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

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Capital Pipeline for Budgets 2027-2029

Date:	20 March 2026	**Report No:**	T2026/471
		File Number:	MC-1-5-2-2026-6-M134767

Action sought

	Action sought	Deadline
Hon Nicola Willis **Minister of Finance**	**Discuss** this report with officials.	23 March 2026

Contact for telephone discussion

Name	Position	Telephone		1st Contact
Amy Spittal	Senior Analyst, Macroeconomic and Fiscal Policy	[39]	N/A (mob)	✓
Alex Hamilton	Unit Manager, Macroeconomic and Fiscal Policy		N/A (mob)	

Minister's Office actions

Return the signed report to Treasury.

Refer a copy to the Minister for Infrastructure.

Note any feedback on the quality of the report	

Enclosure: Annex One: Overview of the capital pipeline for Budgets 2027-2029
Annex Two: Sector overviews

Executive summary

You have indicated a preference for a multi-year approach to managing the capital allowance and pipeline. This report provides an overview of capital investment intentions to support decisions on capital allowances for Budgets 2027–2029

While better agency planning and reporting has improved visibility of the capital pipeline, agencies' investment intentions have been developed without top-down constraints. As a result, the investments signalled in the current capital pipeline taken together are unaffordable and likely to be undeliverable. Capital intensive agencies are expected to seek $10 billion per Budget for the years 2027-2029, compared to current capital allowances of $3.5 billion per Budget. This estimate excludes investments in the Transport Government Policy Statement (GPS) 2027, which are being considered through Budget 2026.

We understand that you are likely to discuss allowance decisions with Budget Ministers on 9 April and are expected to finalise decisions on the Transport GPS 2027 at this meeting. We will reflect the outcome of that decision in the Budget 2026 capital allowance.

Decisions on capital allowances do not need to be made now, although our preference would be to include indicative capital allowances for the economic forecasts on 1 April. There will be opportunities to update the forecasts over the course of April to reflect the impacts of the Middle East conflict and your Budget decisions.

With net core Crown debt's approaching 50% of GDP, the level that the Treasury has previously assessed as prudent, the trade-offs for increasing investment are sharper.

At this stage, we do not see a strong bottom-up case to lift the $3.5 billion allowances for Budgets 2027 and 2028. This is because:

- It is unlikely that Health NZ has the ability to deliver a significant increase in investment in the short-term. Health NZ is currently significantly underspending compared to its capital forecast intentions.
- [33]
- There are policy levers available to reduce pressures in demand-driven sectors (Education and Corrections). While these will require challenging choices, we recommend policy changes are explored to improve the affordability of the capital pipeline.
- Increasing capital investment would exacerbate pressures on future operating allowances because of the operating costs associated with capital projects.
- There is currently insufficient information on whether any investments in the pipeline are likely to lift productivity significantly enough to justify an increase to the allowances.
- We consider that possible contributions to investment in Roads of National Significance should be traded off against other projects within the existing allowance.

We recommend that you lift the Budget 2029 allowance to $5 billion, to reflect expected investments in that year for defence and hospital projects. Indicative modelling suggests this is compatible with your short-term intention to put net core Crown debt down on a downward trajectory towards 40%.

Given the ongoing need to strike a balance between achieving the Government's fiscal objectives and its other priorities, a forward work programme is underway which focuses on:

- ensuring that policy reviews within different sectors consider the need to achieve fiscal sustainability alongside the Government's other objectives
- improving the incentives on the public sector to be better investment managers
- reorienting the public finance system to better manage reprioritisation, improve value for money, and take a medium-term perspective.

We will provide updates on this work programme throughout 2026 to inform advice for the 2027 Budget Policy Statement.

We recommend that you discuss this report with officials at Fiscal Matters on 23 March.

Treasury Report: Capital Pipeline for Budgets 2027-2029

Purpose of report

1. The purpose of this report is to provide advice on the capital pipeline for Budgets 2027-2029. It provides advice on decisions on capital allowances across the forecast period and presents a forward work programme to help you take a medium-term approach to managing the pipeline. Alongside this report, you have received advice on your fiscal strategy and operating allowances over the forecast period (T2026/433 refers) and weekly Budget 2026 package advice (T2026/479 refers).

Background

2. In September 2025, we provided you with advice that, based on a rapid assessment, highlighted a significant pipeline of potentially high-quality investments (T2025/2313 refers). You directed officials to provide you with advice on the approach to capital expenditure in future Budgets by March 2026.

3. In September 2025, we provided follow-up advice on the fiscal impacts of capital investment scenarios (T2025/2432 refers). These illustrative scenarios showed that undertaking all investments identified for Budgets 2026-2029 and the projects expected through the Transport Government Policy Statement (GPS) 2027 – even when using other options to raise revenue and recycle assets – is not compatible with the Government's fiscal strategy.

4. In the 2026 Budget Policy Statement, you set capital allowances of $3.5 billion for Budgets 2026-2029 but signalled the intention to review these allowances through the Budget 2026 process (T2025/2844 refers).

