The Treasury

Budget 2026 Information Release

September 2026

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

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TE TAI ŌHANGA
THE TREASURY

Treasury Report: Baseline reduction parameters – integrating targets with public sector transformation

Date:	2 October 2025	**Report No:**	T2025/2541
		File Number:	BM-2-1-2026-2-M128567

Action sought

	Action sought	Deadline
Hon Nicola Willis **Minister of Finance**	**agree** a final approach and target rate for the baseline reduction **indicate** if you wish to re-include any areas into the baseline reduction **decide** whether to set only the 2026 target now or all three years upfront **indicate** if you wish to announce anything through the Budget Policy Statement (with further advice if desired).	3 October 2025

Contact for telephone discussion (if required)

Name	Position	Telephone		1st Contact
Darius Paschke	Senior Analyst, Budget	[39]	N/A (mob)	✓
Tom Brooke	Acting Principal Advisor, 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 – Annex 1 attached

Treasury Report: Baseline reduction parameters – integrating targets with public sector transformation

Purpose of Report

1. The purpose of this report is to seek your agreement to updated parameters for the multi-year baseline reduction, which includes re-phasing yearly target rates to be more back-loaded and aligned to opportunities from public sector reforms.

2. This report also outlines:

   - the fiscal impact of moving to a more back-loaded profile, and options to offset those fiscal impacts; and

   - options for how you may wish to frame and communicate this work and link this process to the Government's public sector transformation agenda.

Background

3. You have previously agreed to the parameters for a baseline reduction through Budget 2026 [T2025/2274 refers]. You have indicated that you would like this stream of work to help achieve transformation within the operating model of the public sector.

4. Last week, you asked us to consider how the Budget process could better facilitate and support this transformational change. This included the option to re-phase a higher percentage of the baseline reduction to Budgets 2027 and 2028.

5. We have engaged with the Public Service Commission (PSC) on the public sector transformation.

Baseline reductions and public sector transformation can reinforce each other

6. The Public Service Commissioner has led engagement with senior Ministers to develop a vision for a new public service operating model. While formal decisions are yet to be taken in all areas, you and the Minister for the Public Service have indicated support to transform the public sector.

7. This transformation could be delivered in a number of ways, including structurally (eg, through machinery-of-government processes), increased efficiency and digitisation (eg, through stronger leadership from the Government Chief Digital Officer (GCDO)), increased talent management through the Public Service Commissioner, and strategy and prioritisation (eg, through Performance Plans).

8. A baseline reduction and public sector transformation can be mutually reinforcing:

   - **a baseline reduction** enables transformation by sharpening incentives for agencies (including central agencies) to focus on highest-value activities, lift productivity, and design operating models that can deliver more with less; and

   - **public sector transformation** can improve productivity and efficiency, which can be used to realise savings.

9. Re-phasing a baseline reduction to be back-loaded would allow more time for work on public sector transformation to advance sufficiently so that the two can work effectively together. This would require:

    - agencies to have a clear plan for achieving transformation across a multi-year horizon, including proposals for those that may require more work or investment than would be possible for a single Budget; and

    - public sector reform work to be developed and for system-wide productivity initiatives to be in place, where these are likely to provide greater benefits at a lower cost than could be delivered through individual departments.

10. Baseline savings can be achieved through improvements in prioritisation through Performance Plans, such as from effective reprioritisation supported by stopping lower value activities or programmes. However, delivering the wider scale of savings from public sector transformation will require clear commissioning, direction, and support from Ministers and central agencies. This is most critical in structural and digital changes, where savings opportunities are more likely. Key considerations include:

    - The need for a **clearly defined approach** supported by central agencies, with a savings focus. This includes ensuring that GCDO's planned report-back in December sets a clear work programme and sets out how net benefits will be realised, and ensure that current and future structural changes incorporate savings expectations.

    - Savings may need a **long lead-in time**, particularly in digital transformation. For example, MSD's Services for the Future programme had several years in development before funding and savings were recognised at Budget 2025. This means that baseline reductions will need to be flexible to invest-to-save style initiatives with longer term payoffs.

    - Individual departments will have **different opportunities to make savings**, including new opportunities through reform, so the kinds of savings involved across government may vary.

