The Treasury

Budget 2026 Information Release

September 2026

This document has been proactively released and is available on:

- The Budget website from September 2026 to May 2027 only at: **https://budget.govt.nz/information-release/2026**, and on
- The Treasury website from later in 2026 at: **https://www.treasury.govt.nz/publications/budgets/budget-2026-information-release**

Information Withheld

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act).

Where this is the case, the relevant sections of the Act that would apply have been identified.

Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

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).

Copyright and Licensing

Accessibility

The Treasury can provide an alternate HTML version of this material if requested. Please cite this document's title or PDF file name when you email a request to information@treasury.govt.nz.

TE TAI ŌHANGA
THE TREASURY

Treasury Report: Budget 2026 Package Advice – Week Commencing 30 March

Date:	2 April 2026	Report No:	T2026/642
		File Number:	BM-2-4-2026-M134098

Action Sought

	Action Sought	Deadline
Hon Nicola Willis **Minister of Finance**	**Indicate** your decisions on individual initiatives in Annex 1, 2 and 4. Provide feedback on the draft BM3 slides in Annex 5. Provide feedback on the draft confirmation letters in Annex 6.	7 April 2026

Contact for Telephone Discussion

Name	Position	Telephone	1st Contact
Quintin Jane	Analyst, Budget Management	[35]	✓
Emily Fulford	Unit Manager, Budget Management		

Minister's Office Actions

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: Yes (attached)

Treasury Report: Budget 2026 Package Advice – Week Commencing 30 March

Purpose of the report

1. This report updates you on the status of the 2026 Budget Package following your feedback on the current draft package [T2026/596 refers], and your recent direction to recast the Budget package in light of the situation in the Middle East. It also provides you with an update on the economic and fiscal forecasts.

2. The annexes attached to this report are:

   a **Annex 1**: Further information on specific initiatives.

   b **Annex 2:** Initiative-level advice on several initiatives.

   c **Annex 3:** Updated Budget package summary, cut thematically.

   d **Annex 4**: Outstanding initiatives annex.

   e **Annex 5**: Budget Ministers 3 slide pack.

   f **Annex 6**: Draft confirmation letters for feedback.

3. You have also received the following other pieces of related advice this week:

Table 1: Treasury advice week commencing 30 March

Date	**Title**	**Description**
30 March 2026	T2026/573: Vote Health Follow-up Bilateral	This report provided further advice ahead of your scheduled bilateral meeting with the Minister of Health at 4:30pm on Wednesday 01 April (noting that this meeting did not go ahead).
[34]		
30 March 2026	T2026/608: Advice on Transport Budget 2026 package	The report provides advice on options for the GPS 2027 bid, including options to reduce the $1.3b OBEGAL impact.
31 March 2026	T2026/586: Budget 2026: Second Bilateral Briefing on the Revised Education Package	This report provided further advice ahead of your second bilateral meeting with the Minister of Education at 5:30pm on Thursday 2 April.
1 April 2026	T2026/665: Budget 2026 - Technical Initiatives	This report seeks your agreement to the technical initiatives to include in the Budget 2026 package.

Recasting the Budget in response to fuel-price shocks

4. Following your decisions last week and at your bilateral meetings this week, the current operating package is $68 million over the $2.4 billion operating allowance, and $3.5 billion over the capital allowance.

Table 2: Current Package

Timing	Savings and revenue	Spending (inc. precommitments)	Package	Position against allowance
Current Package (Week Commencing 30 March)	$1.1 billion operating	$3.6 billion operating	$2.5 billion operating	**$0.1 billion over**
	$1.2 billion total capital	$8.2 billion total capital	$7 billion total capital	**$3.5 billion over**
Package the Week commencing 23 March	$1.2 billion operating	$3.5 billion operating	$2.3 billion operating	**$0.1 billion under**
	$1.2 billion total capital	$8.3 billion total capital	$7.0 billion total capital	**$3.5 billion over**

5. In our Budget package advice last week [TR2026/596 refers] and at your bilateral meetings this week, you made decisions on a number of outstanding choices, including:

   a [33]

   b Including DPMC and MSD in the Baseline Savings Programme (**increased** savings by $73 million; note we have not yet included MFAT as outlined further below).

6. You have also indicated that, in light of the events in the Middle East, you wish to recast the Budget to consider reconstituting packages to emphasise fuel cost pressures, as well as additional funding for energy resilience initiatives. You have invited Ministers to submit additional reprioritisation, and in some cases, limited new spending, to address these fuel price-driven cost pressures.

7. The Foreign Affairs package remains uncertain. The package currently includes $63 million p.a. for an increase to the International Development Cooperation and cybersecurity investment. This could change by around:

   a **Upside:** $95 million additional savings if MFAT is included in the outyear baseline reductions b **Downside:** Up to around $50 million additional spending if Rt Hon Peters' preferred package (mostly on diplomatic network funding) is included and MFAT is not included in additional baseline reductions.

8. To bring the package back within allowances, you will need to make decisions to limit discretionary spending or consider some savings decisions at Budget 2026. This report does not include advice on initiatives that will change the package by any significant margins. However, next week's advice will likely require you to take a number of significant decisions on a range of initiatives, including:

a Whether to change the envelope amounts for Health, Education, or Law and Order (including based on the revised packages they are submitting for fuel related costs).

b If there are any new, large spending items you want to add into the package (for example, energy security initiatives or a larger Between Budget Contingency).

c Further savings options to provide headroom to provide for the above new spending initiatives.

