The Treasury

Budget 2026 Information Release

September 2026

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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

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

[41] 18(d) - information requested is or will soon be publicly available

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Capital investment choices

Date:	17 September 2025	**Report No:**	T2025/2432
		File Number:	MC-1-5-2-2026-M128201

Action sought

	Action sought	Deadline
Hon Nicola Willis **Minister of Finance**	**Indicate** if you require any further scenarios modelled for inclusion in your Budget strategy Cabinet paper.	22 September 2025

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Amy Spittal	Analyst, Macroeconomic and Fiscal Policy	[39]	[35]	✓
Ben Gaukrodger	Manager, Macroeconomic and Fiscal Policy			

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: Capital investment choices

Executive summary

We present a range of scenarios to illustrate the impact on net core Crown debt and OBEGALx through to 2038/39 from a substantial increase in investment, and options to mitigate these impacts by raising revenue and recycling assets.

The scenarios show that undertaking all investments identified for Budgets 2026 to 2029 and the transport projects expected through the Transport Government Policy Statement (GPS) 2027 is not compatible with your fiscal strategy.

To ensure compatibility, a range of mitigating options will be needed. We have modelled a range of measures: managing the operating expenses associated with increased capital expenditure within allowances; increasing fuel excise duty (FED), road user charges (RUC), and motor vehicle registration (MVR) charges; asset recycling; and rationing the investment pipeline.

We model a scenario that shows the impact of debt-funding the $35 billion of investment intentions identified for Budgets 2026 to 2029 and [33] of possible transport projects over the next 20 years, including the Roads of National Significance (RoNS), major transport projects, and other projects expected through the GPS 2027.

[33]

We then model further scenarios that adopt options to mitigate the fiscal impacts. These illustrate the impact of managing the related operating expenses within operating allowances; raising additional revenue through FED, RUC and MVR charges; asset recycling; and scaling investment.

[33]

The scenarios are dependent on the assumptions underpinning them, do not show all permutations of the options that you have available to you, and should be treated as illustrative rather than exact estimates.

Over this time horizon, some of the pressures identified in the Treasury's Long-Term Fiscal Statement will manifest, including increased health and NZ Superannuation costs. Some of these costs, in particular higher health expenditure, are not captured in this modelling. A range of measures outlined in the *Treasury Report: Addressing medium-term expenditure pressures* will be required to mitigate these pressures (T2025/1119).

We have added the headline conclusions from this modelling exercise to your *Budget 2026 Strategy and Design* Cabinet paper and can add more analysis if you desire.

Treasury Report: Capital investment choices

Purpose of report

1. This report responds to your request for further advice on the interactions between capital investment and the fiscal strategy (T2025/2313 refers). It sets out the various factors influencing the debt track and provides indicative scenarios that show the impacts of different levels of capital investment and different methods of financing.

Debt and capital investment dynamics and constraints

2. Net core Crown debt was forecast to peak at 46% in 2027/28 in the 2025 Budget Update. However, the trend in the debt ratio is subject to significant uncertainty, with this uncertainty increasing over longer forecast horizons. While total Crown revenue is forecast at $203 billion in 2028/29, there is a 90% chance it could be up to $19 billion higher or lower than this.

3. At the 2025 Budget Update, we forecast $62 billion of spending on property, plant, and equipment by the Crown, Crown entities, and KiwiRail over the forecast period (2024/25-2028/29). This increases to $75 billion once capital allowances and unallocated contingencies are included. Your ability to increase capital investment is constrained in several ways. First, the current forecast peak in net core Crown debt is relatively close to the maximum level Treasury has previously assessed to be prudent, i.e., 50% of GDP. However, there is no exact threshold at which debt becomes imprudent, and there are circumstances in which debt exceeding 50% of GDP could still be prudent (T2025/2313 refers). Nonetheless, at some level, we could start seeing negative effects on debt market access, interest rates, and economic growth. Based on the literature, this level could be at around 90% to 100% of GDP, though the estimates are inconclusive. It is important to maintain a sufficient buffer between current debt levels and this level.

4. The second constraint is your fiscal strategy's short-term intentions (STIs) and long-term objectives (LTOs). Your debt STI is to maintain total debt at prudent levels, and to put net core Crown debt as a percentage of GDP on a downward trajectory towards 40%. Your debt LTO adds the requirement that once net core Crown debt is below 40% of GDP, it should be maintained within a range of 20% to 40% of GDP, subject to economic shocks. BEFU 2025 forecasts show debt decreasing as a percentage of GDP only in the last year of the forecast period (2028/29).