5. On 17 March 2026, you and the Minister for Infrastructure received Treasury's initial views on the 16 recommendations contained in the National Infrastructure Plan (T2026/395 refers). This report on capital allowances for Budgets 2027-2029 forms part of the response to recommendation one on needs-based capital allowances: "ensure fiscal strategy and capital allowances are informed by the Commission's independent assessment of long-term needs and agencies' infrastructure asset management and investment plans."

There are significantly more investments signalled than current funding available

6. Based on the information available, the amount that could be sought by capital intensive agencies in Budgets 2027 to 2029 is on average $10 billion each year (excluding the Transport GPS), compared to current capital allowances of $3.5 billion. Figure 1 illustrates the gap between current allowances and possible funding requests.[1]

Figure 1: Possible capital funding requests for Budgets 2027-2029 (excluding the Transport GPS 2027) and capital allowances

7. This information is a point-in-time view. It represents agencies' indications of what funding they might seek in upcoming Budgets, and represents an unconstrained, bottom-up perspective. There is elasticity in what will be sought in what year depending on business case processes, planning reviews, and policy choices. Allowances will always be oversubscribed, and agencies understand that not everything they have signalled in their capital pipeline will be funded.

8. Budget 2026 decisions will have flow-on implications for future years, as projects not funded this year might seek funding in later Budgets. Due to ongoing package development, implications from the current Budget 2026 package are not included in these numbers. As such the forward pipeline is dynamic and will change in future.

[1] We have compiled the capital pipeline based on draft December 2025 Quarterly Investment Reporting (QIR) and June 2025 Investment Intentions, with targeted input from capital-intensive agencies to verify expected Budget commitments sought. The Treasury does not assess or verify this data.

9. There is a spike in expected funding requests for Budget 2029 and in subsequent years, reflecting the first stage of the [33] and major hospital projects.

Table 1: Expected funding requests by Budget year

Signalled Budget year for seeking funding	Expected funding requests (excluding Transport GPS)
Budget 2027	$7.5 billion
Budget 2028	$8.5 billion
Budget 2029	$12.5 billion

10. A key interdependency is the Transport GPS 2027. We understand that you are aiming to finalise decisions on the funding treatment of Transport GPS 2027 at Budget Ministers 3 on 9 April, with a focus on scrutinising the base and [33] Roads of National Significance (RoNS). We will provide you with further advice on this next week (week of 23 March 2026), subject to receiving additional information from the New Zealand Transport Agency.

11. Figure 1 includes capital-intensive Votes, excluding transport, that comprise the majority of the future pipeline. The next five agencies by size of expected capital investments are set out in Table 2. These agencies are in the 'other' category in Figure 1.

[33]

12. A breakdown of the pipeline is attached in Annex One. One-pagers for each Vote are also attached in Annex Two, describing the possible funding requests, drivers of capital expenditure, capacity and capability to deliver, relevant commentary from the National Infrastructure Plan, and key strategic choices for managing the pipeline. Although no capital funding requests are signalled for Kāinga Ora, we have included future operating spending within Vote Housing and Urban Development in the sector overviews because of the investment-like qualities of social housing expenditure.

Other uncertain factors may influence the scale of future capital investment

13. Factors excluded from the current assessment of capital pipeline are listed below.

    a. Investments that **do not have a capital component** (e.g., some data and digital investments).

    b. Investments **not yet signalled** in Quarterly Investment Reporting or as Investment Intentions, or investment to **improve existing assets.**

[33] and [37]

c

d

e

f **Capital cost escalations** from existing projects, including due to inflationary or supply chain impacts of the ongoing Middle East conflict.

g **Adverse weather events** that could create new requirements to renew existing infrastructure.

h The **approach taken to funding potential future Transport GPS.** Successive Governments have provided additional funding from the fiscal strategy on top of the National Land Transport Fund (NLTF). At this point, our first best advice is that this is funded by user charges and there is ongoing work to try and address the structural deficiencies in the land transport funding model which would support Governments to achieve this outcome. However, a risk remains that additional Crown funding may be required from time-to-time.

Increasing capital expenditure has trade-offs for your fiscal strategy

14. We have previously advised (T2025/2313 refers) that increasing capital spending could still be prudent when debt exceeds 50% of GDP but it would depend on the circumstances, in particular:

a Raising the bar on what constitutes value-for-money, such that the proposed investments would justify the risks of increasing debt.

b Whether there was a clear and credible path to return to a sustainable operating surplus, including having fully considered any operating implications of increased capital investment (see paragraphs 28-32).

c That options to identify savings from within baseline capital expenditure and recycling capital on the balance sheet had been exhausted (see paragraphs 33-38).

d How other measures to manage the pipeline had been used, including raising revenue for the NLTF and phasing Defence investment (see Annex Two).