9. There are currently two main paths for introducing sufficient headroom to support potential new spending initiatives. These are:

a **Option 1:** Introducing further savings or revenue measures:

Table 3: Significant revenue and savings options

Initiative	Potential savings ($m operating p.a.)	Next steps
Introducing an Australian Style Bank Tax	[34]	[34] You may wish to discuss this at Budget Ministers 3.
Ending final year's fees free with offsetting measures to invest in trade education	Up to $300m	We have provided supporting information on possible options for changes. We understand your office is discussing this with other relevant Ministers' offices.

b **Option 2:** Reducing discretionary expenditure. The table below outlines the areas of discretionary spending that you had indicated you wished to receive further advice on options for scaling:

Table 4: Significant initiatives that could be scaled or deferred

Initiative	Potential savings ($m operating p.a.)	Potential savings ($m total capital)	Next steps
Defence Capability Plan Year 2 *(these are all Defence capital investments)*	[33]	700	Following the Minister of Defence submitting a revised envelope on 7 April (accounting for fuel related pressures and what DCP investments are deferrable), you will receive advice on 10 April.

Initiative	Potential savings ($m operating p.a.)	Potential savings ($m total capital)	Next steps
Going for Housing Growth: Incentives for Councils	173	-	Post BM2 – Hons Bishop and Seymour are discussing scaling options for this initiative. We recommend you seek an update at BM3 on 9 April.
Housing Flexi-Fund	75	-	There are annexes on these initiatives attached to this report.
StatsNZ Integrated Data Infrastructure (IDI)	15	14	

Further information on specific initiatives

10. There are a number of initiatives where either your office requested that we provide you with further advice, or we consider worth bringing to your attention. These initiatives and the relevant advice are set out in Annex 1.

11. We have tested the approach to these initiatives with your office who are comfortable with the approach we have taken. Please indicate whether or not you want these initiatives included within the package.

12. Additional initiatives that we consider are less significant but require your decisions are set out in Annex 4. For these initiatives, please indicate by exception, where you disagree with the current status in the package or would like further advice.

Communicating FTE and Baseline Reduction targets

13. We understand that the Public Service Transformation paper is being considered at Cabinet on Tuesday 7 April, after which Cabinet Ministers will be aware of the overall FTE target for the public service and the ongoing baseline reduction targets of 5% in 2027/28 and a further 5% in 2028/29 for in-scope agencies.

14. At Fiscal Matters on 31 March, you indicated a preference for sending letters informing Ministers [33] baseline reduction targets following Cabinet consideration of the Budget package. You have agreed to send these letters jointly with the Minister for the Public Service [TR2026/596 refers].

15. In paragraphs 5-7 above, we have set out the fiscal implications of your decision to include additional agencies in additional baseline reductions (noting we have not yet updated this to account for the Ministry of Foreign Affairs and Trade). Recognising and managing the full amount of the savings generated through the baseline reduction programme against the Budget 2026 allowance per your decisions [T2026/285 refers] will require the following:

    a The Budget Cabinet paper will need to include the overall number of the savings generated by the Baseline Savings programme.

b Letters including specific targets will need to be sent to Ministers and Chief Executives very soon after Cabinet consideration. We intend to provide you with these letters alongside the final Budget Cabinet paper for lodgement, so that these letters can be sent immediately following Cabinet consideration of the Budget package.

16. For your awareness, we are planning to show the expected future baseline reduction amounts for specific years separately in the notes to the Forecasts Financial Statements. This is consistent with the presentation approach from previous similar savings exercise (for example, the 2023 Pre-election Economic and Fiscal Update).

Draft confirmation letters to Ministers

17. We have attached for your feedback, two draft letters addressed to your Ministerial colleagues that would confirm their final Budget 2026 decisions:

a **Confirmation letter 1 –** which is directed to responsible Minister for the agency, where they have had at least one initiative progressed through Budget 2026. A one-pager summarising confirmed initiatives will also be attached to each letter (we have attached an example one-pager for Vote Regulation).

b **Confirmation letter 2 –** which is directed to responsible Ministers who have had no initiatives progressed through Budget. This is likely to only apply to a small number of Ministers (e.g. Minister for Forestry, depending on your decisions in this report)

18. We expect a number of votes to be finalised following Budget Ministers 3 on 9 April, and able to be communicated shortly after that. We will reflect any feedback you have on the attached drafts, when we send through letters for your signature.

Forecast Update

19. The preliminary fiscal forecasts were completed on 5 March 2026 and showed that the operating balance before gains and losses excluding ACC (OBEGALx) was expected to be broadly balanced in 2028/29, while net core Crown debt peaked at 45.7% of GDP in 2027/28. There have been several developments since then which will need to be considered in the preparation of our final fiscal forecasts which are due to be completed early May.

20. At this point it is challenging to determine the likely overall direction of any revisions to OBEGALx relative to the preliminary fiscal forecasts. However, based on what we know to date there are both upside and downside risks to OBEGALx in the later years of the forecast period. In contrast there is a risk that the net core Crown debt track could be higher than previously forecast. This largely reflects the possibility of capital investments coming in higher than the allowance set at the BPS, higher Crown contributions to the New Zealand Superannuation Fund (NZSF) and the inclusion in the forecasts of the procurement of a liquified natural gas (LNG) facility.

21. While there is a risk net core Crown debt could peak higher than we expected in the preliminary fiscal forecasts, we believe there is still sufficient headroom to increase the Budget 2029 capital allowance as advised in our recent report on the Capital Pipeline for Budget 2027 – 2029 [T2026/471 refers].

22. We are still in the very early stages of preparing our final fiscal forecasts, so it is difficult to confidently quantify the impact on key fiscal indicators from the known developments. However, over the coming weeks we will get a better sense of the scale the expected revisions will have on our final fiscal forecasts, and will update you regularly.

23. The evolution of the Middle Eastern conflict and its impact on world markets remains a key area of uncertainty and risk to the forecasts.

