The Treasury

Budget 2026 Information Release

September 2026

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[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

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[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

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Budget 2026 Package Advice – Week Commencing 20 April

Date:	24 April 2026	**Report No:**	T2026/848
		File Number:	BM-2-4-2026-M137348

Action sought

	Action sought	Deadline
Hon Nicola Willis **Minister of Finance**	**Indicate** your decisions on individual initiatives in Annex 1 **Indicate** your decisions on Budget 2026 baseline reductions in Annex 2 **Provide feedback** on the draft update to Budget Ministers in Annex 3 **Indicate** your decisions on performance plans in Annex 5 **Note** the draft new and expired specific fiscal risks in Annex 6 **Agree** to a transport capital package	27 April 2026

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Matt Curzon	Analyst, Budget	[39]	N/A (mob)	✓
Emily Fulford	Unit Manager, Budget		N/A (mob)	

Minister's Office actions (if required)

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 20 April

Background

1. This report updates you on the status of the Budget 2026 package, following your recent feedback at Fiscal Matters on Monday 20 April, and decisions made at Budget Ministers 4 on Tuesday 21 April. The annexes attached to this report are:

   a **Annex 1:** Further advice on savings from future baseline reductions and other specific initiatives;

   b **Annex 2:** A draft note to Budget Ministers on the status of the Budget 2026 package;

   c **Annex 3:** Impacts of New Zealand Super Fund contributions and capital expenditure on debt;

   d **Annex 4:** Public service transformation and baseline reductions – communicating your expectations and aligning delivery with Performance Plans;

   e **Annex 5:** Specific Fiscal Risks at BEFU; and

   f **Annex 6:** Draft Climate Implications of Policy Assessment (CIPA).

Budget 2026 Package Cabinet Paper Update

2. You received the first draft of the Budget 2026 Cabinet Paper on Thursday 23 April. The next draft will be provided to you, incorporating your feedback and your office's feedback, following Fiscal Matters.

3. Cabinet consideration has been confirmed for Thursday 7 May, and the paper will be lodged on Friday 1 May. We will provide you with the final version for approval on Thursday 30 April.

4. We have attached the draft Climate Implications of Policy Assessment (CIPA) for the Budget 2026 Cabinet paper in Annex 6. The Climate Change Interdepartmental Board Unit has assessed the climate impacts of the Budget package and advise that the scale of cumulative emissions impacts meets the threshold to complete a CIPA.

Status of your Budget 2026 package

5. The overall position of the operating package now largely depends on two fiscally significant decisions. Depending on these decisions, the package could balance at the $2.4 billion operating allowance or be below by $0.4 billion.

   a Whether Ministers agree to progress with fees free savings (and offsetting spending), and

   b How many savings from the 5%+5% baseline reductions to bring forward into the Budget 2026 operating allowance. Our advice has generally been to manage savings over time, rather than at Budget 2026. A decision annex to this report sets out the options (e.g. managing savings from only one of the 5% reductions at Budget 2026) and the impacts on the Budget package.

6. [33]

Communicating the status of the package to Budget Ministers

7. As agreed at Budget Ministers 4, we have prepared a note for you to send to other Budget Ministers to inform them of the current status of the Budget package, and seek their final comments on an exception basis.

8. A draft of this note is annexed to this report in **Annex 2**. We are seeking your feedback, and will update this note early next week to reflect any feedback and further decisions you make. The note will go to Budget Ministers on Tuesday 28 April and seeks any comments by end of day Wednesday 29 April so that you can lodge the Budget package Cabinet paper on Friday 1 May.

9. The current draft reflects decisions made over the past week, which we have set out in more detail below.

Finalising the operating package

10. The table below sets out the impact on the package of key decisions you made over the past week, including at Budget Ministers 4:

Table 1: Key decisions or changes to the Budget 2026 package over the last week

Area/initiative	Decision made	Current status in package ($m total)
Council Incentives	Budget Ministers agreed to a $400 million over the forecast period funding envelope for the Council Incentives initiative, subject to Hon Seymour and Hon Bishop confirming final policy details (the funding will be placed into a tagged contingency). This reduced the initiative's spending by $291.6 million total.	$400 million
Energy package	Budget Ministers agreed to return [33] of forecast underspends from energy programmes to the centre, [33] which brings the net energy package to [33] of savings. We have accounted for this Cabinet paper being agreed. This offsets the $48 million figure for the Gas Transition Loan Scheme included in the package.	[33]
[33]		
Revenue	At a meeting with Hon Seymour on Wednesday 22 April, you agreed to progress a prudential levy at Budget 2026 (which was already reflected in the package), but not to progress a bank tax. The bank tax will remain under active consideration for a future Budget.	($208.5m)
Commercial fuel supply deal	You and the Associate Minister of Energy have received advice to pre-commit $200 million to progress commercial agreement(s) for fuel supply. We have accounted for this cost in the package.	$200m total

11. The table below outlines notable items to be resolved (smaller matters are covered in annexes to this report):

Table 2: Summary of outstanding initiatives for your operating package

Area/initiative	Key choice and decision point	Current status in package ($m p.a.)
Final-Year Fees Free and **offsetting Vocational Education initiatives**	You agreed to include a non-grandparented end to Final-Year Fees Free in the package ($330.2 million p.a.), offset by increased spending vocational education ($48.5 million p.a. spending). We understand these spending and savings initiatives are subject to discussions with Rt Hon Peters.	($330.2) for Fees Free $48.5 for offsetting spending
Foreign Affairs package	We understand you are meeting your Office is engaging with Rt Hon Peters Office to confirm decisions on the Foreign Affairs package.	$33.1m [$68.8 spending, offset by ($35.7) in baseline reduction]
Firearms Reform	Following Budget Ministers 4, you are meeting with Hon McKee on Tuesday 28 April to discuss and agree a package for the Firearms proposal.	[38]
Golden Bay Cement	A paper is being considered at ECO on Wednesday 29 April to determine support for Golden Bay Cement. We will reflect any outcome of that paper in the package.	$15.0
Wilding Conifers	Following Budget Ministers 4, you are meeting with Hon Potaka and Hon Hoggard on Tuesday 28 April to progress decisions on this initiative.	-

Finalising the capital package

12. Decisions on the transport capital package are remaining outstanding. At Budget Ministers 4, four package options were presented. The table below also outlines the resulting capital allowance associated with each option.

Table 3: Options for Budget 2026 Transport Capital Package

Option	Total net new Capital $b*	Detail	Resulting capital allowance $b**
1	[33]	• [33] • Resilience projects [33]	[33]
2		• [33] RoNS above (no resilience projects)	
3		• Cambridge to Piarere • Resilience projects [33]	
4		• [33] • Resilience projects [33]	

** The total new capital column in the table has been reduced by* [37] *to reflect the available reprioritisation, which is a result of undrawn loan facilities.*

*** Depending on your decisions on the Corrections' boilers initiative in Annex 1, this may slightly increase the capital allowance.*

13. We understand that Hon Bishop sought more time after Budget Ministers 4 to consider further savings opportunities and recommend an updated package as a result. The Treasury and the Ministry of Transport consider it unlikely that any further savings will be identified in the time available, and that the maximum reprioritisation available will remain unchanged at [37]

14. At Hon Bishop's request, we are providing additional information on NZTA reprioritisation options in a separate report (T2026/896 refers). We consider that all viable options have already been explored. On that basis, we recommend that you decide on a Transport capital package now, drawing on the options outlined above.