11. The Treasury and the PSC have also engaged with several departmental CEs regarding opportunities for cross-sector savings. You and Hon Collins will receive joint advice on this shortly. CEs have largely identified areas subject to existing work (eg, digitisation), and the advice won't recommend commissioning further work on these. However, there were a handful of genuine gaps identified (eg, opportunities to consolidate regulatory functions, corporate services etc.), which the advice will recommend further work on.

12. At your planned joint meeting with Hon Collins, we recommend that you discuss how to approach these matters, particularly establishing clearly defined approaches that will support a baseline reduction.

Optionality for the baseline reductions

Savings are intended to be recognised at each Budget…

13. The baseline reduction has been designed as a multi-Budget process, with successive reductions expected at each Budget. This sequencing gives agencies time and flexibility to develop credible savings options, enabling reductions to be implemented, and reflected in future Budgets.

14. Agencies will also be required to plan for these parameters and, in each successive Performance Plan, demonstrate how they will achieve savings beyond Budget 2026. Recognising reductions across Budgets in this way provides both discipline and credibility to the Government's fiscal strategy.

15. This approach is flexible, giving agencies time to identify and work through credible savings options; however, it carries the risk that agencies assume reductions could be revisited at each Budget. You could mitigate this by being explicit and providing certainty that the rate of reduction is multi-Budget and will not be reopened in either direction.

16. With this approach, the savings would be recognised at each Budget (eg, 2% savings against the Budget 2026 allowance, and 4-5% against each of the following allowances).

…but you could choose to set specific reduction targets for years now

17. Alternatively, you could implement this reduction as a target for a specific year. Under this approach, you would set a defined level of baseline reduction to be reached by a certain year (eg, agency baselines reduced by 12% by 2028/29). This would provide a clear and firm commitment to the overall scale of savings to be achieved by a set point in time.

18. Within a specific year target process, there are ways of managing how savings are treated. One option is to manage them across multiple Budgets (as in the current approach), phasing reductions as agencies develop credible plans.

19. The other is to recognise the full cumulative impact of reductions against the Budget 2026 allowance. To make this approach workable, it would require:

    - Clear decisions at Budget 2026 on the scale and nature of changes needed to deliver reductions (eg, clear and agreed programmes of work on shifts in operating models, workforce, or legislation).

    - Detailed information on how each agency would achieve savings, sufficient to make appropriation-level adjustments.

    - Confidence that agencies could implement changes on the required timeline and that savings would flow as planned.

20. We see significant challenges in meeting these requirements. Delivering such changes will take time to design and implement, and the necessary detail is unlikely to be available in time for Budget 2026. While Performance Plans may provide a vehicle for agencies to outline how they would manage within reduced baselines, it is doubtful that sufficient specificity could be developed in time.

21. More broadly, booking savings upfront that are to be realised gradually risks undermining credibility. For example, MSD's Services for the Future initiative was only able to credibly book savings at Budget 2025 after years of development, robust business cases, and clear benefits analysis.

22. We consider the current phased, multi-Budget approach provides a more credible and achievable pathway, allowing time for agencies to develop and demonstrate deliverable savings.

23. The remainder of this advice is provided on the assumption of the current multi-budget approach.

Fiscal impacts of phasing

24. The table below sets out the indicative fiscal impacts of different phasing profiles, the maximum possible at Budget 2026, and ongoing savings that could be generated by the end of the forecast period (when the full baseline reduction has been implemented). Whichever profile of nominal rates is chosen, it should be noted that the real rate of baseline reductions will be higher given the expectation that agencies absorb inflationary cost pressures of around 2-3% per annum.

25. It reflects three potential profiles: our previous advice and what Budget Ministers have agreed to (4% / 3% / 3%), the recent discussion to move to a 2% / 5% / 5% phasing profile (Treasury's recommended profile, given the higher level of fiscal savings that will be achieved and strong signalling this provides), and an alternative that would still achieve the original 10% target but with a slightly more moderate path (2% / 4% / 4%).