Developments in the economic outlook

24. Since the preliminary Budget economic forecasts were provided in early February the economic outlook has become significantly more uncertain as events in the Middle East impact the global economy. This week we finalised the updated economic forecasts which incorporate significantly higher oil prices associated with the conflict and assume that oil prices will evolve in line with oil futures pricing in late March. This sees oil, domestic petrol and diesel prices peak around current levels in the first half of 2026, before declining over the remainder of the calendar year.

25. Higher energy prices contribute to a sharp rise in inflation which is expected to peak around 4%. This pressure on household budgets and higher costs for businesses have resulted in a downgraded outlook for real GDP over the next year, which together with higher import prices results in lower initial forecasts for nominal GDP. As oil and fuel prices recede, we expect inflation to return closer to target range in 2027 and the re-emergence of the economic recovery that was a feature of the preliminary forecasts. The expected recovery in economic activity, together with higher overall prices in the economy, result in higher forecasts of nominal GDP relative to the preliminary forecasts by the end of the forecast period.

26. As a result of a pick-up in nominal GDP growth in the final years of the forecast period, tax revenue forecasts could now be stronger relative to the preliminary forecasts. This will depend on the composition of tax revenue growth. However, a number of the economic factors such as higher inflation and interest rates are likely to result in an increase in benefit expenditure and finance costs. The higher inflation track is likely to result in additional cost pressures on government services, which is likely to generate additional requests for an invite into the Budget process.

27. We will provide you with an update on the economic outlook next week and are currently in the process of preparing tax revenue forecasts, which will be reported to you in the week beginning 13 April 2026.

Current Budget 2026 packages

28. Overall, the current Budget 2026 operating package is tracking close to the allowance assumed in the preliminary fiscal forecasts. However, when looking at individual years the allocation comes in over in the near-term but under thereafter. If the current package remains unchanged there would be a positive impact on OBEGALx of around $0.7 billion in 2028/29 and 2029/30, compared to the preliminary forecasts.

29. In contrast the current Budget 2026 capital package is higher than the allowance set at the BPS. If this remained unchanged this would lead to an increase in the level of net core Crown debt by up to 0.5% of GDP by 2029/30.

30. Decisions on the final Budget packages which would have implications to the fiscal implications are noted above.

New Zealand Superannuation Fund – Reference Portfolio Review 2026

31. We understand the Chair of the Guardians of the NZSF brought to your attention during a call on the 5 March 2025 that they were undertaking a Reference Portfolio Review.

32. On April 22 the Board of the NZSF will decide on their Expected Fund Return (EFR) assumption, which is part of their 5-yearly Reference Portfolio Review. From our discussion with the NZSF this will be lower than the current assumption of an average future annual return rate of 7.8%, mainly due to their projections of a lower equity risk premium in the future.

33. We agree with NZSF's rationale for considering a reduction in the EFR going forward. This adjustment seems reasonable given that global equity valuations, especially in US markets which comprise over half of NZSF's global equities, remain elevated compared to historical norms (notwithstanding the recent sell-off) and are unlikely to remain at these levels indefinitely. The NZSF have also highlighted their intention to increase portfolio resilience against market shocks, aligning closely with their prudent investment mandate and the shift towards lower long-term expected returns. That said, due to the material reduction in the equity risk premium, the Treasury has requested additional explanation regarding the underlying assumptions and market drivers to better understand their reasonableness. We expect NZSF will provide further information to clarify these points shortly, which should help us better understand the rationale for the proposed changes.

34. As this assumption around ERF is an important input into the Treasury's NZSF model, if a reduction is approved this will increase the forecast of capital contributions that will be incorporated into the 2026 *Budget Update*. Every 0.1 percentage point reduction in the EFR will roughly add $70 million in each year from 2026/27.

35. NZSF contributions are considered capital expenditure, and any changes have not typically been managed against allowances. This change will have little impact on the OBEGALx track but does directly affect net core Crown debt. By the final year of the current forecast period 2029/30, every 0.1 percentage point reduction in the EFR will add around 0.2 percentage points to net core Crown debt as a share of GDP. For example, a 0.3 percentage point reduction in the EFR, could result in net core Crown debt as a percentage of GDP being 0.5 percentage points higher in 2029/30 compared to the Preliminary Budget 2026 fiscal forecasts.

36. We would require a decision from the Board of the NZSF to reflect the fiscal implications from the higher contributions into our fiscal forecasts. However, Ministers do have choices on mitigating any fiscal impact by choosing to contribute less than is required under the legislative formula.

Other significant known developments

37. ***Public Health Acute Services*** – We understand you have been forwarded advice provided to the Minister of Health in regard to the review of the methodology used to calculate costs in the funding agreement between the Ministry of Health and ACC for Public Health Acute Services (PHAS). The advice noted a number of different approaches to adjusting the PHAS funding agreement with the Minister of Health indicating a preference which could have a positive impact on OBEGALx of around $0.4 billion per annum. We believe this matter will be progressed enough to reflect in our final fiscal forecasts, with the exact adjustment expected to be firmed up over the coming weeks.

38. [33]

39.

We are continuing to work with MBIE on landing the most appropriate treatment depending on Government decisions, and what may need to be reflected in the fiscal forecasts included in the 2026 Budget Update.

40. [33]

Recommended Actions

We recommend that you:

a **Indicate** your decisions on initiatives in Annex 1.

b **Indicate** your decisions on initiatives in Annex 2.

c **Indicate** if you require any further advice to support the key decisions required to land the package.

d **Indicate** (by exception) where you disagree with the current status of the initiatives in Annex 4 or would like further advice.

e **Provide feedback** on the draft Budget Ministers slides in Annex 5.

f **Provide feedback** on the draft package confirmation letters in Annex 6.