15. If you wish to proceed with a RoNS [33] for Budget 2026, we recommend considering either option 3 or 4 above, which would allow [33] some resilience investments. Resilience programme funding can be scaled up or down, depending on your preferences and how much you wish to increase the capital allowance by.

16. [33]

17.

18. We recommend that decisions on resilience projects are made at a high level, allowing the NZTA board to select specific projects once investment cases are finalised – for example, by agreeing a 'North Island', 'South Island', or 'critical-risks' resilience package rather than naming individual projects.

Further information on the Education school property initiative – Land Acquisition

19. At Budget Ministers 4, Budget Ministers agreed to a $469.6 million School Property package and discussed the scope of the [37] total capital component that was proposed for land acquisition. The [37] consists of [37] already included in the package, and an additional [37] that has been ringfenced for [33]

20. We understand from the Ministry of Education that the [37] will be prioritised for the purchase of one land site, possibly in [37] The additional [37] is to be ringfenced for [33] , in line with the Minister for Infrastructure's proposal. We are not aware of any intention to acquire land in [37] within the School Property package.

21. We can provide information on the above in the note that you will send to Budget Ministers on Tuesday 28 April.

Budget 2026 Production update

22. As outlined in this week's report, we have begun work on the Budget 2026 production process and propose that the Budget 2026 documents and associated publications will be the same as those used for Budget 2025. The table below sets out the proposed timeline for when we will provide you with drafts and final versions, separated by each product.

Table 4: Key Budget 2026 Production Timelines

Document	First draft provided	Final draft provided	Sign out for print
Fiscal Strategy Report	Around Wednesday 29 April to your Office (you will receive a draft after this)	Wednesday 20 May	By 10am, Friday 22 May
Child Poverty Report	Around Friday 1 May to your Office (you will receive a draft after this)	Wednesday 20 May	By 10am, Friday 22 May
Summary of Initiatives	Friday 15 May	Wednesday 20 May	By Saturday 23 – Sunday 24 May
Budget-at-a-Glance	Friday 15 May	Wednesday 20 May	10am, Monday 25 May
Budget Economic and Fiscal Update	Friday 15 May	Wednesday 20 May	4pm, Wednesday 20 May
Press Releases & Budget Day Speech	From Saturday 16 May	Friday May 22-Monday 25 May	Friday May 22-Monday 25 May
Q&As	Friday 15 May	Tuesday 26 May	N/A

23. These timeframes are built around deadlines for getting the main Budget documents (particularly those that require binding) to print from Wednesday 20 May to Sunday 24 May. The printing dates and deadlines are intentionally staggered to manage printing capacity and enable maximum time for finalising press releases and your speech.

24. Although there are contingency deadlines for printing, these come with compromised print quality, the need to rescope discretionary products, and/or quality assurance risks. We will advise you and your office of these trade-offs, risks, and mitigations if required

Summary of Initiatives

25. The Summary of Initiatives (SOI) is one of your key Budget documents. There are a few key considerations for the approach taken to the SOI that we will provide further advice on next week. These are:

    a The sections that will be covered in the SOI, including whether any you would any particular themes reflected in the document.

    b The approach to sensitive initiatives, including withheld initiatives. We will provide a list of initiatives and our recommended approach to how these could be presented.

Specific Fiscal Risks

26. We are currently in the process of drafting the statement of specific fiscal risks (SFRs) for the Budget Economic and Fiscal Update (BEFU). The broad process and criteria for Specific Fiscal Risks is consistent with the approach applied for previous Economic and Fiscal Updates.

27. While the Treasury is responsible for the preparation of the SFRs, we are seeking your feedback on whether there are further matters that should be reflected as SFRs. This is consistent with the Minister of Finance's role in the preparation of the BEFU, which is to communicate to the Treasury any of the following you are aware of as at the date the forecasts are finalised (8 May 2026):

   a All policy decisions with material economic or fiscal implications that the Government has made; or

   b All other circumstances with material economic or fiscal implications of which you are aware.

28. We intend to publish 62 risks – 3 fewer risks than were published at the Half Year Economic and Fiscal Update (HYEFU). Annex 5 highlights the new and expired risks that we intend to include at BEFU. For new risks, we have provided a reason for their inclusion since HYEFU (these reasons will not be published in the chapter). These risks are still being actively considered by the Treasury, and the exact title or wording may change between now and publication.

29. The Public Finance Act allows you to determine a matter to be excluded from publication in an EFU under certain conditions (such as it is likely to prejudice the substantial economic interests of New Zealand). There are no new SFRs that we propose to be withheld.

30. SFRs will continue to be iterated as Budget decisions are finalised and the SFR chapter is reviewed and revised. On Monday, 18 May, we will provide your office with the full SFR chapter we intend to publish, highlighting any significant changes to risks.

31. We made a number of significant changes to the SFR chapter for HYEFU, including providing the fiscal impact of SFRs, expiring SFRs relating to general inflationary pressures that provided minimal information, and improving analysis and insights as part of the chapter narrative. We do not intend to make further significant changes for BEFU 2026, with a focus on building on those changes already made (such as providing the potential fiscal impact for more risks and further improving the analysis and insights).

Recommended actions

We recommend that you:

a **Indicate** your decisions on savings from baseline reductions and other specific initiatives in Annex 1;

b **Provide feedback** on the draft update to Budget Ministers on the status of the Budget 2026 package in Annex 2;

c **Indicate** your decisions on public service transformation and performance plans in Annex 4;

d **Note** the draft new and expired specific fiscal risks included in Annex 5;

e **Inform** officials of any additional matters you consider should be captured as specific fiscal risks;

f **Note** there are no risks to be withheld from publication under section 26V of the Public Finance Act 1989; and

g **Note** the draft Climate Implications of Policy Assessment in Annex 6.

h **Note** that each transport package option includes a [37] worth of reprioritisation, reflecting undrawn NZTA loan facility available to reallocate to the Transport capital package

i **Agree** one of the following packages for Budget 2026:

Option	**Resulting capital allowance**	**Decision**
1. [33] Cambridge to Piarere [33] , and [33] for resilience projects	[33]	Agree / Disagree
2. [33] Cambridge to Piarere [33] , and no resilience projects		Agree / Disagree
3. [33] **Cambridge** to Piarere and [33] for resilience projects		Agree / Disagree
4. [33] and [33] for resilience		Agree / Disagree

j **Indicate** whether you wish to specify a broad categorisation for the resilience package – for example North Island, South Island or critical risk focused

Yes / No

Emily Fulford
Unit Manager, Budget

Hon Nicola Willis
Minister of Finance

_____/_____/_______

Annex 1: Further advice on savings from future baseline reductions and other specific initiatives

Multiple Votes – Scope of baseline reductions

Contact details

Darius Paschke		Senior Analyst	[39]
Tom Brooke		Acting Principal Advisor	

Issue / advice sought

This annex provides an overview of the scope of large agencies' eligible bases. Eligible bases are intended to strip out significant, genuinely non-discretionary spending (e.g. finance costs). **They are not an indication of where savings should be identified from**, but are used to provide a consistent and fair basis for allocating out targets across agencies.

