The Treasury

Budget 2026 Information Release

September 2026

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[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

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Vote Health Follow-up Bilateral

Date:	27 March 2026	**Report No:**	T2026/573
		File Number:	AD-1-183-M136286

Action sought

	Action sought	**Deadline**
Hon Nicola Willis **Minister of Finance**	**Note** the contents of this report. **Indicate** your preferences on the Health NZ 2026/27 budget **Indicate** if you would like any changes to what is in your Budget Ministers Health package.	Prior to your Bilateral Meeting at 4:30pm on 1 April 2026

Contact for telephone discussion (if required)

Name	**Position**	**Telephone**	**1st Contact**
Sophie Martin	Analyst, Health	[39] [35]	✓
Jill Caughey	Acting Manager, Health		

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report	

Enclosure: Yes

Treasury Report: Vote Health Follow-up Bilateral

Purpose of Report

1. You are meeting with the Minister of Health, Hon Simeon Brown, on 1 April. The Minister requested this follow-up bilateral to discuss the Budget 2026 Health package. The meeting will likely also cover Health New Zealand's (Health NZ's) 2026/27 budget.

Agenda Item 1 - Health NZ 2026/27 Internal Budget

Health NZ 2026/27 deficit scenarios of $400m and $475m in 2026/27

2. The Ministry of Health (the Ministry) recently provided advice on the trade-offs required to achieve a Health NZ deficit of $400m or $475m in 2026/27 (H2026080048 refers). [33]

3. [37] and [38]

4.

There are three key actions for you on Health NZ's 2026/27 internal budget

a) **Decide what level of deficit to ask Health NZ to target in 2026/27 ($400m or $475m).** This depends on the level of comfort with the additional trade-offs involved in the $475m deficit scenario (notably reducing the increase in the mental health ringfence and further phasing in bringing new health infrastructure online). On balance, we recommend $400m to maximise downward pressure on spending.

b) [37] and [38]

c)

[37] and [38]

Agenda Item 2 - Budget 2026 Health Operating Envelope

Current health operating package – *we do not recommend making any changes*

5. *Table 1. Current Health Budget 2026 operating envelope**

Initiative	**Current package**
Digital services – *cyber safety and core security services*	$25.5m opex in 26/27 only
Road Ambulance funding uplift	$8.8m p.a. opex
Paediatric palliative care – *ensuring access to specialist services*	$3.9m p.a. opex
Implementing the Pae Ora – *(3-day stay)* Amendment Bill	$8.6m p.a. opex
Total of above initiatives [2]	**$23.1m p.a. opex**

** Note this table reflects decision taken in your first Health bilateral as well as Budget Ministers 2. The highlighted initiatives have been scaled per Ministerial direction.*

Strategic choice for the remainder of the operating package

6. Since your first bilateral, the conflict in the Middle East and the resulting disruption to shipping through the Strait of Hormuz have led to significant increases in the price of fuel and considerable fuel-related supply-chain constraints. You may wish to ask the Minister if he has reconsidered the composition of the health operating envelope to manage fuel pressures in light of your recent letter. Given Health NZ is both a significant user of fuel and contracts services that are also significant fuel users, we would expect that some reprioritisation is needed.

7. Taking Table 1 as confirmed the key choices for the remaining [37] of the envelope is to either:

   a) place the funding in a health cost pressure contingency (*Treasury preferred*); and/or

   b) progress other priority health initiatives not currently in your package; and/or

   c) reduce the health envelope to manage pressures elsewhere in your package.

8. Depending on the outcome of the Ministry's work on fuel related pressures in health, the Minister may also want to consider revising some of the initiatives in the current budget package e.g. Implementing the Pae Ora – (3-day stay) Amendment Bill, and Paediatric palliative care – ensuring access to specialist services.

1 This would include $95m that Cabinet transferred from the Primary and Community appropriation to the Hospital and Specialist Services appropriation (SOU-25-MIN-0162 refers).

2 Package includes the savings initiative: *Southern Health System Digital Transformation programme – return of depreciation funding* ($4.6m p.a.).

(a) Health cost pressure contingency – also provisions for the Middle East conflict

9. Given fuel pressures and the Health NZ deficit position, we recommend holding the remainder of the [37] operating envelope in a health cost pressure tagged contingency. There is uncertainty at this stage about the extent of the impact of increasing fuel prices on health services, but we understand Pharmac and sectors reliant on travel (e.g. midwives, care and support workers) may be impacted.[3] Keeping the remaining envelope funding in contingency would provide you with more optionality to manage fuel related pressures as and when they arise.