Emily Fulford
Unit Manager, Budget Management

Hon Nicola Willis
Minister of Finance

_____/_____/______

Annex 1: Further advice on specific initiatives

Initiative Title	Reason for Advice	Treasury Advice	Quantum ($m per annum)	Status in Package	MoF decision
Stats NZ Baseline Savings – Modernise data collection, o solidate functions, [38]	Your office asked for more information about the risk [33]	[38]	4.3	Included	Include / Exclude
[33]					

Initiative Title	Reason for Advice	Treasury Advice	Quantum ($m per annum)	Status in Package	MoF decision
[38]					
[33]					

Annex 2: Initiative Level Advice

Setting the between-Budget contingency

<table>
<tr><td>Initiative ID</td><td>14</td></tr>
<tr><td>Initiative Title</td><td>Between-Budget Contingency</td></tr>
<tr><td>Contact details</td><td><table><tr><td>Yao Yu</td><td>Budget Support Specialist</td><td>[39]</td></tr><tr><td>Bonar Robertson</td><td>Principal Advisor</td><td></td></tr></table></td></tr>
<tr><td>Issue / advice sought</td><td>Each Budget, an amount of funding is aside from Budget allowances to provide for unforeseen matters with a fiscal cost that cannot be delayed until next Budget. This between-Budget contingency (BBC) allows funding for urgent matters to be provided without impacting the next budgeting cycle and in a way that supports your fiscal strategy.

The amount set aside in the current Budget package is $60 million per annum, consistent with Budget 2025. Given the conflict in the Middle East, you could consider increasing the amount set aside in the BBC to provide optionality to respond post Budget 2026.</td></tr>
<tr><td>Treasury advice</td><td>Noting that the Budget 2025 BBC was recently exhausted, we recommend that at a minimum you retain the $60 million per annum BBC in the Budget 2026 package.

Given the fast-evolving impacts of the conflict in the Middle East our view is there is a strong argument to set the BBC at a higher amount. This would provide more flexibility to respond to the impacts of the crisis in the months following Budget 2026 in a way that minimises the impact on future Budgets and your fiscal strategy.

Our recommended approach would be to increase the BBC above $60 million per annum by using any remaining headroom in the Budget 2026 operating allowance once the Budget package is confirmed. We would also recommend that you front-load any increased funding within the profile of the BBC, so any increased funding is aligned to when a timely, temporary and targeted response to the conflict is most likely needed.

[34]

Note that in the event the between-Budget contingency is exhausted ahead of Budget 2027, any additional operating funding allocation will become a pre-commitment against the Budget 2027 operating allowance; similarly, any funding remaining in the between-Budget contingency at Budget 2027 will be retuned into the Budget 2027 operating allowance.</td></tr>
<tr><td>Treasury recommendation</td><td>Indicate your preference on the amount set aside for the between-Budget contingency:
• Option A: Keep the BBC at $60 million per annum: Yes/No
• Option B (Treasury preferred): Keep the BBC at $60 million per annum, but use remaining headroom in the operating allowance after the package is confirmed to increase the BBC: Yes/No.

Agree that under Option B, any increase in the BBC above $60 million per annum be frontloaded to reflect its purpose to respond to the Middle East conflict. Yes/No</td></tr>
</table>

Vote Business, Science and Innovation – Late invite for New Appropriation – Low Emissions Heavy Vehicle Fund

Vote	Business, Science and Innovation
Initiative ID	17515
Initiative Title	Late invite for New Appropriation – Low Emissions Heavy Vehicle Fund.
Contact details	Mallak Ali – Analyst [39] Kate Williamson – Unit Manager

Issue / advice sought	The Minister for Energy (Hon Watts) has written to request a late Budget invitation to:
	• **Expand the scope of the Low Emissions Heavy Vehicle Fund** (LEHVF) to include co-funding for infrastructure that supports the adoption of low emissions heavy vehicles.
	  o The LEHVF currently funds grants to support the purchase of low emissions heavy vehicles or convert existing heavy vehicles to low emissions technologies. Currently around $25 million of the original $27.75 million remains unspent due to low uptake.
	  o The proposal involves expanding the scope of the fund to enable funding to go towards low emissions charging and/or refuelling infrastructure for heavy vehicles.
	• Use $8 million of uncommitted **Petroleum and Engine Fuel Monitoring** (PEFM) levy funding to:
	[33]
	This initiative was initially submitted as a technical initiative, as it has no impact on Budget allowances. However, we consider the expanded scope constitutes a significant policy decision and should be transacted through the Budget significant package.
	We are seeking your direction on these matters to inform Budget 2026 decisions.

Treasury advice	We recommend you agree to include an initiative in the Budget 2026 significant package to expand the scope of the LEHVF to include funding of heavy vehicle charging infrastructure. MBIE has assessed that: • The current public charging infrastructure is hindering uptake of LEHVF because it is not suitable for heavy vehicle operations. It is usually poorly located for freight movements, cannot physically accommodate large trucks, and typically does not provide charging speeds appropriate for heavy vehicles. • Medium and heavy vehicles are highly dependent on diesel, which is sensitive to geopolitical shocks. Increased uptake of LEHVF would diversify the fuel mix. We recommend returning the uncommitted PEFM funding to levy payers through a future reduction in the levy rate. [33] It is unclear why EECA requires additional PEFM levy funding. [33]
Treasury recommendation	• **Agree to invite the** initiative **to expand the** scope **of the LEHVF to include** funding of heavy vehicle charging infrastructure in the Budget 2026 package – Yes / No **Indicate** your preferred option for the PEFM levy funding: • **Option 1:** Agree to return all uncommitted funding to levy payers (*Treasury recommended*) - Yes / No

	• **Option 2:** [33] [33] [33] - Yes / No • **Option 3:** [33] – Yes / No
Referral to other Ministers	**Refer** this to the Minister for Energy: Yes / No