Profile **(% reduction per Budget)**	**Budget 2026 impact** **($m p.a.)**	**Fully implemented impact** **($m p.a., ongoing)**
4% / 3% / 3% (10% total)	220	550
2% / 5% / 5% (12% total)	110	660
2% / 4% / 4% (10% total)	110	550

26. The two new options for phasing place a greater share of the savings task in Budgets 2027 and 2028, making these years critical for sustaining progress. You can use the Budget process as a key lever to drive and reinforce the wider programme for change, ensuring agencies have clear direction, multi-year plans, and are held to account for lifting productivity and shifting operating models.

27. **Annex One** sets out eligible bases and 2% and 12% savings targets by agency.

Overall savings and trade-offs from the eligible base

28. We have previously advised that you will need [33], [1] (average p.a.) of savings and reprioritisation options at Budget 2026 to fund Government priorities and create fiscal headroom [T2025/2482 refers].

29. We advised this could be met through a number of savings workstreams, including [33] from Welfare, Working for Families and Social Housing reform, $0.2 billion from baseline reductions (at a rate of 4%), and [33]

30. Subsequent decisions have reduced the savings likely to be achieved in some of these areas (eg, reducing savings available in Working for Families options; a lower Budget 2026 baseline reduction rate). These changes may make it more challenging to meet your spending pressures and will increase the need to scale back spending or find other savings and reprioritisation.

31. You have some options to mitigate the reduction in savings by expanding the eligible base for a baseline reduction. Some exclusions you have previously made could be less relevant in light of a more back-loaded profile and using a baseline reduction alongside the transformation programme. We recommend you reconsider the following for inclusion in the eligible base, which could add around $60 million of savings for Budget 2026:

Agency / spending	**Eligible base**	**2% (Budget 2026 savings if included)**
Ministry of Social Development (MSD)	$1,880 million	$37.6 million
Science, Innovation and Technology spending *(note that this would increase MBIE's target, but does not necessarily mean the savings need to come from Science, Innovation and Technology spending)*	$1,025.8 million	$20.5 million
Social Investment Agency	$40.7 million	$0.8 million

32. MSD is already undergoing transformation with booked savings currently recognised in the forecast, but there remains scope for further efficiencies. On balance, we recommend including them in the Budget 2026 savings, while recognising that the case for future years is more marginal. Depending on how firmly or softly you wish to signal future savings targets, you could defer decisions on MSD's out-year impacts until later.

33. Including these agencies or spending also ensures that the baseline reduction supports your public sector transformation goals more widely, as any excluded agencies will not be financially incentivised to transform their operating models. Leaving, envelope agencies as the main category of exclusions from baseline reductions.[1]

34. We continue to recommend envelope agencies are excluded as this will reduce complexity and they are subject to reprioritisation expectations. You could signal that envelopes will progressively reduce over the next two Budgets to apply similar financial incentives to envelope agencies as agencies in scope for a baseline reduction will experience.

Signalling and communicating transformation

Setting direction for Ministers and officials:

35. Based on your feedback, the draft Budget letters that you have received this week will include new text that sets the baseline reduction in the broader context of public sector transformation.

36. At a minimum, we strongly recommend that your invitation letters:
    - Sets the target for Budget 2026
    - Signals a target for Budget 2027 and 2028, and that the target will be higher.

[1] Other exceptions are the Department of Prime Minister and Cabinet, Parliamentary Counsel Office, Parliamentary agencies / Offices of Parliament and MFAT.

37. There are two broad approaches you could take to signalling the savings targets for future years: a more indicative and flexible stance or a firmer commitment.

- **An indicative approach** signalling that further savings and transformation work will follow, preserves optionality on future rates of reduction and gives time for a fuller programme of reform to be developed. The trade-off is that it may lack the urgency to drive Ministers and agencies to identify opportunities and make trade-offs early.

- **A firmer commitment** setting specific upfront expectations for rates of reduction over time or Budgets demonstrates clear commitment to fiscal sustainability and strengthens the credibility of the programme. This can galvanise Ministers and agencies earlier around the scale of the task.

  However, the risk is that if the expected savings do not materialise, the Government may need to revisit or walk back from its stated targets. Note that, if you set specific future rates of reduction, we would strongly recommend not revisiting these baseline funding parameters for several years.

Public narrative:

38. Additionally, you have a choice about the level of public communication you wish to adopt:

- a public sector transformation programme and a baseline reduction exercise,
- only the public sector transformation programme; or
- nothing for the time being.