15. These considerations also apply as debt approaches 50% of GDP. At the time of the preliminary fiscal forecasts, net core Crown debt was forecast to peak slightly lower than the Half Year Update at 45.7% of GDP. This situation has likely changed now as economic implications of the Middle East conflict emerge. Nevertheless, the preliminary forecast debt track is still above the Government's long-term objective of keeping debt below 40%. In this context, increases to capital expenditure need to be well justified.

You have options for your Budget 2026 capital package

16. The Treasury's draft Budget package included a net $4.2 billion ($5.4 billion gross) of capital investments identified as being high value and deliverable, with options on top of this for the Transport GPS (T2026/109 refers). The net figure includes proceeds from the sale of Chorus Securities. Investments in our initial recommended package are largely non-discretionary, so choices to defer investments will likely place further pressure on Budgets 2027 and 2028.

17. Decisions remain for Ministers that could impact the final Budget 2026 capital package and your fiscal strategy.

a You are meeting Budget Ministers on 9 April to decide confirm majority of the Budget package, including any funding for Transport GPS. [33] We could include these scenarios – or alternatives - in your BM3 slides to support discussions.

b You will receive further advice on Health capital, potential Health New Zealand cashflow support, and options to increase the Education package up to [33] to fund school property. While this advice will be focused on the initiatives making up the capital package, it could bring the total size of the package closer to [33] .

We recommend keeping Budget 2027 and 2028 capital allowances at $3.5 billion with an uplift to $5 billion in Budget 2029

18. We recommend that the profile of capital allowances reflects the profile of expected large capital projects. As such, we recommend retaining the existing $3.5 billion capital allowances for Budgets 2027 and 2028 and increasing the Budget 2029 allowance to $5 billion. While these Budget 2027 and 2028 allowances are lower than allowances recommended in the Treasury draft package, this reflects the uneven nature of capital investments.

19. While there is pressure in the future pipeline, we do not currently see a strong case for lifting allowances for Budgets 2027 and 2028 at this stage, because:

a It is uncertain whether Health NZ has the ability to deliver a significant increase in investment in the short term. For Budgets 2027 and 2028, we recommend that Health NZ focuses on delivering its existing capital pipeline including completing planned large-scale hospital developments.

b There are policy levers to reduce pressures in demand-driven sectors (Education and Corrections). While these will require challenging choices, we recommend policy changes are explored to improve the affordability of the capital pipeline on an ongoing basis.

c [33]

d Increasing capital investment would exacerbate pressures on future operating allowances, amidst the ongoing consolidation necessary to return to surplus and growing pressures on operating spending due to demographic shifts (see discussion in paragraphs 28-32).

e From a value for money perspective, further information is required to determine the extent that any of the proposed investments would justify an increase in the allowance. This includes whether there are any investments in the pipeline that are likely to significantly lift productivity.

f The RoNS included within the GPS on the whole represent low value for money, and so there are genuine choices about whether to make these investments and any potential funding contribution should be traded off against other projects within the existing allowance.