(b) Other priority health initiatives not currently in your package

Digital services - cyber safety – core security services (funding for one year only in package)

10. Our recommendation is to fund one year of the scaled option focused on maintaining current cybersecurity settings - $25.5m for 2026/27 only (refer T2026/501). This one-off funding would come with a direction that Health NZ and the Ministry develop plans to align with system-level work and to manage cybersecurity costs long term before seeking additional funding at Budget 2027. We understand the Minister is seeking the full ongoing funding ($38.4m p.a.).

Pharmac – Medicines budget cost pressures – could be captured by option a)

11. You have received separate advice on options to increase Pharmac's medicines budget to provide for possible pharmaceutical supply chain disruption due to conflict in the Middle East (T2026/596 refers). **Our recommended approach is to provide a broader health contingency** (as outlined in paragraph 9), which could fund any Pharmac cost pressures from the conflict in the Middle East. However, if your preference is to provide targeted Pharmac funding now, we recommend $13.5m for 2026/27 only, held in contingency, and funded from the health envelope.

Forensic Mental Health Services – defer to Budget 2027 or fund the scaled option

12. The Ministry notes the statutory compliance risk for forensic mental health services (H2026080048 refers). We accept this is a real risk but have concerns about Health NZ's ability to deliver, particularly as this initiative assumes rapid operationalising of new infrastructure and recruitment of specialist workforces. You could defer this to Budget 2027 or fund the scaled option [37]

    capex

    in the health capital package (noting trade-offs with other capital investments).

The Ministry digital and information technology and capability rebuild – do not support

13. The Minister originally sought Budget 2026 funding for this initiative but is now seeking a transfer of funding from Health NZ to the Ministry ($6m p.a.). Health NZ is facing ongoing pressures in data and digital, and we recommend you direct the Ministry to manage this cost from within baselines.

Agenda Item 3 - Budget 2026 Health Capital

14. **At your first health bilateral, you communicated a $683m[4] ceiling for health capital investment** (unless costs could be reduced elsewhere in your Budget capital package).

[3] The Ministry has provided some initial advice on the impact of increased fuel costs on the health system, (H2026080523).
[4] We note, this ceiling differs from the revised capital package of $783.745m submitted by the Minister of Health.

15. The $683m total includes $255.1m in existing Budget 2026 pre-commitments, and the remaining $427.8m for new capital spending. The Minister has proposed a revised package with total costs ranging from $742.840 - $822.840m (H2026080048 refers). [37]

Table 2. Health Budget 2026 capital package options

Proposal	**Health**	**Treasury***
Pre-commitments		
Waikato Medical School and New Dunedin Hospital (already agreed)	$255.134m	$255.134m
New initiatives		
Project Pihi Kaha, Whangārei Hospital Redevelopment - First Tower	[37]	
Auckland Southern Site for a Future Hospital		
Mason Clinic Redevelopment Tranche 1C		
Regional Hospital Redevelopment Programme Tranche 2, Stage 1		
National Programme for Linear Accelerator Machines	$15.000m	-
National Remediation Programme – Tranche 2	-	-
National bowel screening programme – Age extension[5]	-	-
Forensic mental health services (*refer paragraph 12 above)*	[37]	
Total	**$742.840-822.840m**	**$592.840m**
Remaining funding available to meet your indicated $683m ceiling if you progress with this total	$0m	$90.160m

** Note this is reflected in the current package.*

16. Given the oversubscription of the Budget 2026 capital allowance, the capital pipeline more broadly, and Health NZ's challenges with infrastructure delivery, we recommend you maintain the $683m capital funding package or reduce it to the $592.840m Treasury package above to manage pressures elsewhere in your capital package.

Key capital initiatives for consideration that are not in your current package

Regional Hospital Redevelopment Programme (RHRP) – defer to Budget 2027

17. At your first health bilateral you indicated tentative support for RHRP at Budget 2026, dependent on costs being reduced elsewhere in the health capital package (or elsewhere in your Budget 2026 capital package). The package put forward by the Minister is over the $683m ceiling.

18. Although this initiative can be scaled to [37] the planning remains incomplete and requires substantial revisions to ensure both affordability and feasibility. We do not think this initiative is ready for implementation and therefore recommend deferring it

[5] As per decisions at Budget Ministers 2, this initiative has been removed from the Budget package.

until these concerns are resolved. Additionally, Treasury is uncertain about the outputs and outcomes of a significantly scaled programme. If you wish to prioritise this initiative for Budget 2026, you could seek clarity on what Ministers can reasonably expect Health NZ to achieve with such a programme.