Vote Disability Support Services – Transfer of Disability Support Services funds

Vote	Disability Support Services
Initiative ID	17481
Initiative Title	Transfer of Disability Support Services funds to support fiscal sustainability objectives across the forecast period
Contact details	Callum Finn Reason – Analyst – [39] Claire Howard – Unit Manager
Issue / advice sought	We understand that you and Minister Upston have discussed the possibility of returning $200 million from Vote Disability Support Services (DSS) to the Budget process and [34] Underspends of up to $200 million in 2025/26 are currently included in the Budget technical package for an in-principle transfer to 2027/28 [T2026/665 refers]. [34]
Treasury advice	You have choices for how to manage DSS underspends at Budget 2026, depending on your priorities. We do not see any significant risks associated with any of options outlined below. They also will not impact separate decisions about funding in Vote DSS, such as any decision about the in-between travel scheme. [34] **Options for managing DSS underspends at Budget 2026** **Option A:** Keep the initiative in the technical package MSD currently has an initiative in the Budget technical package seeking in-principle agreement to transfer up to $200 million in underspends from 2025/26 to 2027/28, following completion of the audited financial statements. This would provide MSD a buffer against DSS cost escalations in 2027/28, mitigating against the prospect of needing Budget 2027 funding to meet cost pressures. Confirmation of any final transfer would likely be sought by MSD through a future baseline update in 2026/27. As an in-principle agreement does not change appropriations until confirmed by Joint Ministers, [34] **Option B:** Remove the initiative from the Budget technical package Any underspends in Vote DSS would return to the centre at the end of the 2025/26 financial year, improving OBEGALx in 2025/26. [34] **Option C**: Return the underspend through the Budget significant package to offset the Budget 2026 operating allowance We would need to confirm with MSD the maximum amount that could be returned now without risking an overspend (and unappropriated expenditure) in Vote DSS in 2025/26. We expect this to be one-off savings between $150 and $200 million. [34]

[34]

Treasury recommend ation	**Indicate** your preference for: • **Option A**: Keeping the initiative in the Budget technical package, to allow in-principle approval for MSD to retain Vote DSS underspends of up to $200 million in 2025/26, and to transfer these to 2027/28: *Yes/No* • **Option B**: Removing this initiative from the Budget technical package, so that any Vote DSS underspend returns to the centre at the end of the 2025/26 financial year, improving OBEGALx: *Yes/No* • **Option C**: Returning funding now as a savings initiative to offset Budget 2026 operating allowance, indicatively $150-$200 million, with the amount to be confirmed by MSD next week: *Yes/No*

Vote Environment (Climate Change) – Golden Bay Cement Contingency (late invitation request)

Vote	Environment (Climate Change)
Initiative ID	17553
Initiative Title	Golden Bay Contingency
Contact details	Tim Borren – Senior Analyst – [39] Nicky Lynch – Manager
Issue / advice sought	The Minister for Climate Change is seeking a late invitation to Budget 2026 for an initiative to support Golden Bay Cement's (GB) domestic manufacturing plant. Without changes to current policy settings, GB will likely shut its domestic operations over the next five years, largely due to the increasing cost of carbon under the NZ Emissions Trading Scheme (ETS) driven by the phase-out of free industrial allocation units over time. Hon Watts' request notes that GB's competitors who import cement are not currently subject to emissions costs, putting GB at a competitive disadvantage. Closure will have regional employment and GDP impacts as GB employs 160 staff directly and a further 220 contractors. Hons Watts and Jones intend to seek a Cabinet mandate to enter into negotiations with GB and are seeking a tagged contingency of up to [37] **over the forecast period** to support these discussions. However, if support for GB took the form of reduced future industrial allocation phase-out rates, these fiscal costs would likely be spread over a longer time period, beyond 2030.
Treasury advice	• While evidence suggests there is a legitimate emissions leakage issue, <u>we do not think there is a strong case for government support in this case</u> because: the supply chain risks look manageable; displaced workers are expected to be quite readily absorbed in the regional economy; and providing support could create a precedent risk - leading other firms whose industrial allocation units are phasing out to also ask for additional support. • GB is New Zealand's only domestic manufacturer of cement, supplying 60% of the New Zealand market. While there is a potential risk to supply chain security if New Zealand became fully reliant on imported cement, MBIE considers this risk to be relatively low as cement and clinker are widely traded with a diverse range of exporting countries. [37] We therefore do not see a strong case for direct financial assistance on the basis of economic security. • [34] • If the Government did want to provide support for GB, our preferred mechanism to do so would be to adjust industrial allocation phase-out rates as this addresses the problem more directly than a cash subsidy, and would spread the fiscal expenses out over time (2030-2050) compared to a one-off cost. [36] • Supporting GB would create some risks, some of which can be managed (e.g. there is a risk of over-compensating GB if emissions pricing differentials narrow in future, which could be mitigated by a contract that factors this in to industrial allocation settings); and some that are more difficult to manage [34] ; and the precedent risk that other current industrial allocation recipients will expect the same support, with associated fiscal impacts). • If you wish to invite the initiative, we note the amount sought is an "upper-end estimate bargaining envelope" – you could seek further advice from Hon Watts on scaling this amount up-front. Regardless of the funding level, we agree that it should be held in a tagged contingency and we would work with MfE on developing appropriate drawdown conditions.