Where individual appropriations are very large relative to an agency's total expenditure, including them in an agency's eligible base means that savings almost certainly have to be identified from within that appropriation. In that context, we want to give you visibility of MSD's baseline, which includes the very large "funding for employment support" ($1.1 billion p.a.) and alone drives around 15% of total savings in the future baseline reduction process.

Treasury advice

The table below outlines the five largest agencies and their largest areas of spending. These five agencies make up most of the eligible base.

Agency	Eligible base ($m, p.a.)	Large appropriations (approx. $m p.a.)
MSD	1,880.0	Employment and Social Outcomes Support ($1,085m) funds case managers and employment services; Community Support Services ($284m) funds mostly third-party services; Community Participation Services ($132m) funds mostly third-party services to support disabled people
IR	788.5	Departmental funding – no major breakdowns
MBIE	682.6	NZTE ($190m), Policy & advice ($113m), Commerce & Consumer Affairs areas ($88m), Employment Relations Services ($45m)
MPI	657.9	Biosecurity ($198m), Policy & advice ($153m), Agriculture funds ($118m), Forestry advice and support ($73m)
MFAT	571.1	Departmental funding – no major breakdowns

The experience of the 2% baseline reduction suggests we have struck the balance of what is in or out of the base broadly right. While there are areas of spending in the base that Ministers are likely to want to maintain, most baselines are either mostly departmental or have a diverse range of activities from which efficiencies can be delivered or savings can be prioritised within.

The outlier is MSD's Employment and Social Outcomes appropriation ($1,085m p.a.). It makes up more than half of MSD's eligible base, and so it seems unlikely that MSD could meet its baseline reduction without savings from this area of expenditure. This appropriation relates to frontline staffing costs for MSD, such as case workers and employment support staff. The Government has also made some time-limited investments in this appropriation through invest-to-save initiatives and has booked future reductions through MSD's Services for the Future transformation programme [38]

	On balance, we think this should remain in scope. This is particularly the case given that this is an appropriation that relates to significant FTE numbers, and excluding it would put pressure on the Government's FTE reduction [33] In addition, invest-to-save initiatives could be considered for inclusion as baseline reduction initiatives, where they can be delivered sufficiently quickly and there is strong evidence for their effectiveness.
Treasury recommendation	**Indicate** if you want to amend the scope of future baseline reductions: • MSD's Employment and Social Outcomes Support appropriation: Include / Exclude • Any other areas of spending – specify below Specify any areas: ____

Future baseline reductions – options for managing impacts at Budget 2026

<table>
<tr><td>Contact details</td><td>
<table>
<tr><td>Darius Paschke</td><td>Senior Analyst</td><td>[39]</td></tr>
<tr><td>Tom Brooke</td><td>Acting Principal Advisor</td><td></td></tr>
</table>
</td></tr>
<tr><td>Issue / advice sought</td><td>This annex seeks your confirmation of the level of savings to include in the Budget 2026 package from future baseline reductions. Currently, there are $491.2m p.a. of future baseline reductions that can be managed against the Budget 2026 allowance (in addition to the $105.5m p.a. from the 2% reduction being progressed through specific initiatives). Above, we have provided a separate annex seeking your decision on the scope of the baseline reduction, which interacts with the decisions sought in this annex. The fiscal impacts here assume all else is held equal.</td></tr>
<tr><td>Treasury advice</td><td>
We have previously advised caution in using savings from future baseline reductions against the Budget 2026 allowance, for two key reasons.

On-going future fiscal pressures: future spending pressures are expected to continue, and potentially increase in the next year due to higher inflation. Recognising baseline reductions across multiple Budgets would help manage those pressures as they occur.
Unknown delivery pathways: the specific decisions that agencies would make to achieve future reductions are not yet confirmed. In this week's advice, we have included information on how this would be reflected as a Specific Fiscal Risk.

Since we provided the above advice, the Public Service Transformation work programme [33] has provided greater clarity on the likely trajectory of workforce-driven savings over time. This strengthens the basis for agencies to identify and deliver future reductions, but does not resolve these concerns completely.
We continue to believe there is a case – if possible within the context of the Budget package – to manage a lower level of future baseline reductions against the Budget 2026 allowance. This will also support the credibility and delivery of your fiscal strategy and operating allowances over time.
The table below sets out a variety of options for the level of future baseline savings that you wish to recognise in the package, noting where these will leave your package against allowances:
<table>
<tr><th>Option</th><th>Future savings in Budget 2026 package</th><th>Resulting headroom ($b p.a., if Fees Free savings implemented)</th><th>Comment</th></tr>
<tr><td>Option A: keep all future savings in package (status quo)</td><td>$491.2m</td><td>$0.4 billion under allowance</td><td>Any shortfall in future savings will have to be managed against future allowances or against fiscal indicators.</td></tr>
<tr><td>Option B: Remove all future savings (5% + 5%)</td><td>-</td><td>$0.1 billion over the allowance</td><td>All future baseline reductions would be recognised and managed against future allowances.</td></tr>
<tr><td>Option C: Bring forward 1% from each future 5% reduction (4% at Budgets 26, 27 & 28)</td><td>$98.2m</td><td>At allowance (~$5-10m under)</td><td>Would provide around $315m p.a. of savings for each of Budget 2027 and 2028 allowances.</td></tr>
</table>
</td></tr>
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Option D: Bring forward half of each future baseline reduction	**$245.6m**	$0.2 billion under the allowance	Would provide around $200m p.a. of savings for each of Budget 2027 and 2028 allowances.
Option E: Recognise only 27/28 increment (5%) of future savings now	**$294.7m**	$0.2 billion under the allowance	This leaves the final 5% increment of future baseline reductions to be recognised either at Budget 2027 or Budget 2028.

Two previous baseline reductions are relevant to consider in how they were treated fiscally:

- In 2011, efficiency savings of around $110m p.a. were recognised and managed against the Budget 2011 allowance without clear knowledge of required trade-offs. This was a one-step reduction that was operationalised in the year following the Budget, to take effect from FY2012/13.
- In 2023, the Pre-Election Fiscal and Economic Update (PREFU) accounted for a baseline savings of around $350m p.a., through one to two per cent reductions in agency baselines, also without knowledge of required trade-offs. These anticipated savings were recognised to improve the fiscal outlook, rather than committed to new spending. Given this decision represented the start of any fiscal consolidation, making this level of savings was also considered achievable. However, this programme of savings was also included as a Specific Fiscal Risk in PREFU.

We recommend that you remove **as many savings from future baseline reductions as practicable given other decisions.** This will ensure you can balance the Budget 2026 package, while ensuring that as many savings as possible are available for future budgets to balance future spending pressures.

