

# 1. BUDGET OVERVIEW

## 1.1 Prioritising essential services and support for families

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The 2023-24 Budget sets out the Government's approach to delivering its commitments to the people of New South Wales, including making the first steps towards repairing the Budget to a more sustainable footing. This Budget also begins the task of addressing a number of inherited challenges.

High inflation and increased cost-of-living pressures have moderated economic growth in New South Wales over recent quarters, driven by a slowdown in household consumption. The labour market has been the key to the resilience in the NSW economy. Employment has risen sharply over the last year, with participation reaching a record level in late 2022.

Alongside economic challenges, prolonged high levels of spending, gaps in funding for some essential services and constrained wages growth have placed the NSW Budget in an unsustainable position. Without targeted and disciplined intervention, these challenges would have eventually impacted both the quality and breadth of services the State is able to deliver to the people of New South Wales.

Following careful review of the State's expenditure (see Box 1.1), the Government has taken necessary action to reprioritise funding towards policies that address our key priorities of rebuilding essential services and supporting families with cost-of-living pressures.

The Government will improve public services and support higher wages for public sector workers, including nurses, teachers and child protection workers. The Government will also establish a new approach to bargaining, that is supported by the establishment of a new \$3.6 billion Essential Services Fund.

Health, education and world class infrastructure are also a focus of this Budget. Investing in quality health services, improving educational outcomes and delivering the State's essential infrastructure needs are key priorities for the Government.

The Government is also supporting families with the rising cost of living. This Budget delivers a range of initiatives aimed at addressing housing affordability, rising energy costs, transport and road tolling, as well as childcare costs and placements.

The Faster Planning Program accompanied by a \$2.2 billion investment in new housing and infrastructure will begin to address housing supply. Energy bill relief will support eligible households and businesses struggling with rising costs.

Relative to the 2023 Pre-election Budget Update, the 2023-24 Budget projects improvements to the State's budget result from 2024-25 onwards. Gross debt is projected to be \$173.4 billion by June 2026, which is \$14.8 billion below the 2023 Pre-election Budget Update. Net debt is now projected to peak at 12.6 per cent of gross state product (GSP) by June 2027, around 1.4 per cent lower than at the 2023 Pre-election Budget Update.

**Box 1.1: Responsible and transparent financial management – Expenditure and infrastructure reviews**

The Government has undertaken careful review of the State's expenditure.

**Comprehensive Expenditure Review**

The Comprehensive Expenditure Review, under the guidance of the Treasurer and Minister for Finance, was tasked with identifying budget savings and reform proposals. The ongoing Review aims to balance the current and future needs of the people of New South Wales with the current fiscal and structural pressures facing the Budget.

The Review supports the task of moving to a more sustainable level of debt, while also providing capacity for the Government to deliver its priorities and manage risks and pressures.

The initial phase of the review has returned savings to the budget and redirected funding to other essential programs and services for the community.

Refer to Box 5.1 in Chapter 5 Expenditure for further detail on this Review.

**Strategic Infrastructure Review**

The Strategic Infrastructure Review was initiated by the Government to support a more sustainable infrastructure program for the State. The Review identified opportunities for savings to the Budget by identifying those projects that should no longer proceed, be delayed or de-scoped.

Refer to Box 3.2 in Chapter 3 Fiscal Strategy and Outlook, or Budget Paper No. 3 *Infrastructure Statement* for further information on the Review.