Treasury recommendation	Please indicate your decision:
	• Option A: Do not issue late invite **[Treasury recommended] –** Yes / No
	• Option B: Issue late invite **AND**:
	  o Reflect in package at amount sought [37] operating total) **–** Yes / No; **OR**
	  o Request further options from Hon Watts for scaling the amount sought – Yes / No

Vote Environment – RM Reform Tranche 1 Investments

<table>
<tr><td>Vote</td><td>Environment</td></tr>
<tr><td>Initiative ID</td><td>17112</td></tr>
<tr><td>Initiative Title</td><td>RM Reform Implementation Tranche 1 Investments</td></tr>
<tr><td>Contact details</td><td><table><tr><td>Caleb Hewson</td><td>Analyst</td><td>[39]</td></tr><tr><td>Nicky Lynch</td><td>Manager</td><td></td></tr></table></td></tr>
<tr><td>Issue / advice sought</td><td>At the RMA Reform and Housing bilateral, you asked the Minister Responsible for RMA Reform to submit a new initiative option that reduces the number of FTE sought, provides an initial tranche of funding to begin progressing the digital investment, and integrates the National Flood Map initiative.</td></tr>
<tr><td>Treasury advice</td><td>
The Ministry for the Environment's (MfE) new proposed option seeks $78.7 million operating p.a. This now includes the National Flood Map initiative, meaning a net reduction [33] . from the current Budget package. The bid has three key elements, outlined in turn below – Digital, National Flood Map, and FTE.
<u>Digital</u>

MfE has submitted an option to 'stage gate' the digital investment with an initial $10.3m p.a. operating tranche (compared to the [33] tagged contingency assumed in the current Budget package). This initial tranche of funding would be to begin work on:

data standards to support the implementation of the first phase of national direction,
data federation architecture and governance, and
the initial development of the e-Plan viewer.

[33]

On balance, we recommend providing this initial funding of $10.3m p.a. to allow foundational digital work to progress. [33]
[33]

<u>National Flood Map</u>

The RM data component includes funding for a [33] base-level flood map to meet minimum spatial planning requirements [33]
We agree there is a strategic case for a public-facing map but would like to see more robust identification and management of several key risks (including relating to data quality, path dependence, litigation, insurance affordability/availability, and possible flow-on economic impacts) [33]
[33] .

</td></tr>
</table>

- As a minimum, we recommend you continue to agree funding for [33]
  [33] This will enable spatial planning requirements to be met, deliver time-sensitive data quality improvements for special planning, and provide optionality for future iterations of the map.
- In addition, to manage the key risks set out above, we recommend that you either:

  [33], [38]

FTE

- After incorporating MfE's preferred flood map approach, the proposed option seeks funding for 159.3 FTE p.a. average compared to 167.8 FTE p.a. average in the current package. FTEs peak in 2026/27 at 203.5 FTE, compared to 203.1 FTE at peak in the current package. We consider significant time-limited FTE is justified, due to the pace and scale of system change and the importance of the reform to supporting economic growth objectives.
- If you agree to provide flood map funding in 2026/27 only, the annual average FTE reduces to 155.9. This approach reduces overall FTE compared to the current package while maintaining sufficient resourcing to mitigate implementation risks.
- In the revised option, MfE have reduced the number of FTE but reverted to its standard overheads and salaries. You could scale these overheads and salaries to align more closely with public sector averages in line with the scaling approach for the initiative in the current package. This would save around $5.8m p.a. but we do not recommend this on balance as it would compound the risks of time and quality trade-offs to implement the reform.

Treasury recommendation

Indicate if you would like to amend this initiative to:

- **Option A:** Include the Ministry's proposed post-bilateral option: Yes / No

[33], [38]

Option	*ID*	*Operating ($m)*						*Total Capital ($m)*
		25/26	*26/27*	*27/28*	*28/29*	*29/30*	*Total*	
Current status in package	17112 & 17140	-	74.0	119.3	85.1	53.7	332.1	13.4
Option A	17112	-	89.0	113.7	64.1	45.2	312.1	13.4
Option B	17112	-	[33]					13.4
Option C **(TSY preferred)**	17112	-						13.4

Indicate if you would like to further scale FTE salaries and overheads to align with the current approach in the package (further reducing funding by around $5.8m p.a. compared to Treasury preferred Option C): Yes /No

Referral to other Ministers

Refer this to the Minister Responsible for RMA Reform: Yes / No

Vote Housing and Urban Development – Flexible Fund and Going for Housing Growth Pillar 3: Incentives for Councils

Vote	Vote Housing and Urban Development
Initiative ID	17268 and 17288
Initiative Title	Flexible Fund and Going for Housing Growth Pillar 3: Incentives for Councils
Contact details	Nina Shepherd / Analyst / Amanda Wilson / Unit Manager / [39]
Issue / advice sought	[34] [34] [34] Going for Housing Growth Pillar 3: Incentives for Councils initiative. Scaling or removing this initiative would create large headroom within the Budget 2026 package.
Treasury advice	***Housing Flexible Fund – further investment for Social Housing and other housing solutions*** This initiative proposes to top up the Flexible Fund to establish a pipeline of investment in Social Housing. At the Housing bilateral on 24 March 2026, [33]
Treasury recommendation	

Vote Revenue – Research and Development Tax Incentive decisions

Note an incorrect, earlier version of this annex was attached to last week's Budget advice. This provides the correct version.