Changing how baseline savings are managed across Budgets will affect the impact of the Budget package of OBEGALx from 2027/28 onwards. Managing savings against future Budgets may have a small negative impact on OBEGALx (in the low hundreds of millions) relative to the current approach, or allowing them to flow through to the fiscal indicators would have a positive impact on OBEGALx. We can provide you an update depending on your preferred approach and on the outcome of Fees Free decisions

Treasury recommendation

Indicate your preferred option below:

- Option A (Status quo): keep future baseline reduction savings in the package: *Yes/No*
- Option B: remove all future baseline reduction savings from the package: *Yes/No*
- Option C: bring forward 1% from each future baseline reduction (4% at each Budget): *Yes/No*
- Option D: bring forward half of each future baseline reduction: *Yes/No*
- Option E: bring forward only 2027/28 increment (5%) of future baseline reduction savings now: *Yes/No*

*Note the table below sets out the phasing **only for future baseline reductions** in Budget 2026, which is additional to the $105.5m p.a. being progressed through specific initiatives:*

Option	Operating ($m)						Total Capital ($m)
	25/26	26/27	27/28	28/29	29/30	Total	
Option A (Current status in package)	-	-	(393.0)	(785.9)	(785.9)	(1,964.8)	-
Option B	-	-	-	-	-	-	-
Option C	-	-	(78.6)	(157.2)	(157.2)	(393.0)	-

Option D	-	-	(196.5)	(393.0)	(393.0)	(982.4)	-
Option E	-	-	(393.0)	(393.0)	(393.0)	(1,178.9)	-

Vote Corrections – Middle East conflict – energy resilience submission

Vote	Corrections
Initiative ID(s)	17564 – Corrections fuel resilience – accelerated boiler replacement programme
Contact details	Nicole Bares – Analyst Oliver Parsons – Manager [39]
Overview of submission	At Budget Ministers 4, Ministers asked for further information on this initiative, including details of the proposal, timeframes for delivery and the extent to which it could be funded from Corrections' baselines. We are seeking your final decision on whether to include this in the package. This initiative seeks a tagged contingency **($76 million capital and $11 million operating over the forecast period)** to deliver 159 boiler replacements across six custodial sites by 2028/29, significantly reducing reliance on diesel and LPG across the prison network and reducing emissions. **Delivery would span four years, with most boiler replacements in the first two years**. The timeframes for delivery are: • 2025/26 to 2026/27: Replacement at approximately four sites, prioritising boiler replacement at smaller, less complex sites in Rolleston Prison, Christchurch Women's Prison, Otago Corrections Facility and Northland Regional Corrections Facility (78 LPG boilers, and 10 diesel boilers). • 2027/28 to 2028/29: Replacement at a further two sites, including more complex facilities of Christchurch Men's Prison and Spring Hill Corrections Facility (61 LPG boilers, and 10 diesel boilers).
Treasury advice	You have choices about how you can approach this initiative. **If you want to make progress on energy resilience in this Budget, there is a case for funding this initiative:** This initiative is well aligned with the resilience focus set out in your invitation letter to the Minister of Corrections as it reduces Corrections' reliance on diesel in the long term and reduces its exposure to rising carbon price over a shorter timeframe. Corrections is the second largest emitter of greenhouse gas emissions in the public sector (behind NZDF). 60% of its direct overall fuel consumption relates to the operation of onsite equipment, heating and cooking at prison sites. This initiative is informed by site feasibility work done for the Budget 2023 bid, which did not progress at the time, but was supported by the Treasury. **You could defer decisions if you want to consider this as part of a broader All of Government approach to energy resilience, however this would delay implementation**: While the investment could reduce exposure to fuel prices over time, decisions to reduce the Government's reliance on diesel and gas could be addressed through a whole-of-government approach rather than on an agency-by-agency basis. There is a choice on the pace of these boiler replacements. **Corrections' baseline funding supports only the steady replacement for boilers at the end of their useful life.** Corrections advises that boiler replacements are prioritised each year

under its Planned Replacement Programme across all assets, and only a small number of boilers have been replaced since the Budget 2023 bid.

Additional funding is required to accelerate delivery beyond what baseline funding allows. Corrections advises that accelerating the program within its baseline would require funding to be reallocated from other existing assets requiring replacement, and this would impact on the long-term sustainability of the Corrections Capital Plan.

We consider that Corrections has limited balance sheet flexibility, having already drawn on baseline reserves and reprioritised funding to major prison capacity projects (Christchurch Men's Prison Phase 1 and the Accelerated Capacity Project at Hawke's Bay Regional Prison, alongside other smaller capacity projects necessary to address the growing prison population). We note that Corrections' focus is aligned to the financial stewardship of its asset base and it would be difficult to prioritise replacing assets that have not yet reached the end of their useful life over operational assets that do require replacement.

If you want to provide funding to accelerate replacement, this could be done on a scaled basis to manage fiscal impacts and reduce the risk of a sudden ramp-up in delivery if the market is constrained.

Corrections have produced a scaled option ($28 million capital, $3 million operating) that focuses on strengthening diesel resilience at its intensive-use sites, which are all located in Canterbury (Rolleston, Christchurch Men's, and Women's prisons). By focusing on a single region, this option enables a simpler procurement and implementation process. For other sites, you could continue with the steady replacement at the end of their useful life or consider providing additional funding in a future Budget.

Recently, the diesel boiler replacement programme in Education was publicly announced. This will be managed through existing Ministry's capital reserves.

Treasury recommendation

Indicate if you want to:

- **Option A:** Include the accelerated boiler replacement programme for a total cost of $76 million capital and $11.5 million operating *Yes/No*
- **Option B:** fund a scaled option focused on accelerated boiler replacement programme at Canterbury prison sites for a total cost of $30 million capital and $3 million operating. *Yes/No*
- **Option C:** Exclude the accelerated boiler replacement programme from the Budget 2026 package *Yes/No*

Option	*ID*	*Operating ($m)*						*Total Capital ($m)*
		25/26	*26/27*	*27/28*	*28/29*	*29/30*	*Total*	
Option A	17564	-	0.419	1.229	4.362	5.440	11.441	75.890
Option B	17564	-	0.094	0.534	2.303	-	2.933	27.610
Option C	17564	-	-	-	-	-	-	-

Referral to other Ministers

Refer this annex to Budget Ministers: *Yes/No*

Vote Health – Initial Funding Transfer between the New Dunedin Hospital Multi-Year Appropriations

Vote	Health
Initiative ID	17608
Initiative Title	Technical Initiative - Initial Funding Transfer between the New Dunedin Hospital Multi-Year Appropriations
Contact details	Sophie Martin – Analyst [39] Jess Hewat – Manager
Issue / advice sought	At the March Baseline Update 2026, you agreed to establish a new Multi-Year Appropriation (MYA) for the New Dunedin Hospital programme. The Minister of Health has submitted a late technical initiative to transfer initial funding ($401.6m) from the existing New Dunedin Hospital 2021-2026 MYA to the newly established New Dunedin Hospital 2026 -2030 MYA. This will cover the forecast costs of the New Dunedin Hospital programme in 2026/27. We recommend this continues as a separate appropriation to provide Ministers with oversight of spend. As you have already approved the technical initiatives for Budget 2026 (T2026/665), we are seeking your agreement to include this initiative in the technical package.
Treasury advice	We recommend you include this initiative in the technical package. It is fiscally neutral, so there is no impact on your fiscal indicators or allowances.
Treasury recommendation	**Agree** to include this technical initiative in the package: *Yes/No*

[33]

Vote Revenue – Thin Capitalisation Changes for Foreign-owned New Zealand Banking Groups

Vote	*Revenue*
Initiative ID	17534
Initiative Title	*Thin Capitalisation Changes for Foreign-owned New Zealand Banking Groups*

Contact details

Samantha Putt	Analyst	[39]
Emily Fulford	Unit Manager	

Issue / advice sought

The Revenue package contains an initiative to update the thin capitalisation rules for foreign-owned NZ banking groups. The initiative has savings of $11.3 million per annum. The current package numbers reflect the option of including these savings against allowances (subject to your further decisions).

