The Treasury

Budget 2026 Information Release

September 2026

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[31] 9(2)(f)(ii) - to maintain the current constitutional conventions protecting collective and individual ministerial responsibility

[33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

[34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions

[35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;

[36] 9(2)(h) - to maintain legal professional privilege

[37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice

[38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice

[39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

[40] 18(c)(i) - that the making available of the information requested would be contrary to the provisions of a specified enactment

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Early Budget 2026 advice: approach to baseline savings

Date:	9 May 2025	**Report No:**	T2025/1081
		File Number:	BM-2-1-M117844

Action sought

	Action sought	Deadline
Hon Nicola Willis **Minister of Finance**	**Provide feedback** on a proposed approach to baseline reductions	12 May 2025

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Darius Paschke	Senior Analyst, Budget	[39]	N/A (mob)	✓
Tom Brooke	Principal Advisor/Head of Savings Policy, 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: No

Treasury Report: Early Budget 2026 advice: approach to baseline savings

Executive Summary

A broad programme of savings incorporating a variety of levers will be required to support your fiscal strategy

You have set Budget allowances of $2.4 billion for future Budgets to implement your fiscal strategy. Meeting those allowances will require a continued focus on savings.

We recommend that the savings strategy for Budget 2026 should include a wide set of levers, such as targeted policy savings in broader Government expenditure, options to generate additional revenue, and through better utilisation of the Crown balance sheet. We also believe a baseline reduction would be an important component of the savings processes for Budget 2026 that could help achieve fiscal headroom and drive fiscal discipline across the public sector.

A balanced approach to savings will reduce the scale of the trade-offs required in any one area of spending, and ensure you have a range of savings options available to respond to emerging Government priorities and any subsequent changes to the economic and fiscal outlooks.

We recommend running baseline reductions through Performance Plans to generate early options for savings

You have asked for advice on how baseline reductions could be implemented through Performance Plans to support finding savings for Budget 2026. Baseline reductions through Performance Plans are likely to generate credible savings, highlight important trade-offs, and drive more effective financial performance by agencies.

Given the timing for the next phase of Performance Plans [T2025/900 refers], you need to make some earlier decisions on the scope and design of a baseline reduction than your broader Budget strategy. Therefore, this report seeks your feedback on key parameters for how baseline reductions could be implemented: such as scope, level of reduction, and applicable period, as well as choices for their implementation process.

Next steps: we will provide further advice on wider fiscal consolidation as part of Budget 2026 Strategy in the coming months

Based on your feedback, we will provide further advice in early June to finalise the process for baseline reductions, feeding into the Cabinet process for issuing Performance Plan guidance.

We will provide you with further advice on the strategy and process for Budget 2026 in the coming months, including on broader savings opportunities and envelopes for Government priorities.

Treasury Report: Early Budget 2026 advice: approach to baseline savings

Purpose of Report

1. In the Budget 2025 Cabinet paper, you signalled an intent to return to Cabinet with options to deliver further savings in Budget 2026 through a baseline reduction alongside Performance Plans for 2025/26.

2. This report provides you with advice on how agency baseline reductions could be implemented through Performance Plans to support a broader programme of savings likely to be needed for delivering Budget 2026 within allowances.

Background

3. Your fiscal strategy includes a commitment to fiscal consolidation over time with key elements of the strategy being to:

   a reduce core Crown expenses towards 30 per cent of GDP,

   b return OBEGALx to surplus by 2027/28, and

   c put net core Crown debt as a percentage of GDP on a downward trajectory towards 40 per cent of GDP.

4. You have set tight operating allowances of $2.4 billion for future Budgets. Delivering Budgets within those allowances will need a continued focus on savings. The more savings you deliver, the more fiscal space you will generate for priority investments, public services, measures to boost economic growth, and, if needed, further fiscal consolidation to meet your fiscal strategy.

Baseline reductions through Performance Plans

Budget 2026 will require significant savings from a variety of sources

5. To ensure you have options available to meet an expected level of savings required through future budgets, we will recommend combining a balance of baseline reductions with a broad suite of other levers such as targeted policy savings (eg, in BOREs), revenue generation, and others relating to Government balance sheet and assets, including financial performance of SOEs.

6. This could include setting envelopes with clear savings expectations in core services, and targeted policy savings in large spend areas such as welfare. While there would still be challenging policy calls, a balanced approach such as this would make some of the trade-offs in individual areas less challenging.