5. Decisions on the capital investment pipeline and its funding will need to consider macroeconomic implications (at full capacity higher public investment can crowd out private investment) and the capacity of the construction sector to deliver the uplift in the short term. The ability to implement new investments without causing undue inflationary pressures will depend on how much spare capacity there is in the economy and should be actively monitored. [33]

6. This highlights the need for prioritisation, particularly within the transport portfolio. While funding some of the increased investment via revenue rather than debt may reduce inflationary impacts over time, it could have temporary inflationary effects during the adjustment period by increasing fees and levies. Recently, increases in central and local government levies and fees have contributed to inflationary pressures in the economy. Moreover, while interest rates have eased and are expected to decrease further, increasing capital investment could alter the future path of monetary policy, depending on how the additional investment added to inflationary pressures.

7. Generally, the economic literature shows that public investment has a positive effect on economic growth. In the United Kingdom, the Office for Budget Responsibility estimated that an increase in government investment by 1% of GDP per annum would increase potential GDP by 0.4% after five years and 2.4% after 50 years, but only if increased investment is sustained. This is in line with other international estimates. More generally, the level of capital investment and choice of projects will have effects on economic growth and productivity, but they will depend on the type and quality of investment. Some investments will be good value but affect social outcomes rather than GDP and not all investment is high quality. In part for this reason, we have not recommended a different level of prudent debt if it were used for investment.

Capital investment choices

8. The following section presents scenarios for net core Crown debt and OBEGALx based on data we have on the pipeline of investments for Budgets 2026-2029 (around $35 billion) and possible transport projects [33] , delivered over an estimated 20 years), including the RoNS, major transport projects, and other projects expected through the GPS 2027. We also illustrate the impact of additional revenue from FED, RUC, and MVR increases and the impact of asset recycling.

9. The debt and OBEGALx trajectories are the product of many variables, with a high number of potential outcomes. We are unable to illustrate all possibilities in this advice, but the key variables that will influence your fiscal indicators over time include:

   a the OBEGALx surplus or deficit over time, which in itself depends on:

      i. expenses, including the operating costs associated with potential capital projects

      ii. revenue, including the use of user pays charges

   b the quantum and timing of assets being recycled

   c the quantum and timing of capital projects being progressed.

10. The scenarios modelled below have been designed to step through each of these variables in turn.

11. This modelling is indicative only and relies on several assumptions. In particular, we have limited information about the phasing of some investments and the associated operating expenditure. We have lower quality data for initiatives expected later in the pipeline. This modelling does not account for the impact of higher capital investment on economic growth, inflation, or interest rates.

[33]

Base case: Scenario 2 from your Fiscal Strategy Report projections

12. For the base case we have used scenario 2 from your projections in the Budget 2025 Fiscal Strategy Report (FSR). This scenario contains higher capital and operating allowances from Budget 2029 onwards. The capital allowance is $7 billion in Budget 2029, growing at 3% per year in subsequent Budgets. The operating allowance is $3.525 billion in Budget 2029, growing at 3% per year in subsequent Budgets. The higher operating allowance accounts for the operating expenses associated with higher capital investment.

13. For the base case, we assume no changes to the current unallocated capital allowances (of which there is $12.1 billion unallocated across the next four Budgets), meaning the scenario matches the 2025 Budget Update forecast up until 2028/29. In the period to 2038/39, the base case enables around $93 billion of capital investment. In this scenario:

    - The net core Crown debt trajectory is consistent with your current STI to put net core Crown debt as a percentage of GDP on a downward trajectory towards 40%. Net core Crown debt decreases from a peak of 46.0% of GDP in 2027/28 to 45.5% of GDP in 2028/29. Over the projection period, beyond 2028/29, net core Crown debt slowly decreases to 42.2% of GDP in 2038/39.

    - OBEGALx reaches surplus in 2028/29 and thereafter shows small surpluses, averaging 0.3% of GDP over the projection period.

14. In this scenario you would only be able to meet your long-term objective of bringing debt within 20% to 40% of GDP outside the projection period. The base scenario assumes you will deliver within tight operating allowances in the forecast period, which will require difficult choices. Cost pressures are expected to grow over the medium term due to an ageing population, among other factors, and these pressures will increasingly arise in budgets during the next four years (T2024/3172 refers).

Scenario A. Delivering the full investment pipeline via debt financing

15. As an indicative upper limit, we model the impact of the full non-GPS pipeline expected for Budgets 2026-29 (around $35 billion capital expenditure) and the full GPS pipeline consistent with signalled investment intentions [33] capital expenditure at a rate of [33] per annum delivered over an estimated 20 years). We assume that the full GPS pipeline is Crown-funded (i.e., there are no increases to National Land Transport Fund revenue). The unallocated capital allowances over the remainder of the forecast period are assumed to be spent before additional debt is taken on, while the spending in the projection period is in addition to the $7 billion allowances in the base case. This is because we assume that new initiatives will come up in Budget 2030 onwards which will be charged to the projection period allowances.