At Joint Ministers on 20 April, you agreed with the Minister of Revenue that the changes should be managed against the Tax Policy Scorecard. You noted that if the Australian-style bank tax does not progress, you would like advice on the fiscal treatment of this initiative in a wider Budget package context. As you have agreed to not progress a bank tax for Budget 2026, you have choices about how to manage these Thin Capitalisation savings.

Treasury advice

The below has more details on the two available options:

a. **Against the Tax Policy Scorecard:** The Tax Policy Scorecard has a balance of $14.5 million, and you and the Minister of Revenue have agreed that additional funding should be managed against the Scorecard to maintain funding for Tax policy initiatives. If the Scorecard balance remains low, alternative funding sources would be needed to fund future tax policy initiatives.

b. **Against the Budget 2026 operating allowance:** depending on other Budget decisions you make over the coming days, these savings could be necessary to stay within the Budget 2026 operating allowance.

If these savings are required to balance the Budget, we recommend you include them in the package. Otherwise, we recommend you manage them against the Scorecard.

Treasury recommendation

Indicate your preference for the fiscal management of this initiative:

- **Option A :** Include this initiative in the package if required to stay within the Budget 2026 operating allowance (but otherwise manage against the scorecard) *Yes/No*
- **Option B:** Manage against the Tax Policy Scorecard: *Yes/No*

Option	***ID***	***Operating ($m)***						***Total Capital ($m)***
		25/26	***26/27***	***27/28***	***28/29***	***29/30***	***Total***	
Option A	17534	0	(3.2)	(13.1)	(14.4)	(14.5)	(45.2)	0
Option B		0	0	0	0	0	0	0

Vote Tertiary Education – Industry Skills Boards – Supporting Strategic Activity

Vote	Tertiary Education
Initiative ID	17238
Initiative Title	Industry Skills Boards – Supporting Strategic Activity
Contact details	Isabel Dunne – Analyst – [39] Mark Hodge – Unit Manager
Issue / advice sought	We are seeking your agreement to include additional recommendations as part of this initiative, which would provide Cabinet authority to you and the Minister for Tertiary Education to decide on the treatment of residual funding that may be available from Industry Skills Boards (ISBs) and the remaining cash reserves of the New Zealand Institute of Skills and Technology (NZIST) on disestablishment. This would provide options in the future to increase funding in the *Te Pūkenga Disestablishment and Transition* tagged operating contingency to manage fiscal risks associated with the overall changes to the Vocational Education and Training (VET) system without seeking new Budget funding.
Treasury advice	Cabinet has previously agreed to re-establish a locally-led VET system, including fourteen standalone polytechnics and ten ISBs, and to disestablish NZIST by 31 March 2027. There is a high risk that the existing *Te Pūkenga Disestablishment and Transition* tagged operating contingency will be insufficient to address all of the fiscal risks associated with VET-related capital initiatives agreed to by Cabinet, including: • [37] • progressing the NorthTec tertiary hub ($34.7 million) • [37] There is likely to be funding returned from ISBs [37] and remaining cash reserves of NZIST on disestablishment [37] Without further decisions, this funding would return to the centre. However, we recommend you manage the risks of the VET system transition by seeking Cabinet's agreement to delegate authority to you and the Minister for Tertiary Education to agree whether to reprioritise this funding into the *Te Pūkenga Disestablishment and Transition* tagged contingency or return funds to the centre. While not directly required to support this ISB initiative, this decision is aligned to the overall VET system change and the establishment of ISBs. Seeking this delegation from Cabinet has no impact on Budget 2026 allowances. If authority is delegated, we would provide further advice on fiscal implications of each option at the time of decision-making. Alternatively, unspent funds would be returned to the centre, with a positive impact on net core Crown debt at the time of return, and no impact on OBEGALx.
Treasury recommendation	**Agree** to include additional recommendations in the *Industry Skills Boards* initiative that delegate authority to the Minister of Finance and Minister for Tertiary Education to jointly agree whether to use returned funds outlined above to increase funding in the *Te Pūkenga Disestablishment and Transition* tagged operating contingency or return these funds to the centre: *Yes/No*

[33]

[33]

Budget 2026 Initiatives with Tagged Contingencies

Initiative Title	Budget 2026 Initiatives with Funding in Tagged Contingencies
Contact details	Quintin Jane – Analyst Bonar Roberston – Principal Advisor [39]
Issue / advice sought	We are seeking your approval of initiatives agreed as part of Budget 2026 that propose to hold funding in a tagged contingency.
Treasury advice	Consistent with our previous advice on taking a stronger approach to managing tagged contingencies [TR2026/782 refers], we are providing you with visibility the 40 initiatives that will have funding fully or partially placed in tagged contingencies. Our assessment is that there is a legitimate case for these to be held in tagged contingencies for reasons including: • allowing negotiations to be carried out in good faith (5 of the proposed tagged contingencies); • the need for business cases to be completed (24 of the proposed tagged contingencies); or

- to ensure agencies act on other directions from Cabinet (e.g., to complete monitoring and evaluation plans) (11 of the proposed tagged contingencies)

For the small number of initiatives that are yet to be agreed following Budget Ministers 4, we are proposing to hold the funding in tagged contingencies in most cases. This is to mitigate the risk to departments in preparing their Estimates documents and for the drafting of the Appropriation Bills.

Treasury recommendation

Indicate by exception any agreed initiatives you do not wish to hold funding for in a tagged contingency:

ID	Vote	Title	Reason for TC
17605	Agriculture, Biosecurity, Fisheries and Food Safety	Aquaculture Settlements – Delivering on the Crown's Legislative Obligations	Negotiation
[1]			
17587	Conservation	Stafford v Attorney-General Litigation Settlement – Implications for the Department of Conservation	Negotiation
17579	Corrections	Corrections Critical Frontline Remuneration Pressures	Negotiation
17617	Customs	Welfare reform: Working for Families – simplifying eligibility settings and improving information sharing with Customs	Awaiting Information sharing agreement
17218	Defence Force	Defence Capability Plan – Updating Classified Digital Services Phase Two	Commercial / Business Case
17220	Defence Force	Defence Capability Plan – Mission Command Training Facility	Commercial / Business Case
17221	Defence Force	Defence Capability Plan – Maritime Fleet Renewal Uncrewed Persistent Surveillance Phase 1a	Commercial / Business Case
17222	Defence Force	Defence Capability Plan – Maritime Fleet Renewal Polar Patrol Phase 1	Commercial / Business Case
17223	Defence Force	Defence Capability Plan - Frigate Life Extension	Commercial / Business Case
17594	Defence Force	Defence Capability Plan – Homes for Families Tranche 1 Part 4	Commercial / Business Case
17523	Education	[37]	Requirement to complete financial sustainability plan
17602	Education	NZQA: Strategic Technology Enhancement Project	Commercial / Business Case
17603	Education	Education payroll upgrade	Commercial / Business Case

