The Treasury

Budget 2026 Information Release

September 2026

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[12] 7(a)(i) - to avoid prejudice to the security or defence of the self-governing State of the Cook Islands

[13] 7(a)(ii) - to avoid prejudice to the security or defence of the self-governing State of Niue

[14] 7(a)(iii) - to avoid prejudice to the security or defence of Tokelau

[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

[25] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information

[26] 9(2)(ba)(i) - 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 to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied

[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

Reference: T2026/900

Date: 28 April 2026

To: Minister of Finance (Hon Nicola Willis)

Deadline: Ahead of the public announcement on 29 April 2026

Announcement of public service transformation

Purpose

We understand you will announce the public service transformation programme alongside the Prime Minister and Minister for the Public Service and Digitising Government on Wednesday 29 April.

This aide-memoire provides talking points to support the announcement. We have included material prepared by the Public Service Commission for the Prime Minister.

Plan for the announcement

You and the Minister for the Public Service and Digitising Government will seek Cabinet agreement to the public service transformation paper on Tuesday 28 April. If necessary, we will provide your office with updated talking points to reflect Cabinet's decisions.

The announcement is planned for Wednesday 29 April. We expect the Prime Minister will speak first, followed by Minister Goldsmith who will announce the details of the public service transformation programme. We have included talking points prepared for the Prime Minister by the Public Service Commission in Annex A.

We expect you will follow Minister Goldsmith. We have prepared talking points for you, which are included in Annex B.

We expect the announcement will prompt questions about the specific impacts of public service transformation, including on the agency-level impact of the FTE reductions, baseline reduction targets, and front-line services – as well as broader financial and economic implications. These questions will need to be carefully managed to avoid anticipating future budget and transformation decisions. We have set out answers to anticipated questions in Annex C.

Key messages for the announcement

We expect the Prime Minister will introduce the transformation programme, with key points including the purpose and high-level timeline for the work. We expect Minister Goldsmith will lead announcement of FTE reduction target.

Options for announcing baseline reductions

We have been informed the intention is to include the baseline reduction exercise as part of the announcement of public service transformation.

The Cabinet paper sets out objectives to reform the public service to become digitally enabled, efficiently structured, and more effective at embracing and developing talent. Transformation will result in efficiency gains which will be realised through workforce and baseline reductions. These two mechanisms are connected – with reductions in personnel costs contributing towards lower agency baselines – which will generate enduring savings.

This connection means there are benefits to announcing baseline reductions as part of the public service transformation programme. It would provide a cohesive explanation of how the workforce reductions will be achieved and demonstrate how the reforms will contribute towards your fiscal objectives. Announcing the baseline reduction exercise now also reduces the risk of information being leaked ahead of Budget Day.

There are some risks involved in bringing forward the public announcement of baseline reductions from Budget Day. Announcing early may prompt questions from Ministers and agencies on scope, rates, and coverage before these are finalised, which could create pressure to adjust settings ahead of Budget decisions.

[34]

If you withhold announcing the detail of baseline reductions until Budget Day, we recommend you use Wednesday's announcement to signal that Budget 2026 will require further fiscal consolidation. We have prepared talking points to support either scenario, which you can find in Annex B.

Next steps

In last week's Budget package advice provided on Friday 24 April, we sought your feedback on the template for joint letters to communicate your expectations for public service transformation and baseline reductions alongside the Minister for the Public Service and Digitising Government.

We sought your agreement to send this letter after the Budget Cabinet paper in early May. If the public service transformation announcement proceeds on Wednesday 29 April, we will work with your office to bring forward the distribution of letters.

Adam McDonald Ball, Senior Analyst, Public Finance and Value for Money
[35]

Laura King, Acting Senior Manager, Public Finance and Value for Money
[35]