39. The rationale for publicly communicating both the programme and a baseline reduction is that it means you can set baseline reductions in the context of public sector transformation (and vice versa).

40. **If you wish to make public announcements:** the Budget Policy Statement in December would be a good opportunity to publicly communicate a public sector reform programme and that the baseline reduction exercise will enable this programme over the medium-term. This would be early enough that any action agencies take in response to a baseline reduction (such as a change process) would not yet be undertaken but leave sufficient time for the programme to be worked up in more detail.

41. If you wish to make any public announcements, we recommend you discuss this approach with the Minister for the Public Service at your planned joint meeting.

Implementation and next steps

42. We are scheduled to discuss this report with you at the Weekly Agency Meeting on Friday 3 October.

43. We will incorporate any decisions made that impact material for Budget Ministers on Monday 6 October and reflect these in your invitation letters.

Recommended actions

We recommend that you:

a **agree** to implement the baseline reduction through the multi-Budget approach

Agree / Disagree.

b **agree** to a target rate for the baseline reduction:

4% / 3% / 3% (currently planned) - total reduction = 10%	*Agree / Disagree*
2% / 4% / 4% - total reduction = 10%	*Agree / Disagree*
2% / 5% / 5% - total reduction = 12%	*Agree / Disagree* ***[Treasury recommended]***
Other (please specify)	___% / ___% / ___%

c **indicate** if you wish to reinclude any of the following agencies or areas of spending

Ministry of Social Development	*Include for Budget 2026 / Include for full reduction / Do not include*
Science, Innovation and Technology expenditure	*Include / Do not include*
Social Investment Agency	*Include / Do not include*

d **agree** through your Budget invitation letters to Ministers to:

i. set the target rate for Budget 2026 only, but indicate that further reductions through future Budgets will be required as part of the wider transformation programme

Agree / Disagree.

OR

ii. set all three years target rates now for Budgets 2026, 2027, and 2028

Agree / Disagree.

e **note** we recommend you discuss with Hon Collins at your upcoming joint meeting, how to set clearly defined approaches that will support achieving a baseline reduction.

f **indicate** if you would like to announce anything through the Budget Policy Statement (BPS) and receive further advice from the Treasury to facilitate this alongside the Minister for the Public Service

Yes / No.

Tom Brooke
Acting Principal Advisor, Budget

Hon Nicola Willis
Minister of Finance

_____/_____/_______

Annex One: List of agencies in scope for baseline reduction or re-inclusion

Agency	**Eligible base**	**2% savings**	**12% savings**
Inland Revenue Department	788.5	15.8	94.6
Ministry of Business, Innovation and Employment	682.6	13.7	81.9
Ministry for Primary Industries	657.9	13.2	79.0
Department of Conservation	569.6	11.4	68.4
Ministry of Education	486.5	9.7	58.4
Ministry for Culture and Heritage	453.9	9.1	54.5
Department of Internal Affairs	406.9	8.1	48.8
Ministry of Māori Development - Te Puni Kōkiri	294.4	5.9	35.3
Statistics New Zealand	216.1	4.3	25.9
Ministry of Transport	210.7	4.2	25.3
Ministry for the Environment	192.5	3.8	23.1
The Treasury	113.0	2.3	13.6
Land Information New Zealand	105.7	2.1	12.7
Ministry of Housing and Urban Development	80.7	1.6	9.7
New Zealand Customs Service	80.5	1.6	9.7
Ministry for Pacific Peoples	39.4	0.8	4.7
Ministry of Justice	38.1	0.8	4.6
Public Service Commission	27.4	0.5	3.3
Ministry for Regulation	21.4	0.4	2.6
Ministry of Disabled People	18.7	0.4	2.2
Ministry for Women	12.2	0.2	1.5
TOTAL	**5,496.8**	**109.9**	**659.6**

Re-inclusions listed below			
Ministry of Social Development	1,880.0	37.6	225.6
Science, Innovation and Technology expenditure	1,025.8	20.5	123.1
Social Investment Agency	40.7	0.8	4.9
TOTAL	**2,946.5**	**58.9**	**353.6**