Vote	Revenue
Initiative ID	*NA*
Initiative Title	Savings from the Research and Development Tax Incentive (RDTI)
Contact details	Sym Pandey – Senior Analyst John Marney – Manager [39]
Issue / advice sought	You have requested additional information on firms claiming internal non-administrative software expenditure exceeding $3 million under the RDTI, along with examples of their activities. We understand you may also be reconsidering the proposed expenditure options requested by the Minister of Science, Technology, and Innovation (SIT) and the Minister of Revenue, and therefore we have included updated costings for these options to confirm your decisions.
Treasury advice	**Excluding or reducing the current cap on internal software expenditure from $25 to $3 million** Excluding internal software expenditure entirely or lowering the cap from $25 to $3 million would have a limited economic impact as this form of expenditure typically generates fewer spillover benefits compared to other types of R&D activities (largely due to the higher risk of characterisation). Inland Revenue (IR) recommend fully excluding internal software activities, as this would also reduce compliance and administrative costs for both IR and businesses given the difficulties in accurately identifying eligible expenditure. On balance, Treasury recommends that a $3 million cap is pursued, given this would have a smaller impact on science firms, which could potentially be generating more spillovers from their expenditure. Further details on the anticipated impacts to firms of both options are provided below. *Impact on firms from excluding software expenditure (savings of $45.8 million per annum) (IR preferred)* In 2024 (the most recent year of available data), 135 out of 997[2] firms claimed internal software development expenditure under the RDTI. Since the introduction of the scheme in 2019, 351 firms have claimed internal software science expenditure, across a diverse range of industries (outlined below in Table 1). Over one-third of these firms are concentrated in the scientific, technical, and specialist services sector where software can be a key focus. In the remaining industries, software is more likely to be a secondary focus of the firm; therefore excluding software is less likely to impact those firms. If internal software expenditure were excluded entirely, it would have a material impact on the firms currently claiming this expenditure. For more than half of these firms, internal software accounts for over 90% of their eligible RDTI expenditure. *Impact on firms from reducing the cap to $3 million (savings $24.8 million saving per annum) (Treasury preferred)* Only 37 firms have exceeded the $3 million threshold in a single year since the scheme's inception. Many of these firms have been in the financial services sector (10 firms) and the utilities sector (6 firms), and they also tend to be larger, well-established, incumbent firms. In 2024, 21 firms exceeded the $3 million threshold, indicating the number of firms claiming significant expenditure for internal software has been rising. Due to commercial sensitivities and taxpayer confidentiality, IR is limited in the examples of expenditure it can disclose. However, a common type of R&D activity among the largest internal software expenditure claimants can be characterised as integrating information from various sources to deliver insights to customers (e.g., insights into how they are using services provided by the firm). While the number of affected firms from reducing the cap is significantly smaller compared to the option of excluding internal software expenditure entirely, it would still have a notable impact on firms currently claiming amounts above this threshold. In 2024, 10 out of the 21 firms with internal software expenditure

[2] This data is 95% complete, 63 returns are still being processed, 997 have been approved.

exceeding $3 million would have seen their R&D tax credits reduced by approximately 50% if the lower cap had been implemented.

Table 1. Types of firms which have claimed internal software expenditure since 2019 [3]

Firms which claim more than $3 million for internal software expenditure		**All firms which claim internal software expenditure**	
Type of firm	**Number of firms**	**Type of firm**	**Number of firms**
Financial services	10	Scientific, technical and specialist services	103
Electricity, gas, water and waste services (utilities)	6	Professional services (legal, accounting, consulting)	56
Manufacturing (food and non food)	5 or less	Information media and telecommunications	51
Information media and telecommunications	5 or less	Other manufacturing (non-food)	36
Scientific, technical and specialist services	5 or less	Financial services	29
Transport services (road, rail, air and water)	5 or less	Wholesale trade	11
Wholesale trade	5 or less	Electricity, gas, water and waste services (utilities)	10
Agriculture	5 or less	Retail trade	10
Construction services	5 or less	Food, beverage and tobacco manufacturing	9
Public administration and safety	5 or less	Construction services	6
		Transport services (road, rail, air, water)	5 or less
		Agriculture	5 or less
		Postal, courier and warehousing services	5 or less
		Education and training	5 or less
		Rental, hiring and real estate services	5 or less
		Mining and resource extraction	5 or less
		Accommodation and food services	5 or less
		Rental, hiring and real estate services	5 or less
		Administrative and support services	5 or less
		Public administration and safety	5 or less
		Health care and social assistance	5 or less
		Arts, recreation and cultural services	5 or less
		Other personal and community services	5 or less
Total	**37**	**Total**	**351**

Portfolio Ministers proposed adjustments

[3] To maintain taxpayer confidentiality, we have not disclosed the number of firms in categories with five or fewer entities.

We do not recommend the adjustments proposed by portfolio Ministers (outlined in table 2 below). Although they may lead to a modest increase in uptake, they are unlikely to enhance value for money, better support high-quality R&D, or reduce the compliance burden of the RDTI.

In-year payments

There are two options for implementing in-year payments, and IR has provided updated costings for both. Option one involves only departmental costs and focuses solely on introducing in year payments to address cashflow challenges that arise from the lag between when R&D expenditure is incurred and when the tax credit is received. If Ministers wish to proceed with in year payments, IR and Treasury recommend adopting this option.

MBIE's preferred option includes implementing in-year payments scheme *and* amending the RDTI scheme's current refund cap, which limits refund amounts to the value of labour-related taxes paid. This cap was originally introduced as an integrity measure. Removing or modifying it would provide greater support to capital-intensive startups and SMEs, which typically have lower labour costs. However, it would also heighten integrity risks — for example, by providing credits for ineligible expenditure and would result in higher operating costs due to a change in the RDTI scheme settings (estimated at $6.4 million operating per annum).

Treasury recommendation

Please indicate your decisions in the table below:

Option	Fiscal impact ($)	Decision
Savings		
Exclude non-administrative internal software expenditure from RDTI	(45.8) p.a. operating	Realise savings **(IRD recommended)** Agree / disagree
Reduce cap for non-administrative expenditure from $25 million to $3 million	(24.8) p.a. operating	Realise savings (**Treasury recommended)** Agree / disagree
Portfolio Ministers' proposed adjustments		
Option 1a. Implement in-year payments (retain refund cap)	1.1 p.a. operating 2.1 total capital	Do not implement **(recommended)** Agree/disagree
Option 1b. Implement in-year payments (remove refund cap)	6.4 p.a. operating 2.1 total capital	Do not implement **(recommended)** Agree / disagree
Option 2. Implement Commissioners' discretion	2.5 p.a. operating	Do not implement **(recommended)** Agree / disagree
Option 3. Implement relaxing mining exclusions	0.4 p.a. operating	Do not implement **(recommended)** Agree / disagree

Refer to other Ministers?