Annex A: Talking points for Prime Minister *[approx 3-3 ½mins to speak]*

- Since coming to office, this Government has been focused on lifting the performance of the public service – making it more effective, more modern, and better value for New Zealanders.
- Earlier reforms to digital procurement and delivery laid the foundations.
- Today's announcement is the next step in the most significant reform of the public service since the1980s.
- The purpose is better public services for New Zealanders – services that are easier to use, faster, and more joined-up – while keeping spending disciplined.
- New Zealanders are tightening their belts, and the Government needs to do the same. The fiscal outlook has become tougher, and we have to focus on what matters most and get better value for every dollar.
- A larger public service doesn't automatically mean better results. What matters is outcomes – whether services are delivered well, on time, and at a reasonable cost.
- We want a public service that works smarter. Technology, standardisation and simpler structures can lift productivity and service quality.
- We are resetting the size of the public service to where it has been historically – around 1% of the population. That means moving from about 63,700 public service roles (Dec 2025) to an in-principle target of below 55,000 by mid-2029. [33]
-
- Departments will be expected to deliver savings through a combination of workforce changes and broader efficiency improvements – including already identifying a 2% reduction in baseline through Budget 2026 followed by 5% in 2028 and another 5% in 2029.
- These settings reinforce the need to transform how work is done – not doing the same things with fewer people.
- Frontline services are the priority. The focus is on rebalancing growth in service-support roles and lifting productivity so resources can be targeted to delivery.
- We want to accelerate digital delivery so New Zealanders can interact with government more easily. A single "front door" with shared digital platforms will reduce duplication and make services more joined up.

- We will also streamline the structure of government over time. New Zealand has accumulated too many agencies, driving more complexity and overheads. The Government expects there to be fewer agencies over the next 3-5 years.

- The changes are about delivering services to New Zealanders, it's not about public servants. Public servants work hard and do an excellent job in difficult circumstances. This reform is about how the system works – not the commitment of the people within it.

- This is a system transformation – not a short-term savings exercise – and it will be delivered in partnership with the Public Service Commissioner and agency chief executives.

Annex B: Talking points for the Minister of Finance

Transformation is required to support a fiscally sustainable public service

- New Zealand households and businesses are tightening their belts and the public service needs to do the same.
- Moody's recent decision to revise New Zealand's AAA outlook from stable to negative is further confirmation of the importance of prudent fiscal management and fiscal consolidation.
- As the Prime Minister has outlined, we are taking a disciplined, multi-year approach to reducing Government expenditure.
- We are ambitious in our goal to improve the performance of public services while driving down the costs of delivering them.
- This Government has pursued a balanced fiscal strategy over the past two years. We have lifted investment in frontline services while also charting a credible path back to surplus

We have agreed to baseline reductions for the next three years

- This is why we're announcing that Budget 2026 will deliver baseline reductions over the next three years.
- This will involve selected agencies delivering savings equal to 2% of their eligible baseline by 2027 followed by a further 5% in each of the subsequent two years.
- This means a cumulative 12% reduction by 2029. These baseline reductions will apply to a subset of selected agencies; however, frontline services remain a priority, which is why core education, health, and law and order agencies are not currently in scope.
- We're asking agencies to focus reductions on areas where they can improve efficiency, capability and value for money.
- This will build on the $43 billion of savings across the last two Budgets.

Baseline reductions will lock in the productivity gains from transformation

- Agencies will be expected to meet their baseline reduction targets by lowering their personnel costs as we manage down the number of public service employees over time.
- This means baseline reductions will support public service transformation by locking in the productivity benefits of reform and assist with the return to surplus.
- Agencies that are excluded from the baseline reduction exercise will still be expected to manage down the number of their employees. This is important to ensure we reap the productivity benefits of transformation. Savings are to be reinvested in critical frontline services, like health, education, and law and order.

- We are not looking to make quick savings or cut back services. The baseline reductions are a mechanism to drive enduring improvements to the effectiveness of public services.
- By delivering savings over multiple years, agencies will have time and flexibility to redesign how they operate to deliver the reforms set out by Minister Goldsmith.
- Taken together, reducing the size of the public service and reducing the size of agency baselines will enable us to realise the productivity benefits of transformation.

