The Treasury

Budget 2026 Information Release

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[15] 7(a)(iv) - to avoid prejudice to the security or defence of the Ross Dependency

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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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Budget Ministers 1

Key choices and trade-offs

24 February

Purpose of this meeting

To discuss the key choices and trade-offs within elements of Budget 2026, ahead of presenting a draft package.

Our overall operating parameters

- New spending – new savings = **$2.4 billion** (the operating allowance)
- **$3.4 billion operating per annum** of spending initiatives was submitted by agencies, in addition to **$1.5 billion operating per annum** already pre-committed.
- Based on the spending initiatives submitted, the **operating allowance is significantly oversubscribed**. Difficult choices may be required to bring the Budget within the $2.4 billion allowance.

Our overall capital parameters

- Keep net core Crown debt below **50% of GDP**, and on a downward trajectory by the end of the forecast period.
- New capital expenditure has accompanying operating costs that count against the operating parameters above.
- **$18.5 billion of total capital** spending was submitted by agencies, in addition to **$2.2 billion total capital** already pre-committed.

At the next meeting on 10 March, we will discuss a draft package that reflects the decisions we make today.

Thematic approach

Spending

- For each spending area, there is a “low package”. This reflects key cost pressures in frontline services, plus other Ministerial priorities.
- The low package would exclude some coalition commitments and require difficult trade-offs.
- **I am seeking Budget Ministers’ views on these trade-offs and commitments, to support me ahead of my bilateral conversations with Ministers.**

Savings

- Considerable savings are required to fund the Budget, and they will not be easy.
- Options are being developed for Welfare Reform and Revenue savings, and I am awaiting further advice.
- **I am updating Budget Ministers on what could contribute to a savings package and testing your comfort with the options on the table.**

Law and Order

As invited, Law and Order agencies have submitted initiatives within a **$200m operating envelope**, which involves agreeing to three reprioritisation proposals. Only one capital initiative was prioritised in the submitted envelope.

Subject to overall Budget parameters, there is an opportunity to increase Law and Order operating and capital to meet cost pressures and coalition commitments, maintain the capital pipeline, and consider alternative reprioritisation proposals. We could consider increasing the envelope to up to $300m.

	Low package ($200m envelope)	Initiatives that could be added to the package
Operating	• **Corrections volume pressures** ($119.3m operating and $9.8m capital) to manage prison population growth • **Remuneration pressures in Police** [33] and [38] and **Corrections** [33] and The three reprioritisation options are: • [33] • • **Changes to the Offender Levy and Scheduling Fees Requirement** ($3.5m)	The operating envelope could be increased to include additional funding for: • Other **cost pressures** • **Implementing Firearms Reform** [38] (National/Act coalition commitment) • Operating costs associated with additional capital investments below
Capital	• **Biometric Identification Capability** – [38] capital and [38] operating (included in the operating envelope above)	Potential additional capital investments are: • [33] and [37] • **New Waitakere and Rotorua Courthouses PPP** [38] capital and [38] operating) (continuing the PPP pipeline) • **Police property Upgrade Programme Phase 1a** [38] capital and [38] operating) – to redevelop up to [38] Police properties
Total $	**Operating $204m per annum, Capital $25m total**	**Operating at least $129.1 per annum, Capital $1.2b total**

Decision sought:	**Consider** the merits of adding further operating and/or capital initiatives to the Law and Order package (thereby increasing the envelope).

Health

New annual funding of $1.37b has been pre-committed for HNZ. Health was also invited to submit initiatives within a [37] **operating envelope**. Submissions significantly exceeded this envelope so tough trade-offs will be required. An initial package (including scaled options) is set out below [37]

For the capital package, existing Health New Zealand investments have been prioritised given deliverability challenges. This is below the medium invited envelope of **$750m total capital.**

	Low package [37] envelope)	Initiatives that could be added to the package
Operating	• **Digital Services** – cyber security ($6.4m) • **Road ambulance** – funding uplift [38] • **Paediatric palliative care** – ensuring access to specialist services ($3.9m) • **National bowel screening programme** – Age extension [33] (National Party Manifesto commitment) • **Extending the postnatal hospital stay from 2 to 3 days** ($7.7m operating, and [33] capital) Any remaining funding in the envelope to offset HNZ deficit [37]	Other key spending options include: • [33] • **Pharmac / Medicines Budget uplift** ($201.9m) – could enable funding for new medicines, noting that Pharmac are undertaking further work on cost avoidance opportunities (National / NZF and National / Act coalition commitments)
Capital	• **Whangārei Hospital Redevelopment** – First Ward Tower [37] • **Auckland Southern Site Acquisition for a Future Hospital** [37] • **National Remediation Programme** – Tranche 2 [37] capital) • **Mason Clinic Redevelopment** Tranche 1C – infrastructure upgrades [37]	Based on concerns around Health New Zealand's ability to deliver further capital investments, I propose we defer the following initiative: • **Regional Hospital Redevelopment Phase 2** [37]
Total $	**Operating** [37] **per annum, Capital $501m total**	**Operating** [37] **per annum, Capital** [37] **total**

Decision sought:	**Discuss** priorities for the Health package, and the corresponding trade-offs or risks.

