



TE TAI ŌHANGA
THE TREASURY

Health system funding and the Budget process

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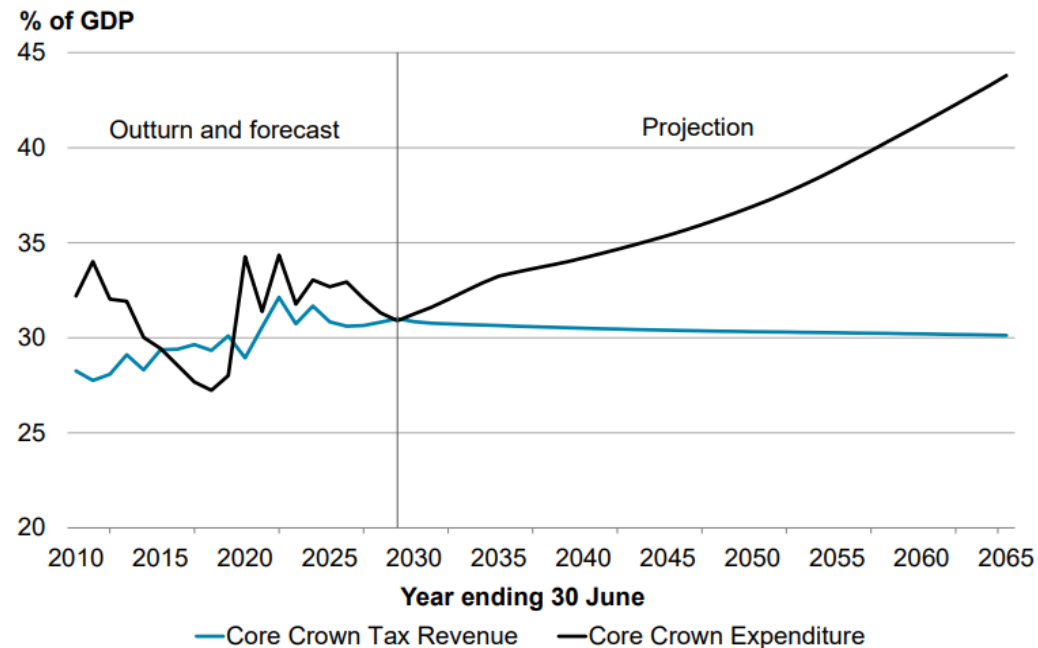
OCTOBER 2025

Treasury's role and context

We are the Government's lead economic and adviser, and steward of the public sector financial management systems. We provide advice to the Government on its overarching economic framework, on its fiscal strategy and on achieving value for money from its investments.

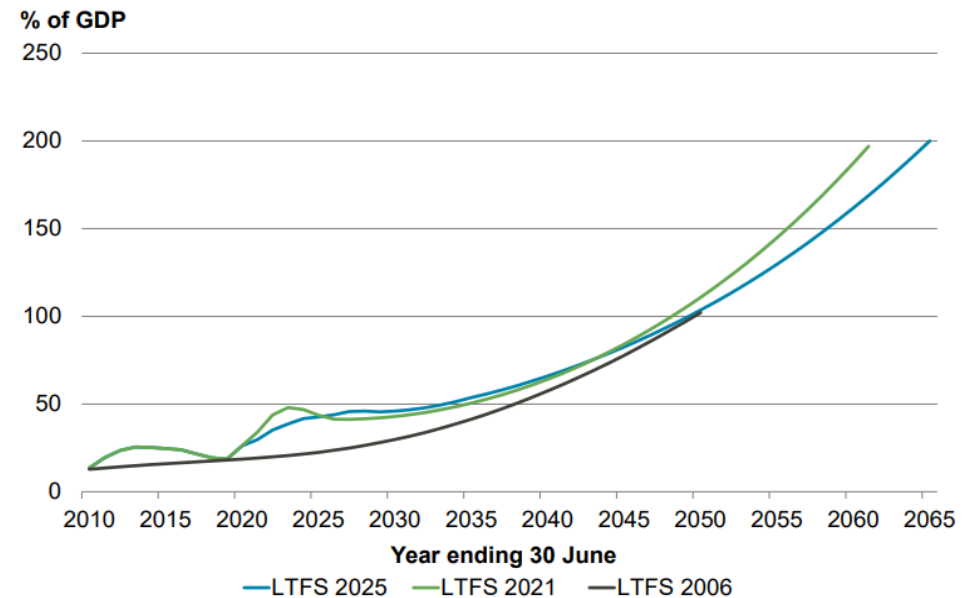
Treasury's 2025 Long Term Fiscal Projections - New Zealand's current policies are not sustainable for the long term. Our modelling projects what would happen if spending and revenue policies were left unchanged until 2065.