Alternative talking points excluding baseline reductions

Fiscal consolidation is needed to support public service transformation

- New Zealand households and businesses are tightening their belts and the public service needs to do the same.
- Moody's recent decision to revise New Zealand's AAA outlook from stable to negative is further confirmation of the importance of prudent fiscal management and fiscal consolidation.
- As the Prime Minister has outlined, we are taking a disciplined, multi-year approach to reducing Government expenditure.
- We are ambitious in our goal to improve the performance of public services while driving down the costs of delivering them.
- This Government has pursued a balanced fiscal strategy over the past two years. We have lifted investment in frontline services while also charting a credible path back to surplus
- ***Further savings will be needed to lock in the productivity gains of transformation***
- We have already made hard decisions to deliver $43 billion of savings across the last two Budgets. We need to build on this progress with further savings at Budget 2026.
- The public service will be expected to achieve further savings by lowering personnel costs as we manage down the number of public service employees over time.
- This means savings will support public service transformation by locking in the productivity benefits of reform.
- We will take a balanced approach and by continuing to invest in frontline services like health, education and law and order.
- We are not looking to make quick savings or cut back services. The baseline reductions are a mechanism to drive enduring improvements to the effectiveness of public services.
- By delivering savings over multiple years, agencies will have time and flexibility to redesign how they operate to deliver the reforms set out by Minister Goldsmith.
- Taken together, reducing the size of the public service and reducing the size of agency baselines will enable us to realise the productivity benefits of transformation.

Annex C: Questions and answers

1) Baseline reductions and public service transformation

How do the baseline reductions fit with transformation?

Public service transformation will generate fiscal savings which will contribute to achieving the required baseline reductions, including from the workforce reductions required by the target the Government has set. Workforce reductions will also occur in agencies outside the scope of the baseline reduction programme. These savings will be directed toward frontline service delivery or returned to the centre to support wider fiscal priorities.

Do you expect a significant portion of the baseline reductions will come from workforce reductions?

Workforce reductions will generate fiscal savings that will contribute to achieving baseline reductions. The amount of savings from workforce reductions will vary across agencies (for example, it will be a higher proportion for agencies with relatively high personnel costs) and will depend on the workforce decisions made by chief executives.

Should we expect sweeping cuts to public services?

This is not about cuts to services. The purpose of these reforms is to improve the quality and responsiveness of services to New Zealanders and to support the Government's fiscal objectives by ensuring the public service is more cost-effective. Transformation is necessary to drive improvements in the quality and productivity of the public service. Workforce reductions are important to realise the productivity and efficiency gains of transformation.

How will the 2%, 5% and 5% baseline reductions work across the next three Budgets?

The baseline reduction programme is being implemented as a phased, multi-year programme of work agreed through Budget 2026. It will apply as a 2% reduction from 2026/27, followed by a further 5% from 2027/28 and a final 5% from 2028/29. This will result in a total reduction of 12% from 2028/29 onwards.

Agencies have already submitted initiatives to meet the initial 2% reduction as part of Budget 2026, with further initiatives to meet the additional 5%+5% reductions to be developed and submitted at a later date. It is expected that the public service FTE cap will support agencies to deliver these reductions by reinforcing workforce discipline and prioritisation decisions.

Overall, this approach phases the reductions over three consecutive years, and emphasises a multi-year savings approach, with agency targets applied to an eligible baseline to support the Government's wider fiscal strategy.

How have eligible baselines been calculated?

Eligible baselines have been calculated by starting with agencies' existing operating funding and then applying a set of targeted exclusions to protect priority services, non-discretionary and demand-driven spending.

This ensures the reductions are focused on areas where agencies have greater flexibility to improve efficiency and redesign how they operate, rather than impacting frontline services or essential programmes.

Do these baseline reductions apply to all public service agencies?

No, the baseline reduction programme is aimed at agencies within scope of the exercise, with a defined set of inclusions, exclusions and special treatments. Around 21 Government Departments are included in this baseline reduction programme, and will be required to meet a target of credible and sustainable savings derived from an eligible base.

Are the baseline reductions cumulative or is each reduction based on 2025 baselines?

The reductions are designed to be cumulative in effect, with agencies expected to manage within progressively lower baselines over time.

This reflects the phased approach being agreed through Budget 2026, where reductions are applied across consecutive years rather than being recalculated from a single fixed baseline each time. As a result, each stage builds on the previous one, reinforcing a multi-year approach to reprioritisation and cost management.

How much money will the government save overall from these baseline reductions?

On current estimates, the baseline reduction programme is expected to deliver around $490 million average per annum.

The exact level of savings will depend on final decisions on scope, and design. However, the phased 2%, 5% and 5% approach is designed to deliver a sustained reduction in expenditure across the forecast period, contributing to the Government's broader fiscal strategy.

How will the savings from baseline reductions be utilised?