## 1.2 Economic outlook

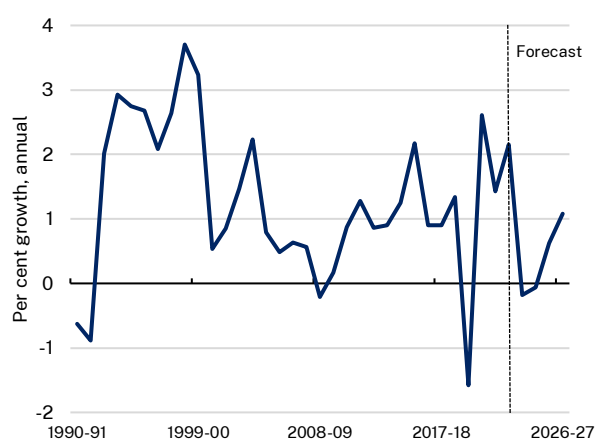
Domestic and global economic growth rebounded more strongly from the COVID pandemic than expected. By contrast, global supply chains took longer to recover. The strain that high demand put on supply chains, alongside the disruptions to energy and food markets caused by Russia's invasion of Ukraine, drove inflation to multi-decade highs in many countries.

Central banks across most major advanced economies, including Australia, have responded by raising interest rates sharply to ensure inflation returns to more acceptable levels. This rapid increase in interest rates, combined with elevated cost-of-living pressures, has contributed to a recent moderation in economic growth across developed economies.

Notwithstanding this slowing in activity, business conditions have been supported by strong sales and sustained profitability. Against this backdrop, business investment has also remained solid given historically high levels of capacity utilisation. In addition, firms have continued to fill job vacancies that emerged during the pandemic as population growth was constrained by the closure of international borders.

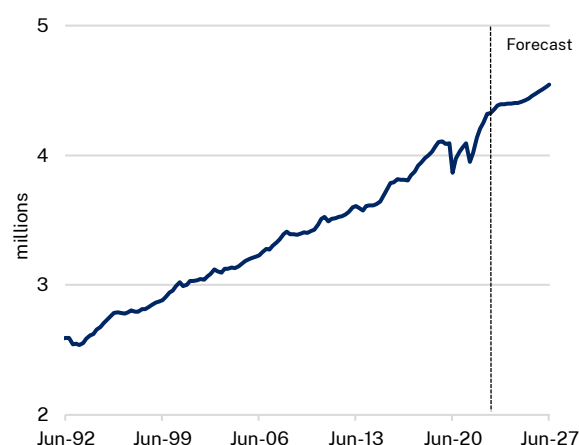
As a result, the labour market in Australia and New South Wales has remained strong. NSW employment has risen sharply over the last twelve months and is 7.0 per cent higher in August 2023 compared to pre-pandemic levels in February 2020. The unemployment rate consequently fell to a new monthly low of 2.9 per cent in June 2023, but has risen in recent months.

Chart 1.1: NSW Real GSP per capita



Source: ABS and NSW Treasury

Chart 1.2: NSW Employment



Over the projection period, NSW economic growth is expected to slow as high inflation and interest rates continue to negatively impact households.

This slowdown in economic growth would be more pronounced if not for the strength in population growth. This is expected to impact the housing market, in terms of both prices and construction activity, as well as business investment. Planned investment in renewable energy is also expected to support the economy.

This strong population growth masks a more significant slowing of the economy on a per capita basis. Per capita GSP is expected to be broadly flat over the next two years. This is the weakest result, excluding the pandemic, since the global financial crisis.

The labour market is also expected to provide some support, with employment to remain at its current elevated level despite softer growth in activity. While employment will remain stable, the unemployment rate is estimated to steadily rise to a peak of around 4¾ per cent in early 2025. This is above the rate NSW Treasury considers is consistent with inflation being steady, often referred to as 'full employment' (around 4 per cent). While the increase in unemployment from its current low level is significant, by historical standards the forecast peak for the unemployment rate remains relatively low.

The combination of the normalisation of global supply chains, easing commodity prices and the impact of higher interest rates on economic activity, is expected to see inflation continue to slow. However, the lagged impact of low unemployment on wages is expected to delay the return of inflation back to the Reserve Bank of Australia's target.

The challenge going forward for governments, including New South Wales, is to manage short term economic challenges, such as cost of living pressures, while supporting long term drivers of growth. The provision of quality services, including health and education, alongside early childhood education and care, are vital in supporting participation in the workforce and boosting the productive capacity of the people of New South Wales. The implication of a warming climate is another key structural determinant of long run economic growth.