17584	Education	Dame Karen Poutasi Response – Strengthening the Safety Nets to Identify and Respond to Children at Risk of Harm	Subject to final funding share by agency
17571	Education	Fuel Response Contingency	Awaiting fuel response plan
17126	Education Review Office	Early Childhood Education Regulation – Information Technology System Replacement	Commercial / Business Case
17133	Health	Auckland Southern Site Acquisition for a Future Hospital	Commercial / Business Case
17285	Health	Mason Clinic Redevelopment Tranche 1C – infrastructure upgrades	Commercial / Business Case
17293	Health	Project Pihi Kaha, Whangārei Hospital Redevelopment – First Ward Tower	Commercial / Business Case
17345	Health	Regional Hospital Redevelopment Programme Tranche 2 - Minimum Stage 1	Commercial / Business Case
17120	Health	Forensic Mental Health Services – Meeting Growing Demand	Commercial / Business Case
17573	Health	Health sector cost pressures from the conflict in the Middle East	Awaiting fuel response plan
17596	Internal Affairs	2026 General Election - Transition Support for the Executive	Subject to detailed outline of additional costs
17597	Internal Affairs	Common Operating Picture: Strengthening Emergency Management Sector – Operational Systems (EMS-OS)	Commercial / Business Case
17352	Justice	Rotorua Courthouses – Critical Infrastructure for Growth	Commercial / Business Case
17298	Labour Market	Repayable Immigration Funding Package	Subject to immigration fee and levy review.
17586	Oranga Tamariki	Dame Karen Poutasi Response – Strengthening the Safety Nets to Identify and Respond to Children at Risk of Harm	Awaiting completion of an evaluation plan

[33]

17100	Police	Biometric Identification Capability - Replacement of New Zealand Police's Automated Biometric Information System	Commercial / Business Case
17101	Police	Police Property Upgrade Programme Phase 1a	Commercial / Business Case
17627	Police	Firearms Reform – Modernisation of the ICT systems	Commercial / Business Case
17616	Revenue (IRD-Crown)	Working for Families – Residency Requirements and Information Sharing	Realisation of savings

[1]

17615	Social Development	Emergency Housing – Extending scaled-down support services	Awaiting realisation of savings

17108	Tari Whakatau	Treaty of Waitangi Settlements Negotiations Cost Pressures – Tagged Contingency	Negotiations
17138	Transport	Rail Network Investment Programme (RNIP) 2027-30 – National Rail Freight Network	Commercial / Business Case
17628	Transport	Public Transport Fuel Subsidy	Subject to further detail on fuel saving measures.

Agree that where decisions are made to include the following initiatives in the Budget 2026 package, funding is placed in tagged contingencies:

ID	Vote	Title	Decision
17131	Agriculture, Biosecurity, Fisheries and Food Safety	Wilding Conifers – Scaling the Crown's Investment in the National Control Programme	Yes/No
17342	Education	Expanding vocational training opportunities for secondary school students	Yes/No
17553	Environment	Golden Bay Contingency	Yes/No
17288	Housing and Urban Development	Going for Housing Growth – Pillar 3: Council Incentives for Urban Development	Yes/No
17061	Justice	Firearms Reform – Implementing the new Arms Act and establishing Firearms Safety New Zealand	Yes/No
17237	Tertiary Education	Tertiary Education Volume Pressures – Funding Additional Demand *(only the funding for the additional funded Youth Guarantee places would be placed in contingency)*	Yes/No
17157	Transport	Government Policy Statement on Land Transport 2027	Yes/No

Annex 3: Impacts of New Zealand Super Fund contributions and capital expenditure on debt

32. Last week we provided advice on potential contribution rates to the New Zealand Super Fund (NZSF) and their fiscal implications (T2026/782 refers). At Fiscal Matters on 20 April, you asked for further advice following the Board of the Guardians of New Zealand Superannuation's (Guardians) decision on the Expected Fund Return (EFR) assumption.

33. We have modelled the impacts of suspending contributions on net core Crown debt alongside modelling you requested on the impacts of different Budget 2026 capital package sizes.

The decrease in expected NZSF returns increases contributions under the legislative formula

34. The Guardians have revised the EFR assumption from 7.8% to 7.2%, reflecting that the NZSF is expected to earn lower returns on its equity investments in the future with global markets at historically high valuation levels. Lower expected returns mean there will be less funding available in the NZSF to cover future superannuation costs, so contributions under the legislative formula increase to make up for this. Relative to assuming a 7.8% EFR, NZSF contributions have increased by $1.2 billion over the forecast period with the new EFR of 7.2%. NZSF contributions are capital expenditure but are not charged to capital allowances.

Table 1: Forecast contributions to the NZSF

$millions	2026/27	2027/28	2028/29	2029/30
Forecast contribution to the NZSF under a 7.8% EFR	201	308	607	721
Forecast contribution to the NZSF under a 7.2% EFR	473	603	923	1,057
Difference	*272*	*295*	*316*	*336*

35. The revised forecast contributions are slightly lower than the contributions we modelled with a 7.25% EFR (T2026/782 refers). This is because the Treasury has stopped assuming that the NZSF's returns will decrease in later years of the 40-year funding horizon, as the NZSF's EFR assumption is now well below their actual average return to date.

36. The Treasury is in the process of updating our economic forecasts to reflect updated market pricing for oil. Since NZSF contributions are influenced by GDP and aggregate net of tax NZ Superannuation forecasts, the NZSF contributions under the legislative formula will likely change between now and the Budget Cabinet paper, but we do not expect the effect on net core Crown debt to be more than $100 million by the end of the forecast period, and possibly much less than this.

Suspending or reducing contributions to the NZSF would improve net core Crown debt in the short term but reduce long-term fiscal sustainability

37. We have modelled the fiscal impacts of four scenarios. Scenario A has the highest capital spending, whereas scenario D has the lowest. At Budget Ministers 4, the current range of the capital package was around $4.2 - [33] and [37] with the range dependent on decisions in Transport.

Table 2: Modelled scenarios

Assumptions	Continuing to contribute to the NZSF according to the legislative formula	Suspending NZSF contributions until 2030/31
[33] and [37] **Budget 2026 capital package**	Scenario A	Scenario C
$4.2 billion Budget 2026 capital package	Scenario B	Scenario D

38. This modelling is indicative and uses an approximated version of the Budget 2026 Fiscal Strategy Model as the baseline. This reflects economic forecasts completed on 1 April, preliminary fiscal forecasts, and updated tax, welfare, and NZSF forecasts. As these inputs are only part of what influence our fiscal forecasts, the numbers are likely to change in our final fiscal forecasts, so the baseline should be treated as indicative only.