Education and Tertiary Education

As invited, Education has submitted initiatives within the **$150m envelope**, including reprioritisation options. In addition to this envelope, the wider Education package includes additional funding for **Minister Seymour's portfolios** and **Tertiary Education cost pressures.**

	Low package	Initiatives that could be added to the package
Education envelope ($150m envelope)	Includes funding for: • 2% uplift for **Schools' Operational Grant** ($40.1m) • **Education payroll upgrades** ($35.4m) • Funding to achieve the Government's target of **80% of students at curriculum level by 2030** ($12.5m) • Capital investment to deliver **additional classrooms and acquisition of new school sites** ($4.7m operating and $285.7m capital)	Given the level of funding provided for new spending initiatives for Education in Budget 2025, I am **not proposing any additional funding** for the Education envelope.
Total $	**Operating $138.8m per annum, Capital $280.6m total**	
Education non-envelope	Funding for initiatives in Hon Seymour's portfolios for **Early Childhood Education Cost Adjustments** ($54.9m) and **Healthy School Lunches Programme** ($52.4m).	I am not proposing additional funding in these areas.
Total $	**Operating $107.3m per annum**	
Tertiary Education	Cost pressure funding towards **price pressures** ($25.7m).	Cost pressure funding towards **volume pressures** ($146.8m). There are also potential savings options for us to consider: • **Ending the Final-Year Fees Free Scheme** ($243.1m) • [33]
Total $	**Operating $25.7m per annum**	

Decision sought:	**Consider** the overall spending in Education and Tertiary Education and additional savings options from Tertiary Education.

Defence and Foreign Affairs

New annual funding of $101.8m operating and $1.7b total capital has been pre-committed for Defence. Current initiatives in the Defence and Intelligence envelope are **within the** [33] No reprioritisation options were submitted. [1] and [33]

	[1]	Initiatives that could be added to the package
Operating	Includes cost pressure funding for: • **Enabling outputs at levels similar to the 2025/26 year** and other price pressures [33] • **Veterans entitlements** ($15.4m)	Hon Collins has also requested funding for: • **Intelligence agencies** [33] • Options to provide **additional cost pressure funding** [33] and add to **workforce growth** [33]
Capital	Funding for investments in **Year 2 of the Defence Capability Plan**, including: • **Frigate Sustainment Programme Phase 2A** [38] • **Maritime Platform Restoration Activities for ANZAC Frigates & HMNZS Canterbury** ($142.6m capital and $19.9m operating)	
Total $	**Operating $249.5m per annum, Capital $700.1m total**	**Operating** [33] **per annum**

The package for **Foreign Affairs** is targeted towards maintaining funding for the **International Development Cooperation.**

	Low package	Additional initiatives that could be added to the package
Operating	• **International Development Cooperation (IDC)** to maintain funding at the average of the previous triennium ($57.0m) • Funding related to **cyber security** ($6.0m)	Rt Hon Peters has also requested funding for: • **Maintaining the IDC** as a share of Gross National Income (additional $128.1m) • The **Offshore Diplomatic Network** (additional $37.9m) • Hosting the **Pacific Islands Forum** ($7.5m) • [1] and [12]
Total $	**Operating $63.0m per annum**	**Operating $176.0m per annum**

Decision sought:	**Consider** the initiatives currently proposed for the Defence envelope and for Foreign Affairs.

Housing and Transport

The new spending initiatives in **Housing and Urban Development** are offset by savings.

	Low package	Initiatives that could be added to the package
Operating	• [33] • **Going for Housing Growth – Pillar Two: Regulatory Oversight of Development Levies** ($7.4m) This is offset by the reprioritisation in **Kāinga Ora expenditure reductions** ($92.0m).	• We could choose to fund **Pillar Three of the Going for Housing Growth** which includes **Council Incentives for Urban Development** ($49.2 - $172.9m) (National / Act coalition commitment)
Total $	**Operating ($11.4m) per annum**	**Operating $49.2m - $172.9m per annum**

In addition to the Government Policy Statement on Land Transport (next slide), other significant **Transport** capital investments were submitted.

	Low package	Initiatives that could be added to the package
Capital	• **Rail Network Investment Programme (RNIP) – National Rail Freight Network** ($119m operating, $598m capital) • **Rail Network Investment Programme (RNIP) – Metropolitan Rail Networks Overdue Renewals** ($107m capital) One reprioritisation initiative was submitted: • **Rail Network Investment Programme Tagged Contingency** ($170m capital)	• [33]
Total $	**Operating $119m per annum, Capital $535m Total**	**Capital** [33] **total**

Decision sought:	**Consider** the initiatives currently proposed for the Housing and Transport.

Land Transport

- There is a gap between our commitments on transport and the funding available. But we have choices around the level of expenditure, and the mix of revenue and/or new Crown funding, which we will need to resolve in developing the draft **Government Policy Statement on Land Transport**.
- Placeholder low, medium and high scenario options have been prepared. I intend to discuss these further with Hon Bishop over the coming weeks.