Economic risks remain unusually elevated, as outlined in detail in Chapter 2 The Economy. The main risks are centred around uncertainty of the outlook for inflation, the lagged impact of the sharp rise in interest rates and the outlook for the Chinese economy.

### 1.3 Fiscal outlook

In recent years, the State's fiscal position has weakened.

Growth in the State's expenses have far outpaced revenues, with expense growth peaking in 2021-22 at 25.0 per cent. This is primarily driven by elevated levels of expenses, including both the provision of support to households and businesses through COVID and natural disasters, but also substantial levels of new policy spending, totalling over \$460 billion across the four years to 2025-26.

The State's infrastructure program continued to expand, even with high inflation driving up input prices and the labour market highly constrained. This has stretched the State's balance sheet, and higher debt has driven up interest expenses.

Relative to the 2023 Pre-election Budget Update, gross debt was expected to increase to \$188.2 billion by June 2026 to fund infrastructure and invest in financial assets through the NSW Generations Fund (NGF), despite rising interest rates. This would have resulted in interest expenses of \$7.0 billion by 2025-26 and net debt peaking at 14.0 per cent of GSP in June 2026.

High levels of spending left limited buffers to support the State in the event of a future shock, with the NGF returns and the accounting treatment of rail spend through Transport Asset Holding Entity (TAHE) masking an ongoing underlying budget result deficit.

The 2023-24 Budget begins the task of restoring the State's fiscal position, while providing for the delivery of the Government's election commitments, targeted cost of living relief and bolstering essential services, transitioning the State to more responsible and transparent financial management.

Table 1.1: Key Budget aggregates for the general government sector

	2021-22 Actual	2022-23 Est. Actual	2023-24 Budget	2024-25	2025-26	2026-27
				Forward Estimates		
Budget Result (\$m)	(15,329)	(10,104)	(7,847)	844	1,582	1,508
Per cent of GSP	(2.2)	(1.3)	(1.0)	0.1	0.2	0.2
Underlying Budget Result (\$m) (without net impact of NGF investment returns)	(15,329)	(10,060)	(8,596)	(53)	454	123
Per cent of GSP	(2.2)	(1.3)	(1.1)	...	...	...
Capital expenditure (\$m)	20,600	21,746	22,227	22,973	20,456	19,919
Per cent of GSP	3.0	2.8	2.8	2.8	2.4	2.2
Net debt (\$m)	55,781	74,873	92,624	100,974	107,815	113,571
Per cent of GSP	8	9.8	11.7	12.3	12.6	12.6
Gross debt (\$m)	108,352	132,914	145,789	159,510	173,373	186,688
Per cent of GSP	15.5	17.3	18.4	19.4	20.2	20.7
Interest expense (\$m)	2,527	4,230	5,501	5,900	6,309	6,978
Per cent of Revenue	2.4	4	5	5	5.3	5.7

The Government is committed to improved financial management in New South Wales, and has adopted two key fiscal principles:

- returning to, and then maintaining, a sustainable operating position
- stabilising and then maintaining a sustainable debt position.

Facing the challenges of high inflation and increasing gross debt, the Government is taking the first steps to ensure that recent deficits do not become entrenched.

The Government has carefully reviewed spending through a Comprehensive Expenditure Review which has identified \$13 billion of budget improvement and reprioritisation measures, with work to continue to reduce pressure on future budgets.