20. More detail on expected investments and policy levers to manage pressures in each sector is included in Annex Two.

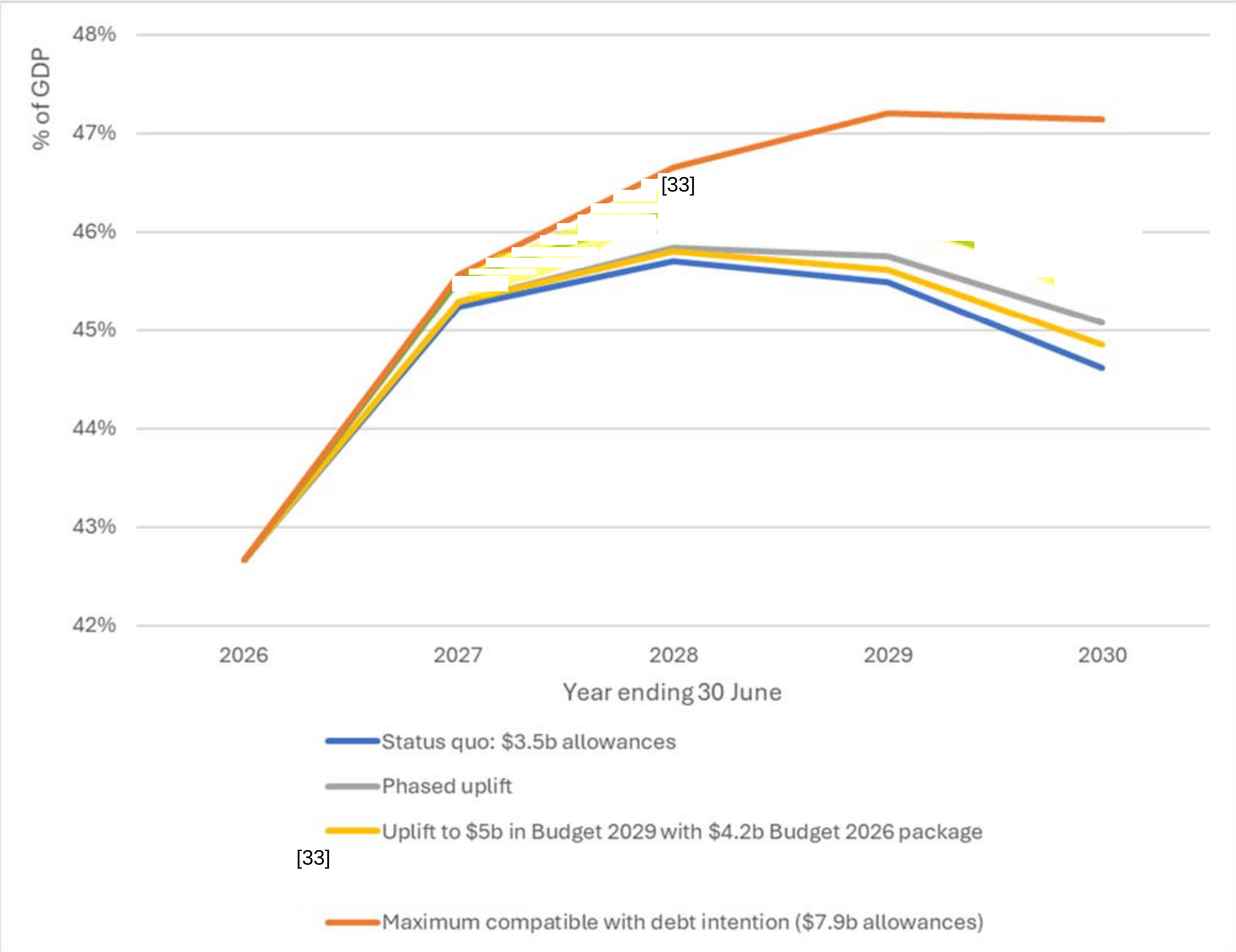
21. We recommend you lift the Budget 2029 allowance to $5 billion due to the expected large investments seeking funding in that year that are Government priorities. These large investments include hospitals [33] , So far, based on the December 2025 QIR, agencies are signalling projects worth $3.2 billion that are expected to request funding and be investment ready at Budget 2029. Given the scale of investment signalled this far out, our view is that $3.5 billion is no longer a realistic planning constraint or forecasting assumption.

22. [33]

23. Signalling an increase now would allow the system time to plan to deliver this uplift. Lifting the Budget 2029 allowance to $5 billion would keep the proportion of the forward pipeline covered by the allowance consistent with prior years (around 40%). Indicative modelling using the Fiscal Strategy Model based on the preliminary BEFU forecasts suggest that lifting the Budget 2029 capital allowance to $5 billion is compatible with your short-term intention to bend debt down toward 40% (Figure 2).

24. We intend to include a $5 billion capital allowance for Budget 2030 if the 2030/31 fiscal year is added to the forecast period at the Pre-election Economic and Fiscal Update, consistent with our recommendation for the Budget 2029 allowance. [33] .

Figure 2: Illustrative net core Crown debt trajectories for capital allowance scenarios (based on preliminary BEFU forecasts)



Note: the phased uplift scenario includes a $4.2 billion capital allowance for Budget 2026, $4 billion for Budget 2027, $4.5 billion for Budget 2028, and $5 billion for Budget 2029.

25. Keeping allowances for Budgets 2027 and 2028 at $3.5 billion would require trade-offs within the pipeline of planned investments, as will Budget 2029 even with the proposed increase. The forward programme (discussed in paragraphs 45-47) aims to support you to take a strategic, planned approach to these trade-offs. We recommend that you communicate the unaffordability of the current pipeline in engagements with your colleagues in upcoming reviews of policy settings in capital-intensive sectors.

26. The alternative scenarios shown in figure 2 are a [33] Budget 2026 allowance [33] and a phased uplift in capital allowances through time to fund more of the Government's priorities. As noted above, the capital allowance within Treasury's draft package for B26 is $4.2 bn. Moreover, we do not recommend a phased uplift at this stage. We would want to see the forward work programme progress before considering lifting allowances in Budgets 2027 and 2028.

27. Indicatively, $7.9 billion capital allowances are the maximum compatible with short-term intention for debt, though the associated interest costs would increase the OBEGALx deficit in 2028/29 to -$0.4 billion. We do not recommend this scale of increase from a bottom-up assessment or a top-down fiscal strategy perspective. Allowances of this level would leave you with very little headroom, meaning that compliance with your debt intention would be vulnerable to even small forecast changes or risks materialising.

28. There remains the flexibility to increase allowances at future Budgets (within the debt constraint) if high value and deliverable investments are identified as better investment-level information is available or new investments are added to the pipeline, implying upward risk. Given this flexibility, there is scope to sequence your decisions on allowances for Budgets 2027-2029 ahead of finalising the Budget 2026 package. We recommend you continue to communicate that capital allowances are an indication of future capital spending but the Government's debt objective is the ultimate constraint, because capital investment requirements can be large and uneven.