16. For the non-GPS pipeline, we have phased the capital investment through financial years in line with agency estimates. Where phasing data is not available, we have phased the capital expenditure according to the usual forecast treatment for unallocated Budget capital allowances.

17. With respect to the GPS pipeline, [33]

    This is an optimistic assessment of how capacity could increase.

18. Since the projection horizon in the Fiscal Strategy Model does not fully extend out to the estimated delivery timeframe for the transport pipeline, we have only modelled 13 of these 20 years (i.e., we model [33] of transport expenditure across the forecast period and projection horizon, [33]

19. In this scenario, the additional operating expenditure associated with the capital pipeline is on top of existing operating allowances:

- For the non-GPS expenditure, we have used information on the associated operating expenditure through financial years where this information is available. Otherwise, we have included a per annum average for the associated operating expenditure.
- For the GPS investment, we assume that the maximum additional transport operations and maintenance expenditure per annum once the full GPS pipeline is delivered is [33] per annum. We pro-rate this amount in previous years.

20. [33]

Scenario B. The effect of covering the additional operating expenditure within existing allowances

21. This scenario is the same as scenario A, except that the extra operating expenditure associated with the capital pipeline (both GPS and non-GPS) is managed within allowances.

22. Implicit in this scenario is a faster pace of consolidation for other operating expenditure, so that the pipeline-related operating spending can fit within existing allowances. There is a total of [33] operating expenditure associated with the GPS and non-GPS investment pipeline over the forecast and projection period (i.e., until 2038/39), meaning you would need to find approximately [33] in savings or revenue as a one off in Budget 2026 to stay within your existing allowances.[1]

23. [33]

. This is because of debt financing costs, which increase because of the debt taken on to fund higher capital investment.

[1] Beyond the forecast period, operating costs fall to a low percentage of the additional capital. This is based on data from the Quarterly Investment Report and 10-year investment intentions. The actual operating expenditure could be higher than this, resulting in a different OBEGALx trajectory.

Scenario C. The effect of increasing revenue through FED, RUC, MVR, and tolling

24. This scenario is the same as scenario B, but with increases in fuel excise duty (FED), road user charges (RUC), and motor vehicle registration fees (MVR) that raise [33] per annum (see Table 1*)*. In addition, we assume that all the additional transport operating expenditure would be covered by tolling. This latter assumption means that there is a total of [33] of non-GPS operating expenditure across the forecast and projection period that would need to be met within existing allowances, equivalent to a [33] saving against the Budget 2026 allowance.

25. This scenario is based on the Ministry of Transport's early RoNS advice (OC250681 refers), [33]

26.

27.

Scenario D. The effect of asset recycling

28. This scenario is the same as scenario C, but with some new investment paid for through asset recycling. Asset recycling provides a one-off inflow of capital but sacrifices future revenue.

29. To illustrate how asset recycling could create more headroom for capital investment, we include a rough upper-end estimate of [37] of asset recycling, phased over 2025/26 to 2029/30 based on estimates of feasible delivery timing. [31] The full impact of reducing debt or reallocating capital to an alternative use would depend on the relative return on capital expected to be achieved through each investment.

[33]

30. We have low certainty on the quantum of and phasing for asset recycling initiatives. [31]

31. To account for the foregone future revenues as a result of asset recycling, [37] revenue reduction per annum. In prior years, we pro-rate this revenue based on the value of the assets that have been sold to account for the phasing of the asset recycling programme over time. [37]

Asset recycling swaps future revenue for capital today but does not generate any value in itself. The full impact on net worth of reducing debt or reallocating capital to an alternative use would depend on the relative return on capital expected to be achieved through each investment.

32. [31]

33.

34. The net core Crown debt peak in the projection period decreases from [31] and [37] under scenario C (full pipeline with operating expenditure in existing allowances and extra revenue from FED, RUC, MVR, and tolls) to [31] and [37] with [37] of asset recycling (scenario D). [31] and [37] . This incorporates the proceeds from asset recycling (a reduction in net capital expenditure), the reduction in interest costs, and the reduction in future dividends. [31] and [37]

Therefore, although there is a better debt trajectory than in scenario C without the asset recycling, the OBEGALx trajectory does not improve because the lower revenue from future dividends effectively cancels out the lower operating expenses through lower interest costs.