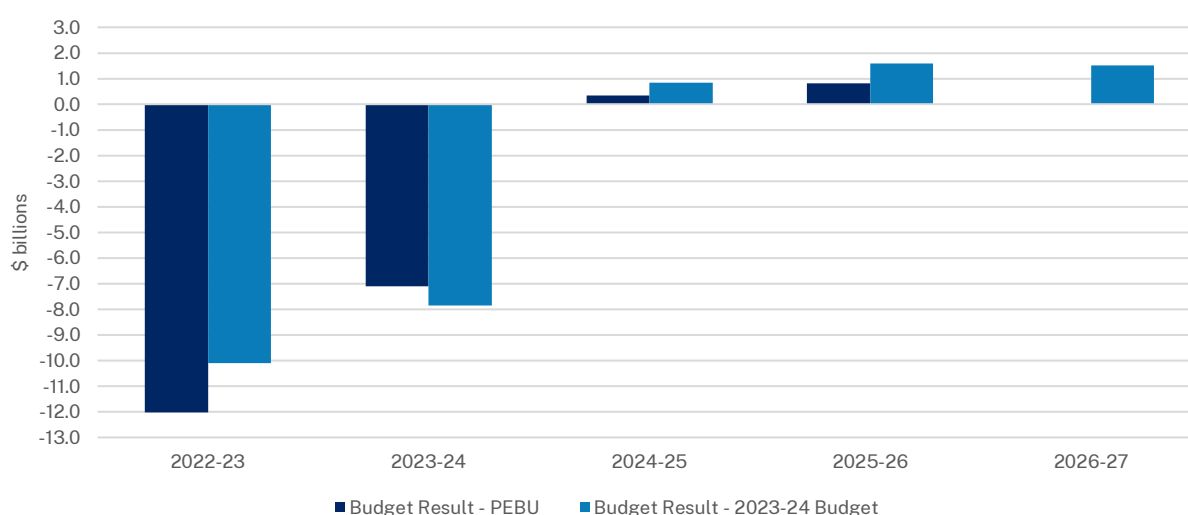
Additionally, the Strategic Infrastructure Review has identified opportunities for savings to the Budget by recommending those projects that should no longer proceed, be delayed or de-scoped. See Box 3.2 in Chapter 3 Fiscal Strategy and Outlook for more information.

The 2023-24 Budget provides for a \$116.5 billion investment in public infrastructure over four years that is less reliant on debt funding than at the 2023 Pre-election Budget Update.

The 2023-24 Budget projects a deficit of \$7.8 billion in 2023-24, and then improved surpluses in every year thereafter, reaching \$1.5 billion in 2026-27 (see Chart 1.3). This improvement in the projected surpluses is supported by the Government letting some of the revenue improvement since the 2023 Pre-election Budget Update flow through to the State's bottom line, helping rebuild the State's fiscal buffers.

Since the 2023 Pre-election Budget Update, state taxation revenue is forecast to increase by \$17.6 billion over the four years to 2026-27, supported by stronger transfer duty, land tax and payroll receipts.

Chart 1.3: NSW Budget result: 2023 Pre-election Budget Update compared to the 2023-24 Budget



This Budget also takes a responsible approach to the management of the State's assets and liabilities, including more efficient approaches to managing State funds such as the NGF.

Following an inquiry by the NSW Parliament's Standing Committee on State Development, the Government will temporarily suspend contributions in 2023-24 to the NGF, reducing the State's gross debt by \$7.7 billion in the interim. Contributions are budgeted to recommence from 2024-25 to 2026-27, pending further government decisions.

General government gross debt is projected to improve in every year relative to the 2023 Pre-election Budget Update, reaching \$186.7 billion by June 2027. This improvement is primarily driven by a temporary suspension of the contributions into the NGF and the restructuring of TAHE from a commercial to a non-commercial operating model.

The Government is also providing a more transparent account of the impact of the NGF on the State's operating position. For the first time, the Budget reports the general government budget result with and without the net impact of the NGF (see Chapter 3 Fiscal Outlook for more information).

In 2022, the State's triple-A credit ratings were reaffirmed by Moody's and Fitch ratings (in September 2022 and November 2022 respectively). S&P Global reaffirmed the State's double-A plus credit rating in October 2022. The State's credit rating helps to limit the cost of debt funding and maintain investor confidence in the State's bonds.

**Box 1.2: Performance reporting framework**

The 2023-24 Budget adopts a transitional approach to performance reporting. In future, the Government will move towards a broader set of performance measures that highlight how Government decisions have impacted New South Wales residents' wellbeing across a range of economic, environmental, and social domains.

