

5. EXPENDITURE

- General government expenses are projected to be \$120.2 billion in 2023-24.
- New measures reflect the Government’s commitment to:
 - improve essential services by addressing critical staff vacancies and a new approach to engaging with the public sector workforce, including an offer of a 4.5 per cent pay increase
 - provide better education and schools
 - improve health care and hospitals
 - address the housing crisis
 - provide energy bill support
 - provide toll relief for commuters
 - boost levels of support for early childhood education and care.
- In June 2023, the Government announced a Comprehensive Expenditure Review. This Budget includes the first tranche of decisions from that review. In total, the Budget includes \$13.0 billion in savings, reprioritisation, and other budget improvement measures over the next four years.
- The Government has also revised its infrastructure investment program, in response to the findings of its Strategic Infrastructure Review. The revised general government infrastructure program is projected to be \$85.6 billion over four years.
- The revised outlook incorporates the reclassification of expenses associated with the Transport Asset Holding Entity. Expenses that were previously classified as ‘net equity contributions’ are now recognised as grant expenditure.

5.1 Alleviating cost of living pressures and rebuilding essential services

Government expenses are projected to be \$120.2 billion in 2023-24. This is an increase compared to the outlook in the 2023 Pre-election Budget Update (\$115.7 billion). There are five drivers of the uplift:

- the Government’s offer to lift pay for hundreds of thousands of public servants
- the reclassification of equity contributions and an increase in grant expenditure to Transport Asset Holding Entity (TAHE)
- lags in spending across agency programs and initiatives last financial year, which lowered expenses for 2022-23 but has led to the carrying forward of expenses into 2023-24
- an increase in demand and costs for existing government programs
- new policy measures, including the resourcing of the Government’s commitments.

Tables 5.1 and 5.2 set out the expense profile over the forward estimates. Expense growth is forecast to average just 0.8 per cent per annum over the four years to 2026-27.

Table 5.1: Expense reconciliation since the 2023 Pre-election Budget Update

	2022-23 Revised \$m	2023-24 Budget \$m	2024-25 \$m	2025-26 Forward Estimates \$m	2026-27 \$m
Expenses – 2023 Pre-election Budget Update	117,275	115,684	113,456	114,869	n.a.
Policy measures	2,879	7,927	4,640	3,946	2,448
Reforms, savings and offsets ^(b)	(165)	(3,076)	(3,039)	(2,910)	(3,488)
Parameter and other budget variations	(3,714)	(308)	1,406	1,219	n.a.
Expenses – 2023-24 Budget	116,275	120,227	116,463	117,124	120,063

(a) Further information on new measures is provided in the Measures Statement in Appendix A5.

(b) This includes the expense impacts from (i) savings to programs and initiatives since the Pre-election Budget Update, (ii) offsets for new expense measures and (iii) expense impacts for individual years where program timing profiles have been adjusted.

(c) Total estimated expenses include an annual allowance for the established tendency for parameter and technical adjustments to increase expenses over time. These can be the result of changes in demand or cost of statutory services, or accounting adjustments. In the 2023-24 Budget, the allowance is set at a level equivalent to 0.3 per cent of total expenses, increasing total estimated expenses across the budget and forward years. This allowance is for estimates purposes only. It is not a provision for future new policy spending.

(d) Total estimated expenses include an allowance for the established tendency of expenditure to slip and be carried forward to future years. The allowance is based on observed trends. In the 2023-24 Budget, the allowance is set at the equivalent of 4.9 per cent in 2023-24. In setting the allowance it is assumed that 96 per cent of under expenditures are carried forward into future years and that the extent of slippage declines by 0.2 percentage points each year.

Significant new expense measures since the 2023 Pre-election Budget Update include:

Rebuilding Essential Services

- establishing a new \$3.6 billion Essential Services Fund to enable the Government to improve services by negotiating workplace changes
- the Government's offer to increase public sector pay rates by 4.5 per cent in 2023-24 (including a 0.5 per cent increase to superannuation), which will support over 400,000 workers (\$2.5 billion over the four years to 2026-27)
- boosting teacher pay (\$1.9 billion over four years to 2026-27), offset by initial savings identified in the Department of Education
- establishing an ongoing, targeted literacy and numeracy tutoring program (\$278.4 million over four years to 2026-27)
- additional funding to support flood affected communities and improve natural disaster resilience (\$2.3 billion over five years from 2022-23 to 2026-27), including:
 - to meet demand for existing disaster relief and recovery programs, eligible for co-funding by the Australian Government under the Disaster Recovery Funding Arrangements
 - to repair and restore damaged State roads
 - to support the newly established NSW Reconstruction Authority to perform its legislated functions
- funding an additional 500 rural and regional paramedics (\$438.6 million over four years to 2026-27), to address paramedic shortages and help improve ambulance response times for life threatening callouts and medical emergencies
- establishing the Regional Emergency Road Repair fund (\$390.0 million in 2023-24) to support regional councils in managing existing roads and prioritising works based on the needs of their communities.