GPS placeholder options	Total additional funding required over 10 years ($b)	What this placeholder option includes
Low: Responsible Asset Manager	[33]	NZTA's 'minimum viable option' to meet its obligations as a responsible planner, investor and asset manager.
Medium: Responsible Asset Manager + some additional capital projects		The 'Responsible Asset Manager' scenario plus [33] Roads of National Significance (RoNS) projects.
High: funding scenario		The 'Responsible Asset Manager' scenario plus progressing the Major Transport Project Pipeline. This would progress delivery [33] RoNS and other major projects.

- All three options could be funded through a combination of funding from the operating and capital allowances, and revenue measures. Indicatively, fully funding the low package through revenue would require increasing FED/RUC by an [33]

Decision sought:	**Discuss** the proposed options, including whether we indicatively support (at a minimum) funding the low option through revenue increases.

Other spending areas

Other submitted spending priorities are set out below:

	Low package	Initiatives that could be added to the package
Operating	• Cost pressure funding for **Oranga Tamariki** ($49.7m) • **New Zealand Screen Production Rebate** ($48.6m) • **Gas Transition Loan Guarantee Scheme** ($25.1m) • Response to the **Dame Karen Poutasi Review** ($24.3m) • Reducing the **Risk of Online Harm to Children** ($7.7m) • **Wilding Conifers** ($26.0m funded through the International Visitors Levy)	We could consider funding for the following: • [33] • **SuperGold Card: official form of identification** ($9.1m operating and $6.5m capital) (National / NZF coalition commitment)
Capital	• **Resource Management Reform** Implementation Tranche 1 ($87.0m operating, $13.4m capital) (National / Act coalition commitment) • Modernising the **Integrated Data Infrastructure** ($15.0m operating, $13.9m capital)	
Total $	**Operating $283.4m per annum, Capital $27.3m total**	**Operating $9.5m per annum, Capital $6.5m total**

Decision sought:	**Discuss** other priority initiatives that we could progress.

Savings – agency baselines

- Budget submissions include **$106m per annum of baseline savings,** which represent a 2% reduction to the eligible baselines of agencies in scope.
- I am considering recognising savings from future baseline reductions (5% in 2027/28 and 5% in 2028/29) in this Budget, based on a programme of Public Sector Transformation that I am jointly taking to Cabinet with the Minister for the Public Service.
- This would require a Cabinet commitment to make these savings over the next several years and would generate additional savings of around **$380m per annum at Budget 2026**.

Savings – welfare

- Together with the relevant Ministers, I have commissioned advice on changes within Welfare, Working for Families and Social Housing that are aimed at fiscal sustainability, fairness and improving work incentives.
- Achieving these objectives needs to be managed against any **impacts on income adequacy and child poverty.**
- It will take time to develop a package, but I am interested now in options Budget Ministers are particularly supportive or opposed to.

$m per annum		
Initiatives	• [33] • **Increase Income-Related Rent** from 25% to 30% from April 2027 and to 35% from April 2029 ($227m). • [33] • **Reduce Temporary Additional Support** payments [33] • •	• [33] • •

Decision sought:	**Discuss** possible welfare changes [33]

Savings – revenue

Together with the Minister of Revenue, I have commissioned advice on a number of revenue measures. Many of these measures have been through public or targeted consultation and final policy details and decisions have yet to be made.

$m per annum		
Initiatives	• **Prudential Levy** on Financial Sector to allow for full cost recovery (around $50m – final savings dependent on implementation timeframe) • **Charities integrity** package e.g. reducing Donations Tax Credit, changes to donor-controlled organisations ($20-100m)	• **Australian-style bank tax** [34] • **Taxing New Shareholder Loans** ($265m) • A 15% **stamp duty** on non-resident residential property purchases (up to $100-200m) • I am receiving advice on savings options relating to the **Research and Development Tax Incentive** (RDTI) (up to $170m)

I intend to progress a few economic growth-enhancing spending initiatives in revenue, namely reforming **Foreign Investment Fund rules** ($19m operating) and changes to **Fringe Benefit tax** [33]

Decision sought:	**Discuss** priorities for revenue initiatives.

Additional information on workforce

I plan to present a proposal to Cabinet to **cap the core public service** FTE at **60,000 by June 2029.**

Early analysis by the Treasury indicates that initiatives currently in the **Budget 2026 package will increase the public service by a further 1,388 FTE,** and the wider public sector by 217 FTE, in the following categories:

- **57%** frontline services
- **25%** to deliver capital investments
- **15%** for invest-to-save initiatives
- **2%** back-office functions

Future baseline reductions and Budget processes will be critical to ensuring public service FTE are trending downward toward the 60,000 cap.

However, **the Budget is just one part of the picture** and does not reflect FTE reductions resulting from managing cost pressures and attrition.

Figure 2: Key drivers of Budget 26 workforce increase (four-year average)