7. We expect to provide you with information on these wider savings options and the overall Budget 2026 strategy in the coming months.

8. Table 1 below shows that Budgets 2024 and 2025 achieved savings of between $5 billion and $6 billion per annum each through baseline savings exercises and targeted savings exercises.

Table 1 – Savings achieved at Budget 2024 and Budget 2025

Process	Savings achieved ($ billions)
Mini-Budget	1.9
Budget 2024: baseline savings	1.6[1]
Budget 2024: targeted savings	2.4
Budget 2025: targeted savings	5.3

9. In both Budgets, a significant amount of the package and therefore savings required was driven by a small number of very large decisions (such as Investment Boost). Therefore, the level of savings required depends on the scale of new funding you want to allocate to priorities at Budget 2026, particularly "centrepiece" initiatives.
10. You do not need to make these decisions now; but early consideration of this when setting your Budget Strategy would enable you to set realistic expectations and savings targets.

A baseline reduction is one important tool to support the savings likely required for Budget 2026 and beyond

11. Performance Plans will be a core mechanism to meet your Budget 2026 strategy both in constraining new spending, and as a vehicle for identifying savings to deliver a baseline reduction and increase efficiency in public service delivery.
12. This report focuses on the design of savings through Performance Plans and how these will integrate into other savings paths. You are receiving this first to align with reporting on Performance Plans. After Budget 2025, we will provide you advice on your broader Budget 2026 strategy, including other savings opportunities.

A baseline reduction would apply to a subset of expenditure, with other savings tools more effective in other areas

13. Total Government expenditure is forecast to be around $183.6 billion per annum over the forecast period (2025/26 to 2028/29).[2] Based on the nature of spending and current coalition commitments, around half of this spending is not likely to be available for Budget 2026 savings to support the operating allowance, as it relates to non-discretionary spending, capital, or NZ Superannuation.
14. Table 2 below breaks down this total figure into different categories, grouped by the availability of savings and the mechanism through which savings could be found.

Table 2 – Initial breakdown of approximate forecast government expenditure

Breakdown of total approximate spending of 183.6 billion p.a. over the forecast period		
Category (total spend, $ billions)	**Detail of category, if savings are available, and how they could be made**	**Savings mechanism**
Excluded expenditure (53.8)	This category of spending includes Permanent Legislative Authorities (PLAs), Capital Expenditure, Other Expenses, and Revenue-related Appropriations (examples of each spending type are provided at Annex 1).	There is a small subset of areas where longer-term savings may be possible but would likely require long-term structural reform.

[1] Around $326m of these savings were reprioritised to frontline services.
[2] Due to timing this report uses MBU figures, which do not account for Budget 2025 outcomes.

	This spending has commonly been excluded in previous savings exercises (including the Budget 2024 Initial Baseline Exercise) as it is generally non-discretionary, capital expenditure, or fiscally neutral (eg, revenue-driven appropriations, pass-through appropriations).	You can consider these through the Expenditure Strategy.
Benefits or Related Expenses (BOREs) (49.2)	Around half of this category is payments of New Zealand Superannuation. Targeted policy savings could make savings in the remainder of this category, the majority of which is welfare spending. [33] savings would require comprehensive policy work so commissioning options for these savings early as part of your Budget Strategy would maximise opportunities for savings.	Targeted policy savings at Budget 2026. Consider future options through the Expenditure Strategy.
Frontline services, Parliamentary officers/agencies, ACC[3] (61.4)	The “frontline services” component of this reflects areas where the Government has typically targeted funding uplifts (eg, frontline health, education, law and order). In these cases, savings have still been a focus but have typically been reinvested. To avoid overlapping savings processes, we recommend that these agencies are not subject to a separate baseline reduction. Instead, an envelope process with built-in savings expectations is likely to be simplest and most effective to ensure agencies are moving funding to the highest priority areas.	Savings expectations set through envelopes. The level of those expectations set when determining the envelopes could be aligned with the baseline reduction that other agencies are required to meet.
Discretionary spending base (all remaining spending) (19.2)	This includes all other expenditure not captured above, such as funding for departments, Crown Entities, etc. Across-the-board savings can be found through baseline reductions, which you have asked for advice on, and which the remainder of the report focusses on. We provide this below.	Baseline reductions (eg, through Performance Plans). More fundamental changes could be explored through the expenditure strategy.