Increasing the capital allowance will require trade-offs with operating expenditure

29. Decisions on future capital allowances will put pressure on future operating expenditure, increasing the challenge of achieving your short-term intention to return to operating surplus.

30. Economically, there is an increasingly blurry distinction between capital and operating expenditure, as operating expenditure can have characteristics of an investment. For example, the digital transformation envisaged in the public sector transformation strategy will add to pressures on future operating allowances because software-as-a-service arrangements are classified as operating expenditure. Social housing funding can be operating or capital depending on the provider.

31. The difference in accounting treatment between capital and operating expenditure is primarily about spreading the cost throughout time. Since operating expenditure is recurring, it should be funded through revenue. Since capital expenditure results in an enduring asset, debt can be used to spread the cost through time.

32. Nevertheless, capital expenditure will have ongoing implications for operating through depreciation, running costs, and interest costs. Lifting capital expenditure without lifting the operating allowances would mean sharper trade-offs with other operating priorities in future, in the context of intensifying pressures on operating allowances due to demographic shifts.

33. As a rule of thumb, there is around $1 of operating expenditure associated with every $3 of capital expenditure. Indicatively, lifting the Budget 2029 allowance by $1.5 billion to $5 billion would create an additional $500 million of operating pressures. Pipeline data indicates that there is around $1 of operating expenditure for every $4 of capital expenditure for the current investments in the pipeline. This only reflects the operating commitments signalled for the Budget 2027-2029 window and does not reflect whole-of-life costs.

You have options to raise revenue or recycle capital to mitigate the impacts on your fiscal strategy

34. Your key revenue lever is within the Transport portfolio. The Treasury's first best advice would be that any new funding for this portfolio be met through revenue increases, consistent with the user pays principle, noting with fuel price volatility heightened by the conflict involving Iran, there is likely to be limited appetite for near-term increases to user charges.

35. If you wished to increase capital expenditure, options could be considered for recycling existing assets to reduce the short-term debt impact. However, previous modelling has indicated that this would only partly offset the pressures on the capital allowance. This means that rationing of the investment pipeline would continue to be needed alongside any asset recycling.

36. Development of a more substantial asset recycling programme would require a mandate to progress. [37]

A clear case for reinvestment could be a critical input to gaining a public mandate.

37. While asset recycling can support higher capital investment while maintaining debt targets, any programme should understand the long-term impacts on fiscal sustainability. Sustainability is reduced if the return on the recycled assets is higher than the expected return from the new investment, or on the interest rate on government debt. [31]

38. There are limited asset recycling options within capital-intensive Votes under current policy settings. The pressures on the current pipeline highlight the need to continue to drive incentives with agencies on asset management and recycling.

39. As capital allowances are a net concept, optionality remains for future Budgets to increase gross capital expenditure should options for revenue increases and asset recycling emerge.

Economic objectives and impacts will vary by project type

40. The potential economic objectives for capital investment include productivity gains, and broader economic goals of resilience, sustainability, and distributive outcomes. You should consider these broader economic objectives when determining your Budget package and signalling future capital allowances through your fiscal strategy.

41. Most of the projects in the pipeline are focused on social and security objectives. Because we have limited project-level information, we have limited visibility of the likely economic impacts and expected benefit-cost ratios of investment intentions. The intended economic objectives and likely impacts will vary depending on the type of project. At a high-level:

    a Transport projects typically have the highest potential to be productivity-enhancing out of Government projects, but many of the RoNS have low benefit-cost ratios, suggesting low prospects of increasing productivity.

    b The impacts on the domestic economy will vary depending on the type of project. For example, a substantial portion of the Defence spending involves overseas purchases. This may limit growth opportunities for local industry, though could support knowledge and technology diffusion if equipment or services are cutting-edge.

    c Some of the investments in the pipeline are oriented towards improving resilience rather than efficiency, reflecting a trade-off between economic objectives. For example, Defence investments are aimed at improving New Zealand's security and resilience to a changing geostrategic environment. Defence investments contribute towards creating a military capability that is used when a contingent event occurs (e.g., a conflict requiring New Zealand to be deployed).

    Data and digital investments have the potential to be productivity-enhancing, including for delivering on the public sector transformation plan, but these are mostly operating expenditure.

42. You will shortly receive separate joint advice from the Treasury and MBIE on opportunities to maximise spillover benefits from capital investments made through Budget 2026 (for example, to support the economic objectives listed above).

43. The economic impacts of proposed investments will also depend on the market's capacity to deliver them. While overall market capacity, labour force, and supply chain impacts are gaps in our current evidence base, the market can respond to increased investment if given time to build capacity. We will work with System Leaders (e.g., Infrastructure Commission, New Zealand Government Procurement, and the Government Chief Digital Officer) to improve our understanding of overall market capacity in an investment context.

