The Treasury

Budget 2026 Information Release

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Office of the Minister of Finance

Cabinet

Budget 2026 Strategy and Process

Proposal

1 This paper seeks approval of the strategy and process for Budget 2026. It also seeks approval to commission Performance Plans for 2025/26.

Relation to government priorities

2 The Budget is a government priority.

Executive summary

3 As in the Government's previous two Budgets, Budget 2026 requires significant savings to offset new spending on coalition commitments, the delivery of core services, new initiatives in priority areas and meets the operating costs associated with capital investments. Treasury analysis suggests savings of around [1] and [33] could be required to meet these spending demands while also delivering on the Government's fiscal strategy.

4 Finding this level of savings will be challenging. Work is already underway in some areas but there is no guarantee that this will identify the savings required. Other work may have to be initiated. If the required level of savings cannot be achieved, new spending will have to be scaled back.

5 I propose that the broad strategy and design of Budget 2026 be similar to Budget 2025. I propose to run a top-down invitation process – in consultation with Budget Ministers – for new operating spending initiatives and investment-ready capital projects. I also propose that Ministers seeking new funding provide options to fully or partially meet these costs from existing baselines. With few exceptions, departments should expect to receive no additional funding in Budget 2026 and will therefore reprioritise existing activities.

6 Performance Plans will help the Government meet its goals over multiple Budgets. They provide assurance of what will be achieved, how it will be achieved within set baselines, and how challenges can be addressed. This year, departments will submit Performance Plans near the end of the 2025/26 financial year.

Context for Budget 2026

7 The New Zealand economy is recovering from a deep and protracted economic downturn. Economic developments since Budget 2025 have been mixed, but conditions remain in place for a broad-based recovery from later in 2025 and into 2026, supported by lower interest rates and strong international commodity prices. So far, the impact of softer real economic activity has largely been offset in nominal terms by a combination of higher inflation and higher terms of trade and therefore tax revenue has remained in line or slightly above forecast.

8 The Treasury's Half-Year Economic and Fiscal Update (HYEFU) will be released on 16 December 2026. I will release the Budget Policy Statement (BPS) at the same time. The BPS must set out the goals and objectives that will guide the Government's decisions in the forthcoming Budget and state the Governments short-term fiscal intentions and long-term fiscal objectives, if these have changed from those stated in the Fiscal Strategy Report (FSR).

9 The last two BPSs have described the Government's overarching goals as being to:

9.1 Build a stronger, more productive economy that lifts real incomes and increases opportunities for New Zealanders.

9.2 Deliver more efficient, effective and responsive public services to all who need and use them – in particular, to restore law and order and improve health outcomes and educational achievement.

9.3 Get the government's books back in order and restore discipline to public spending.

10 I am not proposing any changes to these goals.

11 The Government's key short-term fiscal intentions, as set out earlier this year in FSR 2025, are to:

11.1 reduce core Crown expenses towards 30 per cent of GDP over time;

11.2 return the operating balance before gains and losses excluding ACC (OBEGALx) to surplus by 2027/28; and

11.3 put net core Crown debt on a downward trajectory towards 40% of GDP.

12 Budget forecasts show that the expenses and debt intentions are on track to be achieved, but an OBEGALx surplus (of only $214 million) is currently expected in 2028/29 rather than 2027/28.

13 Economic and fiscal forecasts will be updated at HYEFU. It is too early to say if developments over the past few months will change the economic or fiscal outlook. At this stage, however, I am not anticipating a significant downgrade in the fiscal outlook, such as the one that occurred in late 2024. I do not think there will be a need to change the intentions for expenses and debt although the intention for OBEGALx may be reconsidered if there is any further slippage.

14 A key tool in the Government's fiscal strategy is the use of Budget operating allowances. The operating allowance is the amount of operating funding – on average, per annum – the Government intends to spend on new, discretionary policy initiatives in the forthcoming Budget. Operating allowances are a net concept – discretionary spending increases are offset by savings and revenue raising initiatives within a single envelope. FSR 2025 confirmed an operating allowance for Budget 2026 of $2.4 billion and I am not proposing to change that allowance.