Refer to Minister of Revenue and Minister for Science, Innovation and Technology.

Vote Statistics – Options to defer or scale upgrades to the Integrated Data Infrastructure (IDI)

Vote	Statistics
Initiative ID	17211
Title	Modernise the IDI to support social investment and government decision-making
Contact details	Joshua Mackay – Analyst – [39] Mark Hodge – Unit Manager
Advice sought	You requested advice on options to scale or defer funding for Modernising the IDI in response to the changing economic situation and the need to create headroom in the Budget package [T2026/642 refers].
Treasury advice	**We support investment in modernising the IDI, but there are options available to scale the initiative and reduce its overall cost.** The current IDI was first built in 2011 as a prototype and is no longer fit for purpose. Improvements to technology and capacity are required to meet user needs. As part of the draft package, the Treasury supported fully funding the modernisation of the IDI **(current status in package)** on the basis that the IDI is regularly used to improve the efficacy of existing programmes (e.g. providing data to determine outcomes of interventions for young people not in education, employment or training). There are four options for scaling this initiative. **Option A – No funding for technology and capacity improvements, but fund engagement to gather social investment data ($10.7m operating over forecast)** We understand that the Minister of Statistics has raised this alternative, lower cost option with you which: • Includes working with relevant NGOs and agencies to gather and integrate data for social investment; but, • Does not include any improvements to the current IDI or capacity (beyond minimal increases to include SIA data). If you wish to scale this initiative further, **we do not recommend** progressing this option proposed by the Minister of Statistics, as it will increase costs in the long run and is not a genuine reduction in costs. This is because, in our view, improvements to IDI capacity are critical to progress at some point, as the current IDI only has capacity for a small amount of this data (which would only meet the Social Investment Agency's (SIA) needs for the 2027/28 year). As a result, this option would be dependent on further Budget 2027 investment to modernise the IDI to actually provide any long-term benefits and support the SIA's work in future years. Additionally, progressing this option would create short-term deadweight costs by paying to maintain the current IDI rather than funding an upgraded system. **Option B – Scale out discretionary upgrades to data quality, security and trainings ($44.8m operating over forecast, $13m capital)** If you wished to scale this initiative, discretionary upgrades to data quality, security and trainings could be removed, reducing operating costs by 25%, with potential to add these in future. This would still include upgrades to modernise the IDI and onboard social investment data. This is our preferred scaling option, but the total cost would still exceed Option A. **Option C – Further scaling option, to partially fund IDI technology improvements to ensure long-term sustainability ($10.8m operating over forecast, $5.2m capital)** If you did wish to scale this initiative in line with the quantum suggested by the Minister of Statistics, we instead recommend partially funding core technology improvements to the IDI. This would slow the integration of social investment data, but ensures the IDI integration system is in a stable state that does not depend on future investment (noting that this would not include upgrades to the Data Lab that researchers use to access the data). Additionally, funding these improvements means that if Ministers then did want to progress capacity improvements for Social Investment data at Budget 2027, this would avoid deadweight costs and reduce overall costs. While operating funding would reduce to a similar level to the Minister for Statistics option, it would have associated capital costs of $5.2m.

<table>
<tr>
<td></td>
<td>Option D – Defer all upgrades and provide only minimum viable investment to maintain IDI – ($1.8m operating funding over forecast)

If you wish to reduce this initiative to the minimum level, we recommend funding $1.8m total operating funding to continue to meet current requirements and prevent any loss of service. Without any funding there is significant risk that the IDI is unable to continue to operate at the current level.</td>
</tr>
<tr>
<td>Treasury recommendation</td>
<td>Indicate your preferred approach for this initiative:

Maintain current status in package: Full funding to modernise the IDI; Yes / No
Option A: Exclude technology and capacity improvements, but fund initial engagement to gather Social Investment data (Not recommended): Yes / No
Option B: Scale funding while maintaining core technology and capacity improvements: Yes / No
Option C: Partially fund core technology improvements only: Yes / No
Option D: Defer all upgrades but provide minimum funding to maintain IDI: Yes / No

<table>
<tr><th rowspan="2">Option</th><th rowspan="2">ID</th><th colspan="6">Operating ($m)</th><th rowspan="2">Total Capital ($m)</th></tr>
<tr><th>25/26</th><th>26/27</th><th>27/28</th><th>28/29</th><th>29/30</th><th>Total</th></tr>
<tr><td>Current status in package</td><td rowspan="5">17211</td><td>-</td><td>14.744</td><td>15.696</td><td>17.070</td><td>12.271</td><td>59.781</td><td>13.927</td></tr>
<tr><td>Option A</td><td>-</td><td>1.680</td><td>3.010</td><td>3.010</td><td>3.010</td><td>10.710</td><td>-</td></tr>
<tr><td>Option B</td><td>-</td><td>11.599</td><td>12.602</td><td>11.974</td><td>8.588</td><td>44.763</td><td>12.954</td></tr>
<tr><td>Option C</td><td>-</td><td>0.910</td><td>5.740</td><td>2.360</td><td>1.80</td><td>10.810</td><td>5.160</td></tr>
<tr><td>Option D</td><td>-</td><td>0.460</td><td>0.460</td><td>0.460</td><td>0.460</td><td>1.830</td><td>-</td></tr>
</table>
</td>
</tr>
<tr>
<td>Referral</td>
<td>Refer to the Minister for Statistics: Yes / No</td>
</tr>
</table>