15. A baseline reduction exercise could be applied to the discretionary spending base of $19.2 billion per annum above, with a 1% reduction in this base representing around $192 million per annum. Any across-the-board reduction of this spending base would generate savings to support future budget savings.

16. Performance Plans in late 2024 set out that frontline agencies were facing significant cost pressures, with reprioritisation available but unlikely to be palatable for significant portions.[4] Budget 2025 outcomes will change the level of cost pressures facing agencies. However, any baseline reduction that agencies would be asked to achieve would come as an addition to the cost pressures agencies are required to meet within their baselines, such as remuneration increases, inflation adjustments, and any new cost pressures including increased KiwiSaver contributions from next year (likely in the order of $100-200 million per annum).

[3] Frontline agencies include NZ Police, Department of Corrections, NZDF, non-departmental Health, and Education where it relates to school delivery. Other excluded agencies are PCO, Parliamentary Service, Office of the Clerk, Offices of Parliament, and ACC as it is revenue-funded.

[4] The total gap of unfunded cost pressures was around $8 billion over the forecast period. A significant portion of these cost pressures were from frontline agencies.

Design and scope of a baseline reduction process

17. Alongside this paper, you have received advice about the structure for year two of Performance Plans [T2025/900 refers]. You have previously indicated a preference that year two Performance Plans are used to reflect agencies' plans to manage within reduced baselines.

18. Performance Plans can be used to embed baseline reductions into the public sector and gain visibility over the trade-offs that will need to be managed to achieve a reduced baseline. Using the Performance Plans as a mechanism to understand baseline reduction choices further reinforces the government's commitment to long-term savings across the public sector, while targeting agency spend to the key impact areas agreed in their Performance Plan.

19. The table below sets out key strategic design choices that you will need to determine between now and commissioning updated Performance Plans. We expect that we will need to provide further advice on some of these. Based on our lessons learned from previous iterations of savings processes, our recommendations in the table are based on the principles of using the reductions as a tool to drive public sector efficiency and effectiveness, and on maintaining Ministerial ownership of decisions made within their portfolios.

Table 3 – Key design choices and Treasury recommendations

Design choice	Recommendation
Agencies in scope	You can choose to include or exclude certain agencies as part of the baseline reduction process. As discussed above, it may be simpler to exclude agencies from the reduction process if you consider that they are likely to receive an uplift in funding. **Treasury recommendation:** We recommend you exclude areas where you wish to target increased spending (but still ensure any funding elements incorporate a savings expectation for reprioritisation), but otherwise apply a reduction to most other agencies. That would mean the baseline reduction applies to the "discretionary spending base" row in Table 2 above.
Timing	You can choose to make one-off or compounding baseline reductions. **Treasury recommendation:** We recommend taking a multi-year approach with each year receiving a further baseline reduction. This will provide an ongoing stream of savings, while giving agencies long-term certainty to enable planning and consideration of medium-term structural changes. Giving agencies a longer and higher target will force them to consider their operational models, rather than shaving programmes to make efficiency gains.
Level	**Design choice 1 – level of savings:** You have a choice about the level of reduction you would like to implement. We consider reductions of 1-3% per annum would be appropriate to achieve meaningful savings. The lower end of this range (1%) would likely see agencies reproducing a 'haircut' to existing baselines and activities. A larger reduction (up to 3%) will require more significant trade-offs that may merit closer Ministerial scrutiny. It would also encourage agencies to consider operational efficiencies and policy changes. **Treasury recommendation:** As a starting point, we consider a higher rate (around 3%) is more consistent with likely savings requirements, generating around $600m p.a.

Level (cont.)	**Design choice 2 – differentiating the level:** Following previous years of savings, some agencies may have a more restricted eligible base than others or delivered more savings than others. These agencies are likely to surface more difficult choices when considering reductions. You may want to vary the rate of reductions across agencies, noting this will add additional complexity. Alternatively, you could work through the trade-offs once they are surfaced in September. **Treasury recommendation:** If you are interested in varying the rate, we can provide you further advice on how this could be achieved.
Oversight and Input	You have a choice about your and Treasury's level of oversight and involvement in the baseline reduction process. At opposite ends of the spectrum, all savings initiatives could be run through the Budget process, or responsibility for the process can sit with portfolio Ministers through the usual Performance Plan process. A higher degree of involvement would be more intensive but may mitigate risks that could lead to baseline reductions not being realised. **Treasury recommendation:** We think that a middle ground between these ends will give you the ability to scrutinise key trade-offs, while ensuring Ministerial responsibility for the options surfaced. We can advise you on agencies that may need more support to achieve reductions throughout the process. On balance, we recommend: A. You implement reductions fully through the Performance Plan process, with the responsibility of meeting the agency baseline sitting with portfolio Ministers. B. To maintain some oversight, report-back processes (including at EXP) once draft Performance Plans are submitted in September provide assurance on plans to meet savings. We can support Ministers to ensure that there is confidence in the baseline reduction options being surfaced at this point. C. If, at that point, there are significant decisions that Budget Ministers should include in their considerations, they could be invited into the Budget for consideration and decision instead. We can provide advice at this point to support you in determining which of these decisions should be subject to further oversight.