44. Agency capacity poses a more immediate constraint. For example, compared to the $7.5 billion capital potentially being sought in Budget 2027, only $4.6 billion (61%), by value, is reported through the QIR and projected to be investment ready ahead of Budget decisions.

Moving towards a multi-year approach to managing the capital pipeline

45. While allowances will always be oversubscribed, achieving the fiscal strategy will require prioritisation and sequencing of the capital pipeline because of increasing constraints on the fiscal position. This necessitates strategic trade-offs within sectors, across sectors, and across time.

46. Work is underway over 2026 and beyond that will better support the Government to make these choices. This includes work on the budgeting system looking at how the capital allowance and investment decision-making operates to support a more medium-term approach, which will also support the response to the relevant recommendations in the National Infrastructure Plan.[2]

47. The table below sets out this work programme:

Table 3: Work programme to support managing the capital pipeline

	Strategic policy choices	**System settings**	**Institutional change**
Objective	*Focus on the strategic choices available within each of the key sectors (see Annex Two).*	*Emphasise and update system settings to incentivise agencies to be better investment managers.*	*Reorient the public finance system to better manage reprioritisation, improve value for money and take a medium-term perspective.*
Focus areas	2027 Government Policy Statement for land transport (under consideration). [33] Justice property strategy (second half of 2026). Three yearly GPS on Health and NZ Health Plan (2027 and 2030). The two-yearly review of the Defence Capability Plan in 2027.	Strengthening investor assurance in the investment management system (late April 2026, T2026/222 refers). Broader improvements to the investment management system in response to the National Infrastructure Plan (T2026/395 refers). These relate to: • long-term investment planning, • asset management performance reporting, and • assurance. Continuing to improve the quality of information relating to the capital pipeline.	Work on how the budgeting system should respond to the range of economic and fiscal challenges placing pressure on delivering the Government's fiscal strategy and medium-term fiscal sustainability. Work on capital settings including capital charge and depreciation.
Approach	Discuss the affordability of the current pipeline with your Cabinet colleagues, including through input to upcoming reviews and processes for capital-intensive sectors.	Continue to progress the work programme for improving the Investment Management System through the CO (23) 9 refresh and development of Gateway assurance policy and investor assurance frameworks.	The Treasury will provide advice over 2026 on aspects of this institutional change.

[2] Recommendation 4: Predictable government funding signals. Extend the horizon over which Governments plan their infrastructure funding intentions and communicate these intentions to agencies and the public.

Recommendation 5: Multi-year budgeting. Adopt multi-year budgeting arrangements that leverage and reinforce high-quality infrastructure planning, delivery and asset management practices.

Next steps

48. We understand that you are likely to discuss allowance decisions with Budget Ministers on 9 April and are expected to finalise decisions on the Transport GPS 2027 at this meeting. We will reflect the outcome of that decision in Budget 2026 capital allowances.

49. Decisions on allowances do not need to be made now, although our preference would be to include an indicative capital allowance in the economic forecasts on 1 April. There will be opportunities to update the forecasts over the course of April to reflect the impacts of the Middle East conflict and your Budget decisions.

50. On 26 March, you will receive modelling of capital withdrawal scenarios from the New Zealand Super Fund. We do not recommend this as a capital reallocation strategy.

51. We have begun discussions with capital-intensive agencies on the challenges presented by the scale of the capital pipeline and opportunities to work together and will continue to engage with agencies on this work.

52. Alongside this report, you have received fiscal strategy advice on operating allowances across the forecast period. We will work with your office on how to communicate your decisions on operating and capital allowances and your intentions for the future capital pipeline through the Fiscal Strategy Report 2026.

Recommended actions

We recommend that you:

a **note** that the Budget 2026 capital package Treasury recommended in February was $4.2 billion.

b **indicate** the capital allowances you want to include in the Budget Update 2026 for Budgets 2026-2029:

i. Budget 2026: $4.2 billion or specify: ________________

ii. Budget 2027: $3.5 billion or specify: ________________

iii. Budget 2028: $3.5 billion or specify: ________________

iv. Budget 2029: $5.0 billion or specify: ________________

c **discuss** this report with officials at Fiscal Matters on Monday 23 March 2026.

d **note** that as part of the discussion on fiscal strategy at Budget Ministers 3, you could signal the future capital pipeline for Budgets 2027-2029 to support decision making.

e **discuss** the affordability of the current pipeline with your Cabinet colleagues, including through input to upcoming reviews and processes for capital-intensive sectors

f **refer** this report to the Minister for Infrastructure.

Referred / Not referred

Alex Hamilton
Unit Manager

Hon Nicola Willis
Minister of Finance

_____/_____/_______

[33]

Annex Two: Sector overviews

Defence

Possible capital funding sought

[33]

Note: this reflects investments where NZDF has indicated they will seek new funding and excludes investments they intend to fund from depreciation.

