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## Identified risks in the Budget Economic and Fiscal Update 2026

Treasury identifies risks to the Economic and Fiscal Forecasts in the [Budget Economic and Fiscal Update 2026](#) and [supplementary information](#). We've pulled out the content of interest to local government.

### New risks relevant to local government

- Potential Changes to Planned Increases to Fuel Excise Duty and Road User Charges. The fiscal forecasts include planned increases to the Fuel Excise Duty and Road User Charges as outlined in the Government Policy Statement on land transport 2024, which has been agreed by Cabinet. Since then, Ministers have indicated the planned 12 cent per litre increase from 1 January 2027 may not go ahead or could be deferred given the Middle East conflict. If confirmed, the fiscal impact of this would depend on the duration and scale of any deferral and would affect the funding available for transport projects funded through the National Land Transport Fund
- Going for Housing Growth – Incentives for Communities and Councils to Support Growth. The Government is progressing work to establish a new system of council incentives to support housing growth. Budget 2026 provided funding of \$100 million per annum, subject to final policy design. Depending on the final design of the scheme, there is a risk that the costs could differ from the funding allocated.
- City and Regional Deals. The Government has announced establishing City and Regional Deals between central and local government to identify funding and other opportunities to support councils to make improvements in their region such as roads, infrastructure and the supply of quality housing. There are a number of deals in various stages, and Crown funding could be required to deliver on the commitments as outlined in each deal.

### Unchanged risks relevant to local government

- Additional transport investments. The Government has signalled transport investments additional to what has already been supported through the Government Policy Statement (GPS) on land transport 2024. These investments are largely unfunded, and some of these may fall outside the scope of the National Land Transport Fund (NLTF) or are only expected to be partially funded by the NLTF. Where some funding has been provided through the NLTF, this has only been committed for the first three years that the GPS and the latest National Land Transport Programme covers (2024/25 to 2026/27), but additional investment will likely be required to complete these projects as work will extend beyond 2026/27. If the Government chooses to progress these

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investments, additional Crown funding, increases to land transport revenue or new revenue sources may be required. Additional investment priorities include the Roads of National Significance programme, the Auckland – Waitematā Harbour Crossing (an indicative business case is under development), Better Public Transport, an additional Mount Victoria tunnel and residual rail projects from the former New Zealand Upgrade Programme. Many of these costs fall outside the forecast period. There are additional pressures on existing transport projects such as City Rail Link that may result in increased cost escalation.

- **Roads of Regional Significance.** The Government Policy Statement on land transport 2024 (GPS) sets out a series of strategically important projects for New Zealand’s transport system called the Roads of Regional Significance. Although referenced in the GPS, these projects are currently funded outside of the National Land Transport Fund. With cost increases, and some projects still in the pre-implementation or implementation phase, there is a risk that current funding is insufficient to complete these projects to the agreed expectations.
- **Cook Strait Ferry Replacement and Enabling Infrastructure.** The Government has announced a programme to replace the current Interislander ferry fleet and deliver enabling infrastructure. Funding has been set aside and reflected in the fiscal forecasts for this programme. However, there remains a risk that the timing, nature and costs of the programme may differ to what has been reflected in the fiscal forecasts.
- **Achieving New Zealand’s International and Domestic Climate Change Targets.** The Climate Change Response (Zero Carbon) Amendment Act 2019 sets domestic greenhouse gas targets for New Zealand. It also requires the Government to set and achieve emissions budgets, with the first three emissions budgets covering 2022 to 2035. The Government released its second emissions reduction plan in December 2024, which outlines policies and strategies to achieve these emissions budgets. Many of these policies do not require additional funding. However, if policies require new funding from the Government, this will have an impact on the operating balance and net core Crown debt. New Zealand also has international obligations under the Paris Agreement, including relating to our first and second Nationally Determined Contributions (NDCs), which cover the periods 2021 to 2030 (NDC1) and 2031 to 2035 (NDC2) respectively. NDCs are countries’ self-determined plans detailing what they will do to reduce their emissions in support of the international goal of limiting global warming to 1.5°C. Sizeable offshore abatement would be needed to meet NDC1 on top of domestic commitments without other interventions. While the Government has choices about how it achieves NDC1, it is likely that meeting this target would involve significant costs, starting within the current fiscal forecast period. The Government set a target range for the NDC2 in 2025. The lower end of the target range for NDC2 closely aligns with the reductions required to meet the third domestic emissions budget (2031 to 2035), making it more likely that NDC2 could be met entirely domestically. If offshore mitigation abatement were also purchased towards NDC2, it is unlikely that these costs would start within the forecast period.
- **Response to the Report of the Government Inquiry into the Response to the North Island Severe Weather Events.** On 10 October 2024, the Government released its response to the Report of the Government Inquiry into the Response to the North Island Severe

Weather Events, agreeing to its 14 headline recommendations. The level of new funding required to implement the recommendations will be subject to future decisions.

- Science, innovation, and technology system reform. The Government has agreed to progress a set of reforms to the science, innovation and technology system, primarily involving organisational changes assumed to have no fiscal impacts. While new organisations and decision-making bodies have been established, further decisions are required, including in relation to the future of the Gracefield Innovation Quarter. There is a risk that there may be a fiscal impact based on these decisions.