In the interim, this Budget provides performance and wellbeing information in key service delivery areas against selected measures, with a spotlight on wellbeing in housing and energy. For further information on performance against key service delivery areas, see Budget Paper No.2 *Agency Financial Statements*.

## 1.4 Budget priorities

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The Government will deliver on its commitments to the people of New South Wales despite the challenging fiscal outlook.

### Rebuilding essential services

This Budget begins the task of rebuilding essential services, supporting essential workers and addressing critical staff vacancies with a new approach to engaging the public sector workforce.

### Recognising and rewarding essential workers

This Budget includes a range of policies as the first step towards recognising our essential workers and rebuilding high quality services, through:

- removing the wages cap to retain and recruit staff
- increasing public sector pay by 4.5 per cent (including 0.5 per cent superannuation) in 2023-24 for over 400,000 public sector workers
- addressing the teacher shortage crisis by recruiting and retaining high quality teachers through a historic pay rise
- delivering the largest wage increase for healthcare workers in over a decade
- development of a new interest-based bargaining framework.

This is the beginning of a long-term plan to support higher wages and rebuild essential services in New South Wales.

### Essential Services Fund and Industrial Relations Taskforce

The NSW Government will establish a new \$3.6 billion Essential Services Fund to enable the Government to improve services by negotiating workplace changes.

The Industrial Relations Taskforce, led by former Deputy President of the Fair Work Commission, Anna Booth, and former President of the Industrial Relations Commission, Roger Boland has been established to fulfil the NSW Government's commitment to a new cooperative interest-based approach to bargaining.

This approach aims to address critical vacancies across the public sector by collaborating with the State's workforce and delivering long-term wage growth.



Rebuilding the State's essential services requires a combination of wage growth and service delivery improvements. The Essential Services Fund reinforces the NSW Government's commitment to a new bargaining approach by setting aside the funds to support public service improvements and deliver higher wages for thousands of our essential workers.

### Rebuilding essential health services

To improve access and delivery of key essential services to the people of New South Wales, the Government is investing more than \$2.5 billion to recruit and retain healthcare workers and improve access to health services with a significant investment of \$13.8 billion in health facilities. Key health initiatives include:

- an additional 1,200 nurses and midwives employed by 2025-26 to implement safe staffing levels in our public hospitals (\$419.1 million)
- converting 1,112 full-time equivalent nurses and midwives, which positions were funded temporarily to June 2024, to permanent (\$572.3 million)
- increasing the number of regional and rural paramedics by 500 at a cost of \$438.6 million over four years to address paramedic fatigue and improve wellbeing
- providing 12,000 healthcare students with study subsidies. New students will receive scholarships of \$4,000 per year. Existing students will receive one-off payments of \$8,000 at a cost of \$121.9 million over five years
- delivering a boost to take home pay for more than 50,000 healthcare workers through increased salary packaging benefits (\$170.8 million)
- improving a range of health facilities, including expanding Blacktown and Mount Druitt Hospital (\$120.0 million), expanding Canterbury Hospital and upgrading existing infrastructure (\$350.0 million) and expanding Fairfield Hospital to deliver more beds and increase capacity (\$550.0 million). The Rouse Hill Hospital development will be more than doubled rising from \$300.0 million to \$700.0 million.

### Better education and schools

The 2023-24 Budget allocates the largest education investment in a decade, across initiatives to ensure children have strong educational foundations to equip them for entry into the workforce and providing them with the skills to meet a changing economy.

An Education Future Fund delivers new programs such as:

- permanent literacy and numeracy tutoring programs in primary and secondary schools at a cost of \$278.4 million over four years
- converting 10,000 temporary teaching positions and 6,000 school administrative staff into permanent positions
- attracting the best and brightest teachers through the Innovative Teacher Training Fund with an investment boost of \$20 million.

The Government is also investing \$9.8 billion over the next four years to provide for the growing needs of communities, including:

- \$3.5 billion over four years for 24 new and 51 upgraded primary and high schools in Western Sydney
- \$1.4 billion over four years for 19 new and 35 upgraded schools in regional New South Wales
- a plan to deliver new and upgraded schools in fast growing areas.