39. This baseline incorporates NZSF contributions with the new 7.2% EFR assumption, uses the existing $3.5 billion capital allowances for Budgets 2026 to 2028, and includes a $5 billion allowance for Budget 2029, reflecting your recent decision to increase the allowance. The actual fiscal impact of the Budget 2026 capital package will depend on the exact profile of capital expenditure across years. Table 3 shows the relative impact of each scenario on net core Crown debt and OBEGALx, compared to the approximated Budget 2026 baseline.

Table 3: Indicative impacts of Budget 2026 capital package and NZSF contribution scenarios on fiscal indicators relative to an approximated Budget 2026 baseline

Approximated Budget 2026 baseline	2026/27	2027/28	2028/29	2029/30
Net core Crown debt (% of GDP)	46.0%	46.1%	45.5%	44.5%
OBEGALx ($ millions)	-10,509	-5,231	215	3,512
A. [33] and [37] capital package and NZSF contributions				
Impact on net core Crown debt (% of GDP)	[33] and [37]			
Impact on OBEGALx ($ millions)				
B. $4.2 billion capital package and NZSF contributions				
Impact on net core Crown debt (% of GDP)	0.1%	0.1%	0.2%	0.2%
Impact on OBEGALx ($ millions)	-6	-15	-25	-31
C. [33] and [37] capital package and NZSF contributions suspended until 2030/31				
Impact on net core Crown debt (% of GDP)	[33] and [37]			
Impact on OBEGALx ($ millions)				
D. $4.2 billion capital package and NZSF contributions suspended until 2030/31				
Impact on net core Crown debt (% of GDP)	0.0%	-0.1%	-0.2%	-0.4%
Impact on OBEGALx ($ millions)	3	16	42	88

40. Under scenarios A and B, in which contributions to the NZSF continue, net core Crown debt increases as a percentage of GDP relative to the baseline, illustrating the impact of the potential Budget 2026 capital packages. With a [33] and [37] capital package (scenario A), net core Crown debt peaks at [33] and [37] of GDP in 2027/28, whereas with a $4.2 billion capital package, net core Crown debt peaks at 46.2% of GDP in 2027/28. The OBEGALx trajectory slightly worsens under scenarios A and B, primarily due to changes in interest payments.

41. Under scenarios C and D, in which contributions to the NZSF are suspended until 2030/31, net core Crown debt ends slightly lower than the baseline scenario, as the reduction in contributions to the NZSF outweighs the impact of higher capital spending in Budget 2026 and Budget 2029. With a [33] and [37] capital package and suspended contributions (scenario C), net core Crown debt peaks slightly higher than the baseline at [33] and [37] of GDP in 2027/28, before ending on a slightly lower position of [33] and [37] of GDP in 2029/30. This is because the impact of a higher capital package outweighs the impact of suspended contributions in earlier years. With a $4.2 billion capital package and suspended contributions (scenario D), net core Crown debt peaks slightly lower than the baseline at 46.0% of GDP in 2027/28, before bending down to 44.1% of GDP in 2029/30.

42. All else equal, a suspension in NZSF capital contributions over the forecast period would result in higher contributions from 2030/31 to make up for the lower fund balances and ensuing reduced investment returns over the period of suspended contributions.

43. Under all scenarios we developed, net core Crown debt bends down at the end of the forecast period, consistent with your short-term intention, and it peaks at a lower level than forecast at HYEFU. All scenarios show a small OBEGALx surplus in 2028/29, though this may change as we finalise our fiscal forecasts.

We recommend that you continue contributions to the NZSF according to the legislative formula [33]

44. [33]

. As some of the other potential risks to the net core Crown debt trajectory have abated, [33] and [38] we consider that the long-term fiscal sustainability of NZ Superannuation should outweigh concerns about higher contributions to the NZSF increasing debt in the short term. The NZSF contributions formula is sensitive to changes in GDP, NZ Superannuation costs, and the size of the NZSF, so it is plausible that contributions could be revised up or down at the next forecast round.

How credit ratings agencies may perceive an increase in capital expenditure

45. When assessing the New Zealand sovereign credit rating, credit rating agencies take debt-funded capital expenditure into account in their quantitative analysis, in both debt stock and flow measures (T2026/699 refers).

46. [34]

[34]

47.

We recommend the lower Budget 2026 capital package option

48. We recommend a capital package of around $4.2 billion for Budget 2026. Our view is that this balances the fiscal challenges and risks, with a moderate uplift in the allowance demonstrating that the future capital allowances are credible to deliver within.

Annex 4: Public service transformation and baseline reductions – communicating your expectations and aligning delivery with Performance Plans

Contact details	Adam McDonald Ball — Senior Analyst [39] Laura King — Acting Senior Manager
Issue / advice sought	We seek your agreement to the template for letters to communicate your expectations for public service transformation and baseline reductions to portfolio Ministers. Ministers and chief executives will be informed of your expectations after the Budget Cabinet paper in May. [33] (with an in-principle target for FTEs to be below 55,000 by 30 June 2029). [33] We seek confirmation now on the approach for submission deadlines so it can be consulted with the Minister for the Public Service and Digitising Government in time to be included in the Budget Cabinet paper.
Treasury advice	[33] You and the Minister for the Public Service and Digitising Government will seek Cabinet agreement to the public service transformation paper on 28 April. [33] , the Cabinet paper indicates that Crown entities should also adhere to expectations on fiscal and workforce discipline. Our implementation advice recommended you invite Ministers to reflect these expectations when setting out their priorities to Board Chairs, and we have included this expectation in the attached letter template. [33] Agencies are currently required to complete their Performance Plan by 30 June 2026 so they can incorporate Budget 2026 decisions. Performance Plans are a key tool to ensure the fiscal sustainability and effective delivery of public services. To give effect to your expectations for public service transformation and ensure alignment with your objectives for Performance Plans, we recommend: a. [33] b. Shifting the submission deadline for Performance Plans from June to 30 July 2026. [33] This will also maintain the quality of Performance Plans, ensuring they can support your objectives for public service transformation and improving the value for money of public spending. [33]

<table>
<tr><td></td><td>[33]

Alternatively, you can further extend the deadline for Performance Plans to October. [33]

. This is not recommended as it would delay Cabinet scrutiny of Performance Plans. This would limit the ability of central agencies to use insights from Performance Plans to inform the strategy for Budget 2027, identify savings options to achieve baseline reductions in 2027/28, and develop transformation proposals [33]</td></tr>
<tr><td>Communicating your expectations</td><td>You agreed to communicate your expectations for public service transformation and baseline reductions via a joint letter with the Minister for the Public Service and Digitising Government [T2026/596]. On 31 March, at Fiscal Matters, you indicated you intend to send this letter after the Budget Cabinet paper in May.
We seek your agreement to the template for the joint letters, which is attached to this annex. Subject to feedback from yourself and the Minister for the Public Service and Digitising Government, we will use this template to generate letters for you to sign and send to portfolio Ministers after the Budget Cabinet paper.
The table below summarises the expectations in the letter. Please indicate whether you have any feedback on these expectations or other elements of the letter.
<table>
<tr><td colspan="2">[33]</td></tr>
<tr><td>[33]</td><td>Chief executives need to collectively develop transformation proposals. This will include digitisation and streamlining the public service operating model by reducing the number of agencies. This will be led by the Public Service Commissioner. [33]</td></tr>
<tr><td>Crown entities</td><td>Crown entities are expected to adhere to the fiscal and workforce discipline expected of the public service. [33]
Ministers need to reflect these expectations when setting out their priorities to Board Chairs, including a reduction in FTEs at a similar level to what is expected of public service departments.</td></tr>
<tr><td rowspan="2">Baseline Reductions</td><td>Agencies within the baseline reduction exercise need to develop options to achieve their savings targets for 2027/28 and 2028/29. Reducing the number of public service employees will contribute to agencies achieving their baseline reduction targets.</td></tr>
<tr><td>For agencies exempted from the baseline reduction exercise, the Treasury will run a further exercise to determine the treatment of savings arising from the reduction in the size of their workforce.</td></tr>
</table></td></tr>
<tr><td>Next steps</td><td>[33]