15 FSR 2025 also set a capital allowance for Budget 2026 of $3.5 billion. Capital allowances are more flexible than operating allowances as capital investment requirements can be large and uneven. I am not proposing to announce a change to the Budget 2026 capital allowance in the BPS but am open to a capital package that exceeds this allowance if high-quality investment opportunities are available.

16 Most of the operating and capital allowances have already been pre-committed. The Government has pre-committed approximately $1.5 billion of the Budget 2026 operating allowance and $1.9 billion of the capital allowance to fund priorities in health and defence (Table 1).

Table 1: Budget 2026 allowances position

Budget 2026	**Amount remaining within allowances**	**Pre-commitments**
Operating	$0.9 billion per annum	• Health pre-commitment ($1.4 billion) • Defence Capability Plan ($102 million)
Capital	$1.6 billion total	• Defence Capability Plan ($1.6 billion) • Waikato Medical School ($81 million) • New Dunedin Hospital Inpatient Building project ($174 million)

17 By some distance, there is not enough left in the operating allowance for funding to deliver on outstanding coalition commitments, maintain delivery of core services, pay for new initiatives in priority areas and meet the operating costs associated with capital investments. Treasury analysis suggests these costs could be around [1] and [33] . The only way this could be achieved is through savings and reprioritisation of around [1] and [33] . If such savings cannot be achieved, new spending will have to be scaled back.

18 The capital allowance is also under significant pressure. The draft Quarterly Investment Report for June 2025 signalled that capital funding requests for Budget 2026 are likely to exceed $10 billion.

Budget 2026 design and process

Approach to operating expenditure

19 I propose a broadly similar approach to the strategy and design of Budget 2026 as at Budget 2025.

20 Fiscal constraints, in line with the fiscal strategy, mean that:

20.1 most agencies and Ministers will need to manage cost pressures and other commitments within existing baselines;

20.2 there will be limited funding for new initiatives and cost pressures, with a focus on meeting outstanding coalition commitments; and

20.3 sufficient savings will need to be identified to fund the above priorities within or below the net $2.4 billion operating allowance.

21 I propose that Budget Ministers (the Prime Minister, the Minister of Finance and Associate Ministers of Finance):

21.1 run a top-down invitation process for new spending and cost pressure initiatives, where portfolio Ministers can only submit initiatives that are invited into the process; and

21.2 set funding envelopes for Health, Defence, Education, and Law and Order to enable these agencies and their Ministers to have greater ownership of trade-offs between relative priorities in their portfolios.

22 New spending invitations will include outstanding coalition commitment and significant time-limited funding ceasing in 2025/26 that still aligns with government priorities.

23 Most portfolio Ministers who are invited to submit an initiative for new spending will be required to submit scaling and reprioritisation options from within existing baselines. This will enable Budget Ministers to make trade-offs between spending initiatives and existing baseline spend.

24 Outside the priority areas already identified, a cost pressure initiative will only be considered for an invitation if:

24.1 it is genuinely critical and urgent for a service or programme aligned with Government priorities;

24.2 it cannot be managed with non-spending or regulatory levers; and

24.3 the size of the cost pressure is so large relative to an agency's baseline that reprioritisation is not possible.

25 I will work with Budget Ministers to issue Budget invitations in October.

Approach to capital expenditure

26 Requests for capital expenditure at Budget 2026 (and in future Budgets) are likely to exceed the remaining capital allowances. Increased capital spending may, however, put pressure on the fiscal position.