## Delivering the Essential Transport Infrastructure Plan without privatisation

The Government is committed to delivering high quality transport and roads infrastructure projects across the State that help improve connectivity and reduce the time people spend in traffic. This Budget invests \$72.3 billion in transport infrastructure, including:

- investing an additional \$1.0 billion to rescue the Sydney Metro City and Southwest project
- \$302.7 million reserved for the Western Sydney Rapid Bus network to ensure the Penrith, Liverpool, and Campbelltown communities and the future Western Sydney International Airport are connected
- \$200.0 million reserved to expedite the planning for procurement, construction and delivery of the Parramatta Light Rail Stage 2 for Western Sydney
- improving accessibility through upgrading train stations and car parks, including installation of new lifts, ramps and footbridges (\$300.0 million).

The Budget also makes significant investments in important road infrastructure across the State, including:

- \$2.4 billion for Western Sydney roads to address population and employment growth
- establishment of the Urban Roads Fund with a commitment of \$770.0 million, to build major roads in metro areas including improvements to key corridors in Heathcote, Riverstone, and a range of road projects
- a new \$390.0 million Regional Emergency Road Repair Fund to assist regional councils in repairing roads damaged by recent weather events and natural disasters
- a new \$334.0 million Regional Roads Fund which will be used to build new roads in rural and regional areas.

## Protection and disaster relief

The State has been impacted by a range of natural disasters since 2019, including floods and fires across parts of regional New South Wales. In response, the Government is committed to rebuilding these affected communities and preparing infrastructure and services in the event of future disasters, through the recently established NSW Reconstruction Authority.

Natural disaster and response measures supported in this Budget include:

- \$3.2 billion (\$3.1 billion recurrent expenses and \$120.0 million capital expenses) for disaster relief and recovery programs, which is eligible for co-contribution from the Australian Government under the Disaster Recovery Funding Arrangements
- \$299.3 million to restore damaged State roads
- \$128.3 million to repair critical water and sewerage infrastructure damaged by flood events
- \$58.0 million for flood recovery support, including the Back Home Program
- \$3.3 million for a natural disaster detection system to better protect communities in high-risk areas.

The Government is also investing in critical infrastructure and services aimed at protecting communities and keeping citizens safe, through initiatives such as:

- upgrading fire stations at Sutherland, Engadine, Helensburgh, Thirroul and Coledale
- increasing policing numbers in Murwillumbah to provide 24/7 policing and community safety (\$6.9 million)
- 20 new police officers in Western Sydney to keep the community safe
- enhancing the State's Forensic Analytical Science Service (\$12.0 million).



## Providing relief to household budgets

This Budget will deliver cost-of living-support to the people of New South Wales to ensure everyone can access essential services, without adding inflationary pressures on the State's fiscal position. These targeted cost-of-living measures complement the other support provided to households, businesses and organisations via tax exemptions and concessions. Refer to Appendix A2 Tax Expenditure and Concessional Charges Statement for further detail on these measures.

This Budget bolsters existing support measures with a range of new and expanded measures, including those detailed below.

## Confronting the housing crisis

The Faster Planning Program, Essential Housing package, and \$2.2 billion Housing and Infrastructure Plan will begin to address the historic neglect of new housing supply.

Homes NSW will be established to deliver better outcomes for public and social housing tenants, deliver more affordable and social housing and reduce the number of homeless people in New South Wales.

Additionally, the NSW Rental Commissioner, will work with Government to design and implement changes to make renting in New South Wales fairer, more affordable and more secure.

Measures aimed at improving housing affordability and availability as well as improving access to home ownership include:

- the \$224.0 million Essential Housing Package which will, among other things, accelerate the delivery of social, affordable and private homes, continue to provide housing services for Aboriginal and Torres Strait Islander families, support critical social housing maintenance and provide homelessness support measures
- permanently expanding the number of social housing dwelling by around 1,500 through the \$610.1 million Commonwealth Social Housing Accelerator program
- \$300.0 million in reinvested dividends to enable Landcom to deliver an additional 1,409 affordable homes and 3,288 market homes to 2039-40.