National Programme for Linear Accelerator Machine - do not support business case funding

19. The Minister is seeking $15m of Budget 2026 funding for business case development in 2026/27, ahead of a Budget 2027 bid of [33] . We consider this is part of Health NZ's business as usual activity and therefore recommend it is managed within the entity's baseline funding.

Recommended actions

We recommend that you:

a Agenda Item 1 - Health NZ 2026/27 Internal Budget

i. **indicate** whether your preferred Health NZ deficit target for 2026/27 is:

i. $475m; or

ii. $400m (noting this will involve greater Health NZ savings) (***Treasury preferred***).

ii. **indicate** if you would like Health NZ to include a $50m contingency in its 2026/27 Budget to manage unexpected costs

Yes (***Treasury preferred***) / No (*Ministry preferred*)

iii. **direct** the Ministry of Health to work with Health NZ and the Treasury to provide advice by 9 April 2026 on options to shift funding from the *Primary, Community, Public and Population Health* appropriation to the *Hospital and Specialist Services* appropriation to manage the risk of overspending in Hospital and Specialist Services

b Agenda Item 2 - Budget 2026 Health Operating Envelope

i. **indicate** your health operating decisions in the following table:

Initiative	Status in current package	Options	MOF Decision (indicate with ✓)
Initiatives in the current package			
Digital services – cyber safety and core security services	$25.5m opex in 26/27 only	Option A: Retain status in current package- $25.5m opex in 26/27 only (***Treasury recommended***)	
		Option B: Fund in full - $38.4m p.a. opex	
		Option C: Remove from package	
Road Ambulance funding uplift	$8.8m p.a. opex	Option A: Retain status in current package (***Treasury recommended***)	
		Option B: Remove from package	
Paediatric palliative care	$3.9m p.a. opex	Option A: Retain status in current package (***Treasury recommended***)	
		Option B: Remove from package	
Implementing the Pae Ora – (3-day stay) amendment bill	$8.6m p.a. opex	Option A: Retain status in current package (***Treasury recommended***)	
		Option B: Remove from package	
Initiatives <u>not</u> in the current package			
Pharmac – Medicines budget cost pressures *(Our understanding of the health options as at the time of writing)*	-	Option A: Provision for by funding a health cost pressure contingency (refer rec b ii. a) (***Treasury recommended***)	
		Option B: Provide Pharmac funding from the health envelope (refer T2026/596 for options)	
		Option C: Do not include in package	
Forensic Mental Health Services	-	Option A: Defer and continue to exclude from package *(**Treasury recommended**)*	
		Option B: Include in package [37]	
National Bowel Screening Programme	-	Option A: Defer and continue to exclude from package (***Treasury recommended***)	
		Option B: Include in package [33]	

ii. **agree** to either;

a) place the remaining funding in a health cost pressure contingency (***Treasury preferred***); or

b) progress additional priority initiatives.

iii. **direct** the Ministry of Health to manage the cost of *The Ministry of Health digital and information technology and capability rebuild* within its baseline

iv. **agree** that all other operating initiatives not discussed are excluded from the process and will not receive funding at Budget 2026.

c Agenda Item 3 – Budget 2026 Health Capital

i. **note** this agenda item has been shared with the Minister for Infrastructure

ii. **note** at the health bilateral on 10 March, you indicated an $683m upper cap for health infrastructure investment, and

iii. **indicate** your health capital decisions in the table below:

Initiative	**Treasury**	**MOF Decision (indicate with ✓)**
Project Pihi Kaha, Whangārei Hospital Redevelopment - First Tower	[37]	
Auckland Southern Site for a Future Hospital		
Mason Clinic Redevelopment Tranche 1C		
Regional Hospital Redevelopment Programme Tranche 2, Stage 1		
National Programme for Linear Accelerator Machines		
National Remediation Programme – Tranche 2		
National bowel screening programme – Age extension		
Forensic mental health services		
Total (including precommitments)		

iv. **note** that if you and the Minister of Health wish to fund *Forensic Mental Health Services - Expanding access across the continuum*, this has capital costs and will decrease the amount of funding the Minister of Health has for his other capital priorities

v. **agree** to defer *Regional Hospital Redevelopment Programme (RHRP) Tranche 2 - Stage 1*, with capital costs of [37] , to Budget 2027, and

vi. **direct** the Minister of Health to fund the business case development in 2026/27 for the *National Programme for Linear Accelerator Machines* from existing Health NZ baselines.

Jill Caughey
Acting Manager, Health

Hon Nicola Willis
Minister of Finance

_____/_____/_____