27 The Treasury has modelled the impact on key fiscal indicators (net core Crown debt and OBEGALx) of undertaking all potential investments identified for Budgets 2026 to 2029 as well as transport projects expected through the Transport Government Policy Statement 2027. This modelling shows that without offsetting savings or action to unlock capital through reprioritisation:

27.1 net core Crown debt would rise above 50% of GDP in 2028/29 and hit around 60% of GDP in 2038/39, remaining on an upward trajectory; and

27.2 OBEGALx would not return to surplus due to higher associated operating spending and interest costs on higher debt.

28 A longer-term view of capital investment is clearly required. In the meantime, for Budget 2026, I intend to issue a broad range of invitations for projects that are aligned to the Government's priorities and are consistent with agencies' improved investment planning. I will then propose a capital package to Cabinet that is affordable within the fiscal strategy.

29 While I will issue a broad range of capital invitations, I will expect Ministers to demonstrate that Budget bids are investment ready. I will therefore ask Ministers and agencies to bring forward investment readiness as a condition of invitations, and projects will generally not receive Budget funding in the absence of a Cabinet approved business case.

Approach to personnel costs

30 Guidance from the Treasury and the Public Service Commission is that agencies' personnel expenditure growth should not exceed 2.2% in 2025/26 and 2% thereafter. Personnel cost growth is often driven by collective bargaining outcomes but also FTE change and other wage pressures (e.g., contracted pay progression). Agencies that require Public Service Commission approval for collective bargaining must give effect to this guidance, and I expect that other entities will also reflect this expectation in their financial planning.

31 Beyond the usual wage or remuneration related cost pressures, agencies will need to plan for the costs associated with the increase in KiwiSaver employer contribution rates by 0.5% in April 2026. Agencies not receiving a Budget envelope will need to manage these costs within existing baselines, like any other cost pressure, and reflect them in their Performance Plans. I have decided to exclude the first increase in employer contribution rates (but not the second, in April 2028) from the personnel cost growth expectations to ensure agencies can consider options across personnel and non-personnel costs.

Approach to savings

32 Three savings workstreams are currently underway for Budget 2026.

33 I am considering a baseline reduction exercise for at least Budget 2026, and potentially the next three Budgets. A target reduction, in percentage terms, would be met by agencies delivering operating model efficiencies and improvements, supported by the Public Service Commission's work on the public sector operating model, and scaling or closing low value programmes. Credible invest-to-save initiatives and legislative changes that enable the delivery of savings could also be within scope.

34 With relevant Ministers, I am progressing work in welfare and social housing to improve policy outcomes while reducing Government expenditure in the medium-term. This includes options to improve work incentives and realise savings.

35 The Tax and Social Policy Work Programme includes a number of tax initiatives, including revenue-positive measures, that are progressing on a Budget 2026 timeline. Some of these may be invited into the Budget process.

36 At this stage I do not know whether these workstreams will yield the required amount of savings for Budget 2026. Other work may have to be initiated. I may invite Ministers to submit additional targeted policy savings where they do not fall within the scope of broader baseline reductions.

Timeline and next steps for Budget 2026

37 I propose working with Budget Ministers to decide on Budget 2026 spending and savings invitations. I will issue invitations via letters to portfolio Ministers for spending and savings initiatives in October 2025. The Treasury will issue guidance to agencies on the information requirements for initiatives.

38 As in Budget 2025 and Budget 2024, I propose that Budget Ministers be the primary decision-making body throughout the Budget process and are responsible for recommending to Cabinet a final Budget 2026 package.

39 Table 2 outlines indicative dates for the Budget 2026 process.

Table 2: Indicative Budget 2026 timeframes

Date	Key milestone
Mid-late October	Budget 2026 invitations issued to portfolio Ministers. Budget 2026 guidance and templates for agencies issued.
Mid-late December	Budget 2026 initiatives due.
January-February	Treasury assessment of initiatives post-submission.
Mid-late-February	Treasury advice on draft Budget 2026 package.
Late February - early April	Budget Ministers' decision-making and potential bilateral meetings with portfolio Ministers.
Mid-April	Budget 2026 package considered by Cabinet.
May	Budget Day.