The savings are intended to help manage fiscal pressures and create room within tight Budget allowances. Budget allowances are a net concept, meaning savings in one area can offset higher spending elsewhere, and that future costs and pressures are expected to be met from Budget allowances or future savings. In other words, savings are not simply "banked", they are used to help fund priority spending, cost pressures, and the Government's fiscal strategy.

Are you using any future savings from the 10% reduction in outyears to fund Budget 2026?

Only to the extent those savings are realised within the forecast period and are available to offset decisions in Budget 2026. Savings can offset spending because allowances are a net concept, savings falling beyond the forecast period however, have not been used to offset spending within the Budget Allowance.

How will baselines be calculated for agencies that merge over the forecast period (E.g. HUD, MfE and MoT)?

Agencies will continue to deliver against their existing Budget 2026 baseline reduction targets. For merged entities, targets will be consolidated and reissued on a combined baseline, drawing on the savings commitments already identified (for example, those underpinning MCERT). The target framework then acts as the mechanism to ensure these savings are realised.

You've said the government will continue to focus on health, education, and law and order. Does that mean that these agencies (MoH, MoE, Police) are excluded from the baseline reductions? Can you confirm which agencies are in?

The baseline reduction programme applies to a targeted subset of agencies. We have excluded core frontline services in areas like health, education, and law and order to ensure we continue to support the Government's priorities.

Savings are instead focused on areas where agencies have greater flexibility to improve efficiency and redesign how they operate.

We will provide further detail on the agencies in scope as part of the Budget process.

2) FTE Targets

What is the expected fiscal impact of capping public service numbers?

It is too early to say what the fiscal impact will be as decisions about where the reductions will occur have yet to be made. We expect the reductions will result in fiscal savings that will contribute to agencies achieving their baseline reductions.

For agencies that are outside the scope of the baseline reductions, we will need to make decisions about whether their savings are returned to the centre or 'reinvested' into service delivery.

3) Economic impact

Wellington has ranked worst or second-worst in five of the last six quarters of ASB's Regional Economic Scoreboard. Have you modelled what the impact these cuts will have on the Wellington region's economy?

A precise number on the labour-market or Wellington-specific impact has not been completed, because that depends on agency decisions about how they manage within lower baselines. The expectation is that agencies will prioritise efficiencies and lower-priority spending, while protecting frontline delivery as much as possible.

While Wellington has the largest proportion of people working for the public service, 57.4% are based outside of Wellington[1].

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[1] Source: https://www.publicservice.govt.nz/data/workforce-data/public-sector-composition/regional-workforce

What impact will an overall 12% baseline reduction have on New Zealand's unemployment numbers?

The baseline reduction programme is designed to be delivered over multiple years, giving agencies time to manage changes in a planned and measured way.

While significant savings will come from reducing personnel costs, some agencies will find savings through improving efficiency, reducing non-labour costs, and redesigning how services are delivered.

Where workforce changes do occur, the impact on unemployment could be less direct than expected (i.e. this is not a one-for-one correlation). People may move into other roles, retire, retrain, or transition to opportunities in other sectors of the economy.

Overall, the approach is focused on gradual, managed change, rather than sudden reductions, to minimise disruption to both the labour market and the wider economy.

Isn't this just making the cost-of-living crisis worse for thousands of hard-working New Zealanders in the public service who will lose their jobs?

Losing a job is a tough experience for anyone. However, returning the public service to a sustainable size is an important part of New Zealand's long-term fiscal sustainability. A sustained structural deficit would ultimately impact far more people. Public servants tend to be educated and skilled and we expect they will transition into private sector or re-training opportunities.

What is the economic impact of reduced government spending from the baseline reductions?

Reducing government spending from baseline levels will generally result in a short-term reduction in aggregate demand / economic activity, lower interest rates, ease inflationary pressures, and improve the Government's fiscal position. The overall economic and fiscal impacts will depend on a number of different factors including the timing and scale of the spending reductions and the extent to which the private sector responds.

How will you ensure you are still getting support for the response to the Middle East situation if there are fewer public servants?

The public service transformation will ensure the Government is getting an effective, agile, and responsive public service to help respond to unexpected situations. This will require new ways of working and utilising the skills and technology we have available going forward. The in-principle FTE target is not required to be achieved until 2029, allowing time for CEs to make decisions on where opportunities are for efficiencies. I expect those efficiencies will focus on areas which can utilise digitisation.