Next Steps

20. Based on your feedback on the above, not all departments may be subject to a baseline reduction. There are further elements of the Budget 2026 design process that are yet to be worked through, including the treatment of these departments. We will provide you with overall Budget Strategy advice later in the year.

21. The timeline for new spending information will need to align with the submission dates for year two Performance Plans so your Budget 2026 invitation process can incorporate both cost pressures and further scrutiny of baseline reduction options. A high-level timeline of how this could align has been provided in Annex 2.

22. We will also seek specific decisions on the parameters for baseline reductions, including the level at which you wish to implement these and how to set appropriate incentives to ensure realisable savings are submitted, through further advice to finalise year two Performance Plans in early June.

Recommended Actions

We recommend that you:

a **provide** feedback on your initial preferences for the key design considerations of implementing baseline reductions laid out above, including:

Considerations	**Treasury Recommendation**	**Feedback**
Agencies in scope	Exclude areas where you wish to target increased spending but otherwise apply a reduction to most other agencies.	
Timing	A multi-year approach with each year receiving a further baseline reduction (e.g. 1+1+1, around 3% total baseline reduction across the forecast period).	
Level	A higher rate (around 3%) is more consistent with likely savings requirements. If you are interested in varying the rate between agencies, we can provide further advice.	
Oversight and Input	A middle ground that gives you the ability to scrutinise key trade-offs, while ensuring Ministerial responsibility for the options surfaced.	

b **note** we will provide you with more fulsome advice on Budget 2026 strategy and process over the coming months.

Tom Brooke
Principal Advisor/Head of Savings Policy

Hon Nicola Willis
Minister of Finance

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Annex 1: Examples of commonly excluded expenditure categories

These categories of spending were excluded from savings consideration in previous exercises:

- **Permanent Legislative Authorities (PLAs).** For example: debt servicing, National Land Transport Fund, Departmental capital appropriations, passthrough of KiwiSaver employee and employer contributions.
- **Non-Departmental Capital.** For example: capital for Health NZ, Kāinga Ora, and NZTA; equity injections.
- **Other Expenses.** For example: Allocation of NZ Units, Court and Coroner costs, Impairment of debt and write-downs, Treaty of Waitangi historic settlement costs, NZ Screen Production Rebate (International).
- **Revenue-related Appropriations.** For example: services paid for by fees (eg, Immigration servicing) or other departments (eg, VIP Transport, shared/corporate services).

Annex 2: Indicative Timeline

May

Budget 2025

Early May: Treasury provide MOF advice on baseline reduction scope and design.

Early May: Treasury provide MOF advice on process and scope of year two Performance Plans.

Late May: Treasury provide MOF advice on year two Performance Plan templates, including baseline reduction annex if required.

June

Cabinet approves the year two Performance Plan process.

Through this, Cabinet agrees on the baseline reduction parameters.

July

1 July: Year two Performance Plan guidance is issued.

This guidance signals the baseline reduction expectation for agencies and includes an annex for affected agencies to complete.

Mid/Late July: Commission for cost pressure information to go out to affected agencies.

Aug

Mid-August: Affected agencies to submit further information on cost pressures. Treasury to provide MOF advice on Budget 2026 envelope process.

Sept

Late September: Draft year two Performance Plans reflecting baseline reductions are submitted.

Oct

Early October: Based on Plans and annexed information, Treasury provide advice to MOF on trade-offs that could be included in the Budget 2026 process for further scrutiny if required.

Non-scrutiny trade-offs sit in the Performance Plan track

Mid-October: Budget 2026 invites sent out

Nov

Dec

B26 submissions

Key:

- Performance Plan Track
- Baseline Reduction Track
- Cost Pressure Track