Performance Plans

40 Performance Plans are Minister-owned documents designed to give assurance that the funding flowing to and through departments is delivering the best value for New Zealanders and is fiscally sustainable over the medium-term. The performance planning process provides the platform for Ministers to engage with entities in setting priorities and performance expectations. I propose that Performance Plans be submitted near the end of the 2025/26 financial year.

41 In year one, departments struggled to articulate the impact that was being achieved with funding in a simple and compelling way. Cabinet invited Ministers to challenge departments to sharpen their focus on value and performance and how they track and report progress on their key impact areas [EXP-25-MIN-0034 refers]. To support this, the Treasury is partnering with four departments (Ministry of Justice, Ministry for Primary Industries, Ministry of Defence and the New Zealand Defence Force) to develop examples of good practice. Along with guidance, these examples will be shared with all departments to support an uplift in how departments articulate performance and impact.

42 Crown entities should be reflected in Performance Plans where they are significant to the performance or fiscal story. In addition, I propose giving greater visibility of statutory Crown entity performance, as most Crown or fee/levy funding to the broader public sector (i.e. beyond departments) goes to these entities, totalling $64 billion in the 2024/25 financial year. Information on statutory Crown entities will be required throughout the Plans along with:

42.1 a simple performance-based assessment, approved by the Minister, of all statutory Crown entities monitored by the department; and

42.2 a standalone Board-approved assessment for statutory Crown entities with $250 million or more of total revenue per annum. To give effect to this, I propose responsible Ministers be invited to request this self-assessment from their Crown entity Boards.

43 I also propose the following administrative improvements based on lessons from the first year:

43.1 referring Performance Plans for the intelligence and security agencies to the Cabinet Foreign Policy and National Security Committee for scrutiny given information security requirements;

43.2 on request from the responsible Minister, delegating to me the authority to exempt a Plan being required this year;

43.3 requiring a Plan for the Interdepartmental Executive Board for the Elimination of Family Violence and Sexual Violence as it administers a Vote; and

43.4 delegating authority to me for any consequential changes to the information or design requirements of the Plans. This delegation will enable me to progress any changes required for alignment with the Budget process, while substantive changes will be brought to Cabinet for consideration.

44 When reviewing the first year Performance Plans, Cabinet invited Ministers to turn the Plans into action and regularly engage with Chief Executives on their implementation [EXP-25-MIN-0034 refers]. Departments should already be engaging with Ministers on how they will approach this year's Plans and how they will build on the lessons from year one.

Legislative Implications

45 Appropriation and Imprest Supply Bills will give legislative effect to the Budget 2026 package.

Impact Analysis

46 There are no regulatory proposals, climate implications, direct population impacts, direct cost-of-living impacts, financial implications, or human right impacts arising from the proposals in this paper. Any impacts from the Budget package itself will be considered by Cabinet at the time it takes decisions on the Budget 2026 package.

Use of External Resources

47 The Treasury did not use any external resources such as contractors or consultants in the preparation of the policy advice and drafting of this paper.

Consultation

48 This paper was prepared by the Treasury on behalf of the Minister of Finance.

Communications

49 I will write to relevant portfolio Ministers in October 2025, inviting them to submit bids for spending and savings initiatives for Budget 2026.

Proactive Release

50 I propose delaying the release of this paper beyond the standard 30 business days as it will be released separately as part of the Budget 2026 proactive release.