Key drivers

- The Defence Capability Plan 2025 (DCP) outlines defence investment intentions out to 2040 and is the key driver of the defence capital pipeline.
- Alongside the DCP, the Government has signalled an intention to increase New Zealand's defence spending to reach 2% of GDP [1] and [33] (from 1% currently).
- The planned replacement of almost the entire naval fleet through the Maritime Fleet Renewal Programme could involve [33] and [38] of capital injections beyond this period.

Capability and capacity constraints

- Defence investment is inherently uncertain and can often be subject to the flow-on impacts of changes in the international security market.
- Generally, Defence has an established procurement and delivery process for capability investments. Processes for infrastructure and digital investments are less mature.
- DCP investment delivery has seen some delays due to resourcing constraints to produce business cases and additional scoping required for some investments.

National Infrastructure Plan commentary

- Notes there are opportunities to deepen strategic partnerships with the private sector, fostering innovation in construction and financing; and to enhance interoperability and training opportunities with international allies.
- Notes that current conflicts impress the need to account for technological change when procuring new capabilities and for modernising existing platforms.
- Cautions that investment in new capabilities should not come at the expense of addressing maintenance and renewal needs.

Key strategic choices

- Whether to implement the investment pathway set out in the DCP, or if any changes are required such as adjustments to policy settings or sequencing.
- Within the Maritime Fleet Renewal Programme, decisions regarding replacement of the frigates [33] will determine the future shape of the DCP.

Next steps

- Use the review of the DCP [33] to test its settings against the fiscal strategy.

Health

Possible capital funding sought

[38]

Note: Budget 2026 decisions may alter the funding profile for the Regional Hospital Redevelopment Programme.

Key drivers

- Renewals of ageing hospitals and demographic change. Current infrastructure is often not fit for purpose.
- Health NZ estimates that around [33] and [38] will be needed over the next 10 years, including digital investment which is mainly operating.

Capability and capacity constraints

- While Health NZ has provided the funding intentions, it also notes that it does not expect all intentions will progress to delivery within the three-year period.
- The majority, if not all, of these investments will have associated operating costs that are currently uncertain.
- The estimates would be a significant increase in historical capital spending [33] and [38]
- Currently Health NZ is significantly underspending its capital expenditure compared to forecast intentions.
- There are only a few contractors in New Zealand specialising in hospital builds. Health NZ also needs to build internal capacity to procure and manage these projects.

National Infrastructure Plan commentary

- Expects investment demand for hospital infrastructure to increase due to need to renew and replace ageing hospitals and to expand services to serve the growing needs of an ageing population.
- Suggests shifting demand where possible to non-hospital care, improving value from major projects, and protecting capital set aside for rebuilding or remediating assets.

Key strategic choices

- Remediation versus new hospital builds: There are strategic choices around prioritising existing investments or undertaking new investments.
- Models of care – in the community versus hospitals: Invest in initiatives to shift demand where possible to non-hospital care.
- Outsourcing versus internal resourcing: Consider the best strategic use of outsourcing to maximise value.
- Managing the operating cost implications of any significant capital investment.

Next steps

- In the short-term, allow Health NZ to concentrate on delivering its existing capital pipeline including completing planned current large-scale hospital developments.

- In the medium to long-term, encourage the Ministry of Health and Health NZ to undertake work on models of care that support good health outcomes and are financially sustainable, and integrate this into health infrastructure planning (including incorporation into the three yearly GPS and New Zealand Health Plan 2030).

Corrections

Possible capital funding sought

[33] and [38]

Key drivers

- Long-term prison population growth, especially demand for high-security capacity, arising from changes to justice sector policies and laws.
- Addressing poor-quality existing infrastructure.
- Long lead-in times for prison builds (four to eight years).

Capability and capacity constraints

- No concerns about delivery constraints.
- The Department of Corrections has a Long-term Network Configuration Plan and a High-Security Programme Business Case.

National Infrastructure Plan commentary

- Notes the challenges with forecasting the level and composition of the remand and prison populations.
- Suggest that exploring alternative models of infrastructure provision, which already happens, provides innovative solutions for delivering reintegration and rehabilitation services.

Key strategic choices

- What are the alternative options to capital investment to manage network pressures? For example, decreasing the number of lower-level offenders in prisons, changing the high-security prisoner classification, investment in early intervention.
- How to manage and plan for the risk of insufficient supply given long lead-in times and implications of policy changes?

Next steps

- The Treasury is working with Corrections and other justice sector agencies to ensure cross-sector drivers are incorporated into demand planning, and capacity investment aligns wider justice system goals.
- The justice sector is expected to report back to the Infrastructure Investment Ministers Group in the second half of this year on a property strategy.

Education

Possible capital funding sought

[33] and [38]

Key drivers

- Shifting population geographies and typology (schools are not in the right places).
- Policy settings – number of schools, use of zoning, teacher-to-child ratios, property space allocations.
- Construction costs and maintenance of existing portfolio.