Projections of core Crown revenue and expenditure
(assuming no change to fiscal policy)



Source: LTFM, The Treasury

Net core Crown debt projections
(assuming no change to fiscal policy)



Note: This measure of net core Crown debt excludes NZSF and advances.

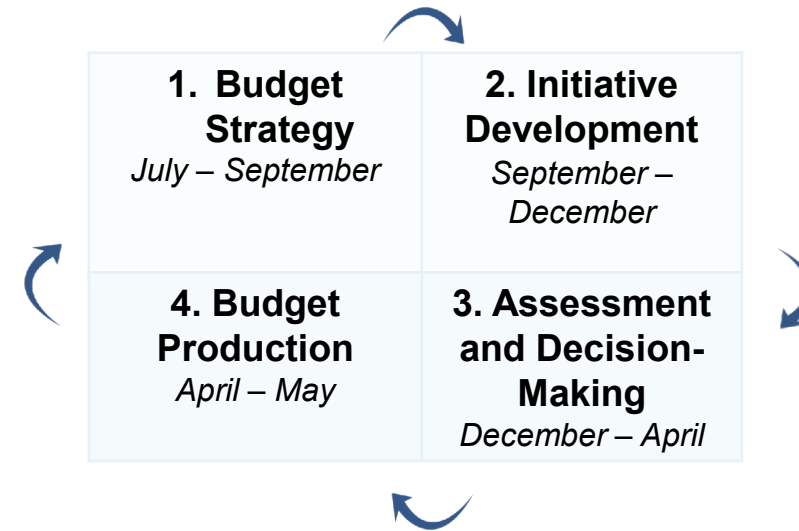
Source: LTFM, The Treasury

The Budget process

We help Ministers develop the Budget strategy cabinet paper, which sets out the Government's fiscal strategy, expectations and requirements for the upcoming Budget.

It guides prioritisation and decision-making and covers:

- **Economic and fiscal context:** highlights the Government's fiscal strategy/allowances and therefore helps to set the key fiscal parameters for the upcoming Budget.
- **Government's wellbeing priorities:** key areas that the Government wants to focus on.
- **Upcoming pressures:** overview of what Ministers can expect to come through in terms of cost pressures and the available headroom for discretionary spending.
- **Expectations and requirements for agencies:** covers scope for Budget, expectations on quality of initiatives, etc.
- **Timeframes:** key dates.



Treasury assesses all Budget initiatives and supports Budget Ministers in developing a Budget package that meets the Government's priorities and is consistent with its fiscal strategy/targets.

What does this involve?

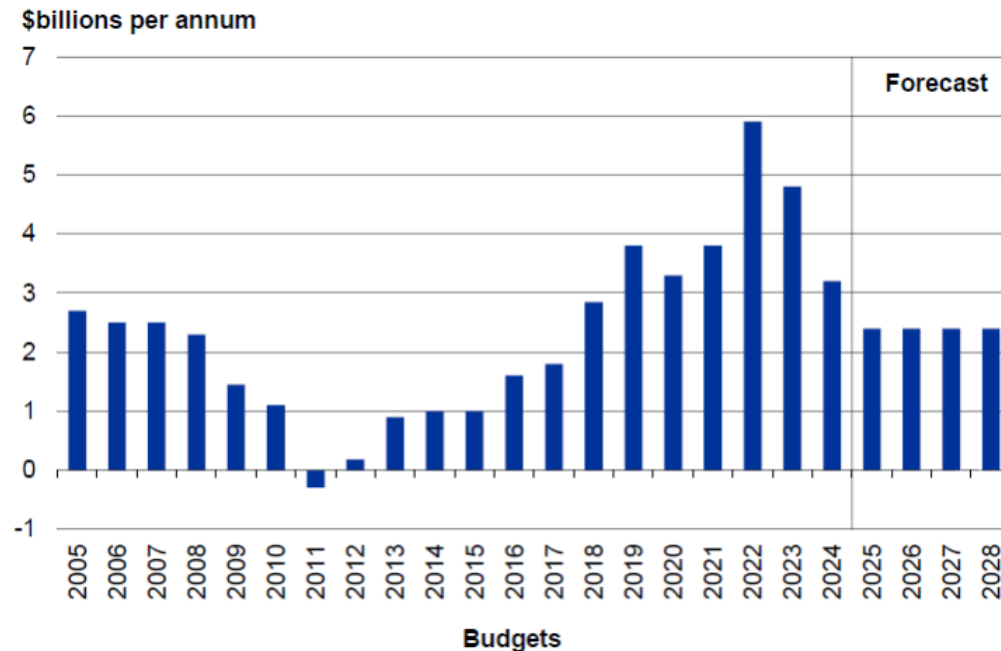
- Individual Budget initiative assessments (and advice on these initiatives as they go through the decision-making process);
- Moderation (to ensure consistency across the board)
- Package development; and
- Providing advice to Budget Ministers.