Recommendations

The Minister of Finance recommends that Cabinet:

Context for Budget 2026 and beyond

1 **note** that in order to meet our fiscal strategy, and deliver on our coalition commitments, we will need to restrain new expenditure and achieve significant savings year on year;

Government priorities for Budget 2026

2 **agree** that Budget 2026 will progress our overarching goals set through the Budget Policy Statement 2024 in the following way:

2.1 most agencies and Ministers will need to manage cost pressures and other commitments within existing baselines;

2.2 there will be limited funding for new initiatives and cost pressures, with a focus on meeting outstanding coalition commitments; and

2.3 sufficient savings will need to be identified to fund the above priorities within or below the net $2.4 billion operating allowance;

3 **note** the Budget Policy Statement will be published alongside the Half-Year Economic and Fiscal Update on 16 December 2025;

Budget 2026 strategy and process

Overall approach to Budget 2026

4 **agree** that Budget Ministers (the Prime Minister, the Minister of Finance and Associate Ministers of Finance) are the primary decision-making body throughout the Budget process, and are responsible for recommending to Cabinet a final Budget 2026 package;

5 **agree** that Budget 2026 will be a strictly top-down invitation process for new spending and cost pressure initiatives to enable Budget Ministers to prioritise spending to the highest priority initiatives;

6 **agree** that Budget Ministers will:

6.1 ask Ministers to identify credible options to fund commitments fully or partially from reprioritisation within existing baselines; and

6.2 set funding envelopes for Health, Defence, Education, and Law and Order to enable these agencies and their Ministers to have greater ownership of trade-offs between relative priorities in their portfolios;

7 **authorise** the Minister of Finance to make decisions on Budget 2026 spending and savings invitations, including design considerations, in close consultation with Budget Ministers;

Approach to new spending and cost pressures

8 **agree** that new spending invitations at Budget 2026 will be limited to:

8.1 outstanding coalition commitments; and

8.2 significant time-limited funding ceasing in 2025/26 that still aligns with Government priorities;

9 **agree** that most portfolio Ministers that are invited to submit a bid for new operating spending and/or cost pressures will be required to submit scaling and reprioritisation options;

10 **agree** that any other cost pressure outside of priority areas will only be invited into Budget 2026 if:

10.1 it is genuinely critical and urgent for a service or programme aligned with Government priorities;

10.2 it cannot be managed with non-spending or regulatory levers; and

10.3 the size of the cost pressure is so large relative to an agency's baseline such that reprioritisation would not be possible.

Approach to capital expenditure

11 **agree** that the Minister of Finance will issue a broad range of capital spending invitations aligned to the Government's priorities;

12 **agree** that new capital investments are limited to investments aligned to Government priorities and/or investments are signalled in a Cabinet or responsible Minister approved long-term plan, where available;

13 **agree** that capital investment initiatives will generally not receive Budget funding without a Cabinet approved business case;

Approach to personnel costs

14 **note** that agencies are expected to limit personnel expenses growth to no more than forecast CPI;

Approach to savings

15 **note** that the main savings workstreams the Minister of Finance is considering for Budget 2026 are welfare [33] reform, baseline reductions, and revenue measures from the tax and social policy work programme;

16 **authorise** Budget Ministers to agree the parameters of a baseline reduction target;;

17 **note** that the Minister of Finance will invite Ministers to submit additional targeted policy savings where they do not fall into scope of broader baseline reductions;

Performance Plans

18 **agree** to the next iteration of Performance Plans:

 18.1 being submitted near the end of the 2025/26 financial year (after delivery of Budget 2026), and

 18.2 being managed within Budget 2026 parameters;

19 **invite** responsible Ministers to request Board Chairs to provide the self-assessment (for key statutory entities) and other information needed to complete the Performance Plans in order to give greater visibility to Crown entity performance;

20 **refer** the scrutiny of the intelligence and security agencies' Performance Plans (the New Zealand Security Intelligence Service and the Government Communications Security Bureau) to the Cabinet Foreign Policy and National Security Committee (FPS);

21 **require** the Interdepartmental Executive Board for the Elimination of Family Violence and Sexual Violence to provide a Performance Plan as it administers a Vote;

22 **authorise** the Minister of Finance, following a request from the responsible Minister, to temporarily exempt a Performance Plan being prepared; and

23 **authorise** the Minister of Finance to make any consequential changes to the information or design requirements of the Performance Plans (for example, that may arise during the Budget process).

Authorised for lodgement

Hon Nicola Willis

Minister of Finance