction that will be applied to a selection of agencies across the public sector. This will help support our fiscal strategy by generating savings, while giving Ministers flexibility to determine the most effective source of savings.

2. We propose the eligible base for calculating these reductions is as follows, with exclusions occurring in the order described below (noting that this only excludes areas from a baseline reduction, but not other savings processes):

    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:

        i. Benefits or Related Expenses

        ii. Finance Costs

        iii. Permanent Legislative Authorities

        iv. Capital

        v. 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)

        vi. Most "Other Expenses" (except for where these have been identified as discretionary, and will be specified in Budget invitation letters)

        vii. By exception, other case-by-case amounts of spending deemed unsuitable for including in an eligible base

    c. Departmental depreciation if it is material to an agency's eligible base (the Treasury will work with agencies to determine these exclusions).

3. The following agencies/specific appropriations are excluded:

    a. Offices of Parliament and Parliamentary agencies.

    b. Envelope agencies (Ministry of Education (except for Tertiary Education), Education Review Office, Ministry of Health, Ministry of Justice, Department of Corrections, New Zealand Police, Oranga Tamariki–Ministry for Children, Crown Law, Serious Fraud Office, and the Centre for Family Violence and Sexual Violence Prevention, Ministry of Defence, and NZ Defence Force)

    c. Disability support expenditure in Vote Social Development

    d. Public and Transitional Housing

    e. Science, Innovation and Technology funding

4. Baseline reduction targets are based on the average baseline expenditure across the forecast period (2025/26 to 2029/30), as presented at Budget 2025.

5. This design results in an eligible base of $7.4 billion.

6. We propose that eligible agencies are subject to a multi-year baseline reduction of 10% over two years, to encourage medium-term planning and operational changes over time (phased at 5% from 2027/28 and an additional 5% from 2028/29).

7. This approach is estimated to deliver up to $647 million in savings per annum when the baseline reduction is fully implemented.

8. Savings can be found from across the Vote.

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

10. In line with these goals, it is our strong expectation that baseline reduction 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).

11. Savings can also be put forward from third-party providers, but we expect Ministers to carefully consider any reductions that may impact frontline services.

Table 1: Indicative agency baseline reduction targets:

Department ***(note all figures $m p.a.)***	**Eligible base**	**Target (10%)**[1]
Ministry of Social Development	1,880.0	94.0[2]
Inland Revenue Department	788.5	78.9
Ministry of Business, Innovation and Employment	682.6	68.3
Ministry for Primary Industries	657.9	65.8
Department of Conservation	569.6	56.8
Ministry of Education	486.5	48.7
Ministry for Culture and Heritage	453.9	45.4
Department of Internal Affairs	406.9	40.6
Ministry of Māori Development - Te Puni Kōkiri	294.4	29.4
Statistics New Zealand	216.1	21.6
Ministry of Transport	210.7	21.1
Ministry for the Environment	192.5	19.2
The Treasury	113.0	11.3

[1] 10% of eligible base, phased as 5% from 2027/28 and a further 5% from 2028/29.

[2] Note that the MSD target is 5% applying from 2028/29.

Land Information New Zealand	105.7	10.6
Ministry of Housing and Urban Development	80.7	8.1
New Zealand Customs Service	80.5	8.0
Social Investment Agency	40.7	4.1
Ministry for Pacific Peoples	39.4	3.9
Ministry of Justice	38.1	3.8
Public Service Commission	27.4	2.7
Ministry for Regulation	21.4	2.1
Ministry of Disabled People	18.7	1.9
Ministry for Women	12.2	1.2