We also recommend you also consult the Minister on the template for the joint letter. We can support your office to manage this consultation.
Shifting the deadline for Performance Plans will require Cabinet approval since it agreed to the original timeline. We can include this in the Budget Cabinet paper.</td></tr>
</table>

Treasury recommendation	**We recommend that you:** **agree** to [33] extend the deadline for Performance Plans from June to 30 July 2026, which will be progressed through the Budget Cabinet paper; *Agree / Disagree* **indicate** whether you have any feedback on the attached letter template; *No Feedback / Feedback provided* **agree** to invite Ministers to reflect the expectations for fiscal and workforce discipline when setting out their priorities to Board Chairs, including a reduction in FTEs at a similar level to what is expected of public service departments; *Agree / Disagree* **agree** to consult the letter template [33] with the Minister for the Public Service and Digitising Government, which can be managed by your office; and *Agree / Disagree* **agree** to sign and send the letters to portfolio Ministers after the Budget Cabinet paper, subject to the incorporation of feedback from yourself and the Minister for the Public Service and Digitising Government. *Agree / Disagree*

Annex 5: New and Expired Specific Fiscal Risks at BEFU

New Specific Fiscal Risks at BEFU			
Portfolio	**Title**	**Description**	**Reason for publishing at BEFU**
Cross-portfolio	Delivering Baseline Savings	Budget 2026 provides significant savings across the wider public sector, including permanent reductions to departmental baselines. Delivering these baseline savings will require organisational change across the public sector, changes to programmes and transformation in how the public sector delivers services. These changes may take longer than anticipated to implement and/or may not eventuate. There is a risk that the fiscal impact of the baseline savings will be different from what has been reflected in the fiscal forecasts.	This risk relates to the uncertainty around the delivery of baseline savings included in the proposed Budget 2026 package. The description of this risk is similar to the risk raised in BEFU 2024 for the previous baseline savings programme.
	Middle East Conflict	The conflict in the Middle East and its effect on economic conditions, including increases in fuel prices, may have a wide-ranging impact on the fiscal forecasts. This could include: • changes to tax revenue and third-party revenue streams; • future Government policy responses to the conflict; • increased cost pressures on the delivery of existing Government services; and • other economic impacts that may flow through to the fiscal forecasts.	This risk relates to the wide-ranging uncertainty faced by the Crown as the Middle East situation continues to evolve. The description of this risk is likely to change to ensure it complements content on the Middle East conflict in other parts of the BEFU.

New Specific Fiscal Risks at BEFU

Portfolio	Title	Description	Reason for publishing at BEFU
Oranga Tamariki	Frontline Technology Systems Upgrade	The Frontline Technology Systems Upgrade programme will introduce modern frontline technology systems, such as a new case management system, that supports Oranga Tamariki's new operating model. Oranga Tamariki has identified risks [37] , data migration complexity, and the difficulty of implementing modern platforms in child protection environments. Any revised scope of the programme to mitigate risks may increase delivery costs over the forecast period.	While tranche one of the Frontline Technology Systems Upgrade programme [33] and [37]
Transport	Review of the Clean Vehicle Standard	The Government has directed the Ministry of Transport to undertake a full review of the Clean Car Standard, with decisions on the future of the scheme scheduled for mid-2026. There may be fiscal implications from this review, depending on the options agreed to.	Late in 2025, the Minister of Transport announced a full review of the Clean Car Standard. Potential changes, including revoking the Standard in full, may lead to an expectation of compensation for credits under existing settings. At the Half-Year Economic and Fiscal Update, there was a total of $220 million of credits held by importers.
	Potential changes to planned increases to Fuel Excise Duty and Road User Charges	The fiscal forecasts include planned increases to the Fuel Excise Duty and Road User Charges as outlined in the Government Policy on Land Transport 2024-34. In light of increases in the cost of fuel because of the Middle East conflict, Ministers have indicated the planned 12 cent per litre increase from 1 January 2027 is unlikely to go ahead. If confirmed, this would affect the funding available for transport projects funded through the National Land Transport Fund.	This risk arises from recent Ministerial statements that the planned 12 cent per litre increase to fuel taxes next January is very unlikely to go ahead, given the increase is currently included in the forecasts. There is an existing risk associated with the sustainability of the National Land Transport Fund (NLTF). Our view is that this new risk is sufficiently different to this existing risk, which is more focused on medium-term and ongoing challenges with the NLTF.

New Specific Fiscal Risks at BEFU			
Portfolio	**Title**	**Description**	**Reason for publishing at BEFU**
	Mount Messenger Bypass	The Mount Messenger bypass project is a new 6km route on State Highway 3 in North Taranaki. The project has faced ongoing challenges related to land acquisition, as a property needs to be secured for completion of the project. These challenges are resulting in delays and additional work, increasing the overall cost of the project, which is funded through the National Land Transport Fund.	[36]

Expired Specific Fiscal Risks at BEFU		
Portfolio	**Title**	**Reason for Expiry**
Finance	Potential Capital Raise for Kiwibank	In February 2026, the Government agreed not to proceed with the capital raise after concluding that cornerstone investor interest was insufficient.
Finance	Te Pae Christchurch Convention Centre Write-down Costs	[33] Cabinet agreement to this position will be confirmed through Budget 2026 technical package recommendations. On this basis, this risk has been expired.
Internal Affairs	Civil Registration Replacement	The Department of Internal Affairs has informed us that the potential fiscal impact of this risk is now below the materiality threshold of $100 million across the forecast period.
Disability Support Services	Disability support services – High and Complex Framework	The Ministry of Social Development has informed us that the potential fiscal impact of this risk is now below the materiality threshold of $100 million across the forecast period.
Tertiary Education	Transition and Ongoing Viability of the Vocational Education System	The Ministry of Education has informed us that the potential fiscal impact of this risk is now below the materiality threshold of $100 million across the forecast period.
Cross-portfolio	Commitments Under the Coalition Agreements	We propose expiring this risk as outstanding Coalition commitments will be agreed through Budget 2026.
	Implementation of New Insurance Accounting Standard	The new insurance accounting standard is now reflected in the forecasts.
Revenue	Investment Boost	The Investment Boost policy has been in effect for almost a year and there is sufficient experience under the policy to expire the risk.