Capability and capacity constraints

- Projects are generally small scale.
- Recent moves to more repeatable designs and offsite manufacturing help reduce delivery and cost escalation risks.
- Establishment of New Zealand School Property Agency poses a small risk for delivery continuity.

National Infrastructure Plan commentary

- Notes that a key challenge is managing uneven and changing demographic demand alongside maintaining and renewing existing assets.
- Notes that numbers of Māori students are expected to grow by almost 40%.
- Suggests that making the most efficient use of existing assets will enable funds to be freed up to address areas of concentrated demand, this may include recycling or repurposing existing assets.

Key strategic choices

- [33]
- Review how funding is allocated to schools for capital upkeep to make it more targeted to need.
- Review how often the Ministry of Education seeks funding for growth (currently seeking funding each year).
- More active balance sheet management – asset recycling, school reduction, reducing footprint, proactive land purchasing.
- Activity to refurbish and relocate classrooms has generally increased in response to the Independent Inquiry into School Property. However, we understand the 'quick wins' in this space are largely exhausted.

Next steps

- [33] consider options for managing funding pressures.

Transport

Likely capital funding sought

- The land transport system faces an unsustainable funding shortfall, with forecast revenue for the National Land Transport Fund (NLTF) over the next 10 years falling short of the expenditure needed to maintain the current system and meet desired improvements.
- Through the development of the Government Policy Statement on Land Transport 2027 (GPS 2027), Ministers are considering options to address this gap and decide on funding options for new investments. We are working to support your request for more information on the base and opportunities to reduce operating expenditure before considering new projects.
- How far Ministers choose to go on new investment (e.g. the Major Transport Projects Pipeline) decisions through Budget 2026 will influence future capital funding requests.

Key drivers

- While the land transport system is intended to be funded through the user pays principle, primarily through FED/RUC and Motor Vehicle Registration fees, successive governments over the past decade have supplemented the NLTF with additional Crown funding through loans and debt.
- The Roads of National Significance (RoNS) programme, if continued in full, requires a significant funding uplift (estimated $56 billion) to be met through increases to FED/RUC, other financing tools such as tolls or infrastructure funding and financing (IFF) levies, and/or Crown funding.
- Waitematā Harbour Crossing is a significant, one-off investment.
- For both Metro and freight rail, there are pressures for funding the next period of the Rail National Investment Plan (RNIP), addressing overdue renewals as part of the Metropolitan Rail Operating Model (MROM), and other network upgrades and projects.

Capability and capacity constraints

- [33] This limitation reinforces the need for prioritisation to consider a whole-of-portfolio perspective.
- [34] . The Treasury is continuing to work with NZTA and MoT on scrutinising the base and will present further information to Ministers on this to guide choices on core operations, ahead of new investment decisions being made.

National Infrastructure Plan commentary

- Recommends that transport network infrastructure should be predominately funded from user charges, essential spending on renewals and maintenance should be prioritised, and sequence major projects using value for money thresholds.

Key strategic choices

- Return the NLTF to a sustainable trajectory, either through increased revenue or restraining any new capital investment programme.
- Prioritisation, timing and funding of new investments through the GPS 2027, in particular the Roads of National Significance (RoNS).
- Funding options for the Waitematā Harbour Connections (WHC), and the resulting affordability pressures across the transport portfolio, including increased reliance on tolling, FED/RUC, and IFF mechanisms.

Housing

Likely capital funding sought

- None signalled through QIR data due to a policy change in how the Government achieves its social housing and affordable housing objectives.
- Reviews are underway of role of Kāinga Ora, [33] . There might be future capital investments sought following these reviews.

Key drivers

- Kāinga Ora Turnaround Plan – Kāinga Ora refocused on renewals of existing portfolio.
- Housing Acceleration Fund – no new funding but continued delivery of programmes already funded.
- Flexible Fund – large operating investment which has similar characteristics to capital investment (funds the provision of an asset through a long-term contract). Additional funding is proposed through Budget 2026 and continued funding will most likely be sought over time.

Capability and capacity constraints

- The additional investment in the Flexible Fund proposed through Budget 2026 provides for a significant increase in social houses to be delivered from 2028, posing delivery risks.

National Infrastructure Plan commentary

- Notes that the types of social housing needed is changing over time, and social housing is unevenly distributed over the country.
- Notes that shifting the housing stock to match needs will require significant shifts in investment and asset recycling of houses in lower need areas and of lower need types. The Kāinga Ora Turnaround Plan and new Housing Investment Strategy are responding to this shift in demand.

Key strategic choices

- Policy choices for how a government delivers social housing and affordable housing – over time the policy levers have changed, some involve capital investment, others do not.
- Reviews underway with respect to the role Kāinga Ora [33] to ensure alignment with the new housing investment strategy.
- [33]

Next steps

- As part of regular processes, informed by the outcomes of the reviews, situate Housing investment intentions within the wider fiscal strategy and fiscal sustainability context.