[37]

Scenario E: The effect of scaling transport investment

35. This scenario is the same as D but with scaled transport investment. [33]

36. This scaled transport package could take many forms. [33]

There are also choices to prioritise a mix of investments [33]

Work is underway with Minister Bishop to consider this portfolio approach.

37. [33]

38. In summary, the combination of all of the steps between scenarios decreases the projected net core Crown debt peak from [33] of GDP in scenario A to [33] of GDP in scenario E. [33]

Other options for managing the debt curve

39. You could also ration the $35 billion non-GPS investment pipeline. We have not modelled this because there are many different choices about which initiatives to remove from the pipeline. While forthcoming capital invitation advice will recommend you invite a lower number of initiatives than currently in the pipeline, we have not removed initiatives we are not recommending for Budget 2026 from our modelling, as these initiatives could seek funding in subsequent Budgets. We have also not removed initiatives based on our previous assessment of value for money prospects, as we currently have limited information on which to base this assessment (T2025/2313 refers).

40. Another important consideration is capital performance initiatives (T2025/1255 refers), for example, improved discipline on capital management via lending policy and risk financing. Whereas asset recycling provides a once-off increase in headroom to meet investment requirements, capital performance initiatives have the potential to provide long-term and enduring improvements in fiscal sustainability. In particular, reforming the funding and financing models of the road transport and social housing sectors are likely to have substantial impacts on the long-term headroom for capital investment. However, these will require upfront investments, and the extent of the potential benefits are uncertain at this stage.

Next steps

41. A short summary of analysis in this report has been included in the redrafted Budget 2026 Cabinet paper, which you will receive alongside this report.

42. You will receive advice on Budget 2026 invitations by Thursday 18 September. This will include our recommended invites based on our assessment of priority, value for money, and investment readiness. We will also advise who to set Budget 2026 envelopes for, what level to set those envelopes at, the conditions you would attach to those invites, and other budget-related issues, such as the role of the Investment Panel in assessment.

43. We will also continue to provide advice on the balance sheet strategy in the coming months.

44. We are currently scoping further work to provide you with a bottom-up assessment of phasing and allocations over the next four budgets and beyond. In addition, we are working on a more detailed assessment of the potential for [31] and user-pays revenue generation. We will confirm timelines for these with your office in due course.

45. If you would like alternative scenarios, we can provide additional modelling for the Budget 2026 strategy Cabinet paper.

Recommended actions

We recommend that you:

a **indicate** if you require any further scenarios for the Budget 2026 strategy Cabinet paper

b **note** that almost all current modelled scenarios show meeting your fiscal strategy goals over the long term will be challenging

c **note** you will receive further advice in due course on bottom-up assessments of phasing and allocations, and more detailed assessments of [31] and user-pays revenue generation

d **refer** this report to the Minister for Infrastructure.

Refer/not referred

Ben Gaukrodger
Manager, Macroeconomic and Fiscal Policy

Hon Nicola Willis
Minister of Finance

_____/_____/_______

Annex: Scenario assumptions

Scenario	Capital pipeline	Treatment of operating expenditure	Revenue assumptions	Asset recycling assumptions
Base case: Scenario 2 from the FSR	• The same as BEFU forecasts in the forecast period (i.e., existing Budget allowances). • $7b p.a. capital allowances in the projection period, growing at 3% p.a.	• The same as BEFU forecasts in the forecast period (i.e., existing Budget allowances). • In the projection period, operating allowances start at $3.525b and grow at 3% p.a.	• No revenue increases.	• No asset recycling.
A: Full pipeline, debt-funded	• Full non-GPS Budget 2026-29 pipeline. • Full GPS pipeline. • $7b p.a. capital allowances in the projection period, growing at 3% p.a.	• Operating expenditure associated with the GPS and non-GPS pipeline is **on top of** existing allowances.	• No revenue increases.	• No asset recycling.
B: Opex in existing allowances	• As in scenario A.	• Operating expenditure associated with the GPS and non-GPS pipeline is managed **within** existing allowances (i.e., no additional opex). This implies faster consolidation of other spending.	• No revenue increases.	• No asset recycling.
C: The effect of raising revenue	• As in scenario A.	[33]		• No asset recycling.
D: The effect of asset recycling	• As in scenario A.	• As in scenario B.	• As in scenario C.	• [31] and [37] •
E: The effect of a scaled pipeline	• Full non-GPS Budget 2026-29 pipeline. • Scaled GPS pipeline [33] • $7b p.a. capital allowances in the projection period, growing at 3% p.a.	• As in scenario B.	• As in scenario C.	• As in scenario D.