Budget allowances

- The operating and capital “allowances” are the pools of new operating and capital funding available for allocation at each Budget for spending initiatives. They are set in advance of Budget in accordance with the Government’s fiscal strategy. They are a fiscal management tool that forms a self-imposed cap on expenditure growth, as almost all new expenditure gets funded from the Budget allowances.
- Allowances are generally oversubscribed because baselines do not automatically adjust for cost drivers, such as inflation or increasing demands for services due to demographic changes (e.g., health, housing, and education).
- The operating allowances for Budgets 2026, 2027 and 2028 are **\$2.4 billion per annum** (BEFU 2025). These are tight allowances, particularly compared to those in recent years.

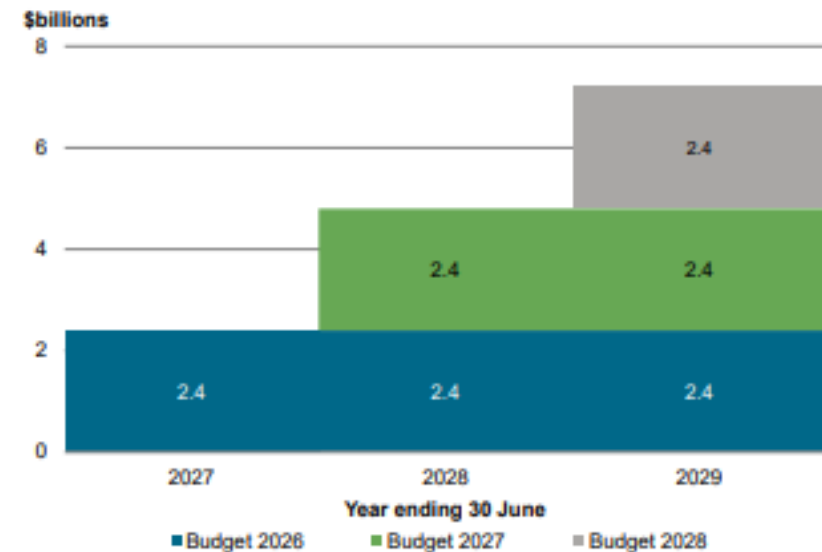
Budget operating allowances

A historic view - Budgets 2005 - 2028