## Energy relief and investment

The NSW Government is ensuring a secure supply of clean, affordable electricity for New South Wales with a long-term energy investment plan and immediate energy bill relief for families.

In partnership with the Australian Government, the National Energy Bill Relief payment is supporting New South Wales citizens.

- 1.6 million vulnerable New South Wales households, pensioners, veterans, self-funded retirees and families will be eligible for up to \$500 towards their electricity bill.
- over 300,000 businesses using less than 100 megawatt hours of electricity will be eligible for payments of up to \$650.
- Energy bill relief will be extended from 1 July 2024 to support low income and vulnerable households with the cost of living, with a major expansion of energy rebate schemes, including:
  - increasing the Low-Income Household Rebate and Medical Energy Rebate to \$350
  - raising the Seniors Energy Rebate to \$250
  - the full rebate for the Family Energy Rebate increasing to \$250
  - lifting the Life Support Rebate for each equipment type to \$1,639.

## A clean energy future

Long-term investment in renewable energy will improve affordability and reliability. The NSW Government Electricity Infrastructure Roadmap is the largest investment in renewable energy in the history of New South Wales.

The \$1.8 billion investment will roll out critical transmission and energy storage solutions, including:

- putting the State's Renewable Energy Zones back on track with an additional \$804.0 million
- establishing the \$1.0 billion Energy Security Corporation to drive investment in stable and affordable renewable energy.

A further \$263.5 million will support an efficient and equitable roll out of electric vehicles (EV). This investment will accelerate the rollout of EV infrastructure, addressing the most significant barrier for the take up of EVs.

## Infrastructure investment and toll assistance

The Government will continue providing support for frequent toll road users from 1 January 2024 by providing:

- a \$60 weekly toll cap for drivers, which will be in addition to existing toll relief schemes, assisting more than 700,000 motorists
- a reduction in the truck multiplier on the M5 East and the M8 from three times to two times for heavy vehicle drivers.

In addition to the initiatives above, the Government has also commissioned an Independent Review of Sydney's motorways, which will examine options to reduce costs and simplify the tolling system.

## Quality early education and caring for children

Quality early childhood education and care has lifelong benefits for New South Wales' youngest learners and enables parent workforce participation.

The Budget maintains the \$5.0 billion investment over 10 years in the Childcare and Economic Opportunity Fund and also maintains \$5.7 billion in funding over 10 years for universal preschool access.

This Budget delivers on these priorities through:

- an investment of \$769.3 million for 100 new preschools on public school sites and \$60 million for new and upgraded non-government preschools
- saving parents and carers \$500 a year by trialling preschool fee relief for eligible three year old children, at a cost of \$64 million over two years
- an investment of \$28.5 million in the essential early childhood education and care workforce, including \$3.0 million to strengthen the workforce pipeline and \$10.0 million for professional development to prevent workforce attrition
- a boost to Out of Home Care services, with an additional \$200 million to provide permanency services and post-care support.

## Making communities stronger and fairer

New initiatives and investments are being delivered to support and empower stronger communities across New South Wales, including Aboriginal and Torres Strait Islander people and multicultural communities.

The 2023-24 Budget is investing in initiatives, including:

- progressing the 28 co-developed Closing the Gap initiatives, developed in partnership with the NSW Coalition of Aboriginal Peak Organisations, and delivered in partnership with local communities, at a cost of \$131.4 million
- \$39.1 million to prevent domestic, family and sexual violence and support victim safety
- \$13.8 million to improve women's participation and empowerment through the Working Women's Centre and a Future Women's Jobs Academy
- investment of \$47.8 million in the Multicultural Communities Support Package, which includes support for community language schools, creation of a Multicultural Capital Partnership Fund, establishment of the Premier's Prevention Panel on Racism and Extremism and a multicultural youth network platform.