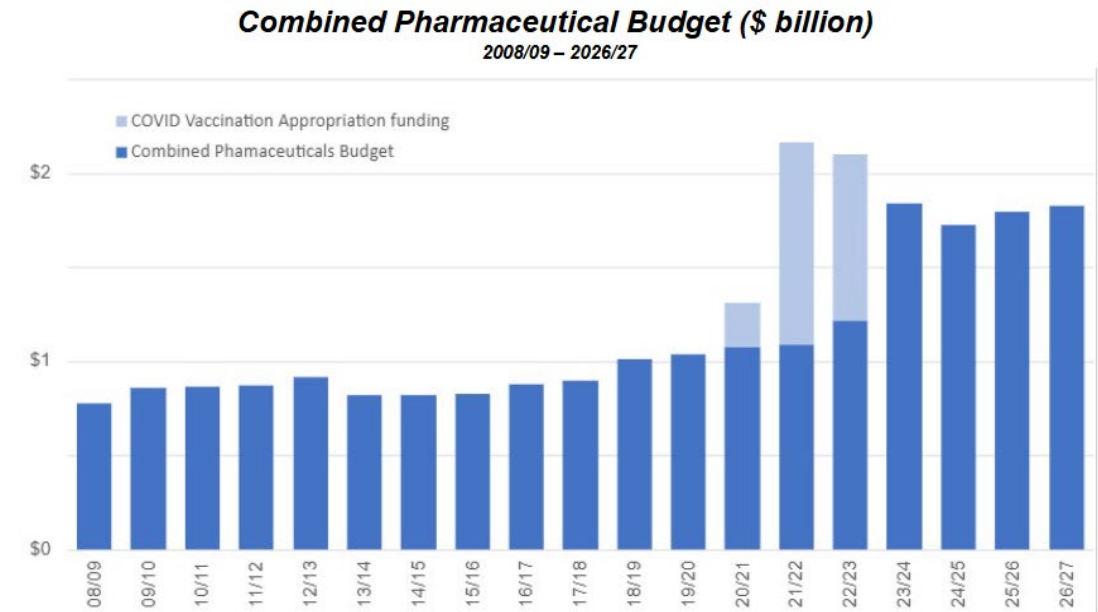
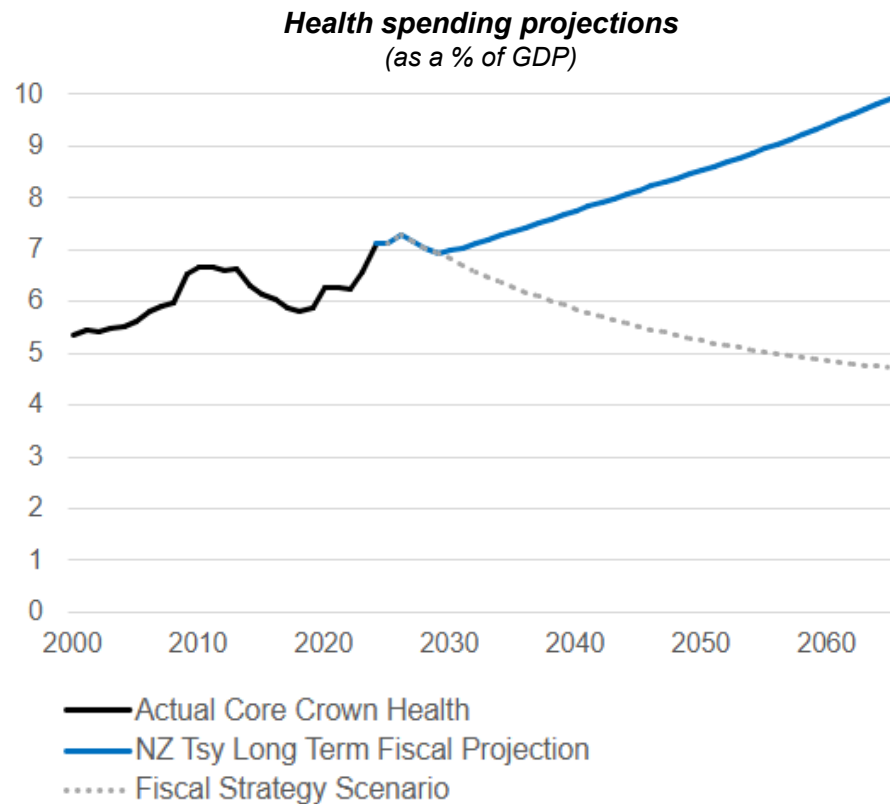
Budget operating allowances

Budgets 2026 - 2028



Health spending context

- While there is uncertainty on the exact steepness of future health cost growth, nearly all international institutions **are projecting health spend to grow faster than GDP**. This reflects:
 - **Demographic change** (including population ageing).
 - Population health – the **rising prevalence of chronic conditions**(physical and mental) add to costs.
 - Health productivity grows slower than economy wide productivity, **but we must keep pace on wages to retain staff**, growing costs relative to outputs.
 - **As we get richer, we want (and governments prioritise) better health services** (more pharmaceuticals, better treatments, etc).



Note these figures are from the Supplementary Estimates up until 2024/25, 2025/26, and 2026/27 as at the Budget Economic and Fiscal Update 2025