Cost-of-living support

- energy bill relief for households (\$730.8 million in 2023-24) and small businesses (\$234.2 million in 2023-24), which is delivering targeted and temporary energy bill relief under the National Energy Bill Relief Fund
- toll relief for private motorists and truck drivers, with the introduction of a \$60 weekly cap and a one third toll rebate for heavy vehicles using the M5 and M8 tunnels (\$615.0 million over three years to 2025-26)
- delivering the Australian Government’s social housing accelerator agreement (\$610.1 million over four years to 2026-27)
- providing the Essential Housing Package (\$224 million over four years to 2026-27) to deliver more housing and support for the most vulnerable
- \$1.6 billion for preschool fee relief from an expanded affordable preschool program, including saving parents and carers \$500 a year by trialling preschool fee relief for 3 year old children in long day care.

Responsible fiscal management

- reclassification of expenses associated with the Transport Asset Holding Entity. Expenses previously classified as ‘net equity contributions’ are now recognised as grant expenditure.

The Budget also provides funding to the below programs that would otherwise be unfunded:

- ongoing funding for 1,112 nurses and midwives that previously only had funding to 30 June 2024 (\$572 million over three years to 2026-27). The funding will improve health outcomes, take pressure off NSW hospitals, and retain experienced nurses and midwives in the NSW Health workforce
- extending the Active Kids and Creative Kids Voucher Programs to 31 January 2024 (which were otherwise due to cease on 30 June 2023), and then transitioning to a combined “Active and Creative Kids NSW” voucher program that will be means tested. The cost of this measure is \$159.3 million over four years to 2026-27
- additional funding for the Department of Communities and Justice to deliver the Out of Home Care and Permanency support program (\$200 million in 2023-24). This program provides out-of-home care and permanency services, and post care support to around 22,000 children and young people. The funding ensures services can continue to be delivered while the Government reviews funding models over the longer term
- additional funding for Service NSW (\$232.5 million to 2026-27), to continue critical services and meet projected demand in coming years
- additional funding of \$80.0 million for the Department of Customer Service and Service NSW to continue critical cyber security activities.

Box 5.1: The Government has commenced a Comprehensive Expenditure Review

Following its election, the Government identified a number of fiscal and structural pressures. In response, it commenced a Comprehensive Expenditure Review.

The Comprehensive Expenditure Review has identified \$13 billion in budget improvement and reprioritisation measures over the five years to 2026-27.

Measures being implemented following this review include:

- reducing labour hire expenditure
- reducing spending on consultants
- cutting spending on advertising
- reducing travel costs across government
- reducing legal expenses
- reducing the number of senior executives across the public sector
- freezing levels of pay for Members of Parliament and public sector senior executives
- a range of agency operational, procurement and corporate efficiencies
- reprioritisation of unallocated funds from grant programs, including Restart, Regional Growth Funds, Snowy Hydro Legacy Fund, WestInvest, Future Economy Fund, Coal Innovation Fund and other programs.

These savings and offsets are being directed to priority investments to support rebuilding essential services and the provision of further cost-of-living relief.

Box 5.2: A new industrial relations framework for public sector workers

The NSW Government has offered public sector workers a 4.0 per cent pay increase in 2023-24, as well as the 0.5 per cent increase to compulsory superannuation. This \$2.5 billion measure represents the largest pay increase in over a decade and will support over 400,000 public sector workers.

The NSW Government has also established an Industrial Relations Taskforce, led by former Deputy President of the Fair Work Commission Anna Booth and former President of the NSW Industrial Relations Commission Roger Boland. The Taskforce is considering a new cooperative interest-based approach to bargaining, in consultation with key stakeholders including unions, government agencies and legal experts.

The Taskforce is giving consideration to:

- adding a new, more consultative interest-based bargaining stream to allow frontline workers and their representatives to improve services by negotiating workplace changes
- ensuring the Industrial Relations Commission is independent, properly resourced, and with real powers to prevent and settle industrial disputes
- reviewing the scope of the Industrial Relations Commission to address and resolve work health and safety issues or related workplace matters within the State jurisdiction.

This Budget also establishes a new \$3.6 billion Essential Services Fund to enable the Government to improve services by negotiating workplace changes. 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 essential workers.

Parameter and other budget variations

Parameter and other budget variations are changes to the cost and timing of existing projects and services that are largely outside of the Government's control. They include changes in demand, the timing of project delivery (for example, construction delays due to weather events), input costings, variations in Australian Government grants, technical accounting and actuarial adjustments, and the allocation of centrally held expenditure into agency budgets. They also include the adjustment of relevant agency budgets to account for updated inflation forecasts.

The estimates in Table 5.1 take into account central allowances and adjustments. These include adjustments to reflect historical tendency for agency programs to underspend and carry funding forward into future years. It also includes an allowance to recognise the likelihood of future parameter and technical adjustments for existing programs across government.

Major variations since the 2023 Pre-election Budget Update include:

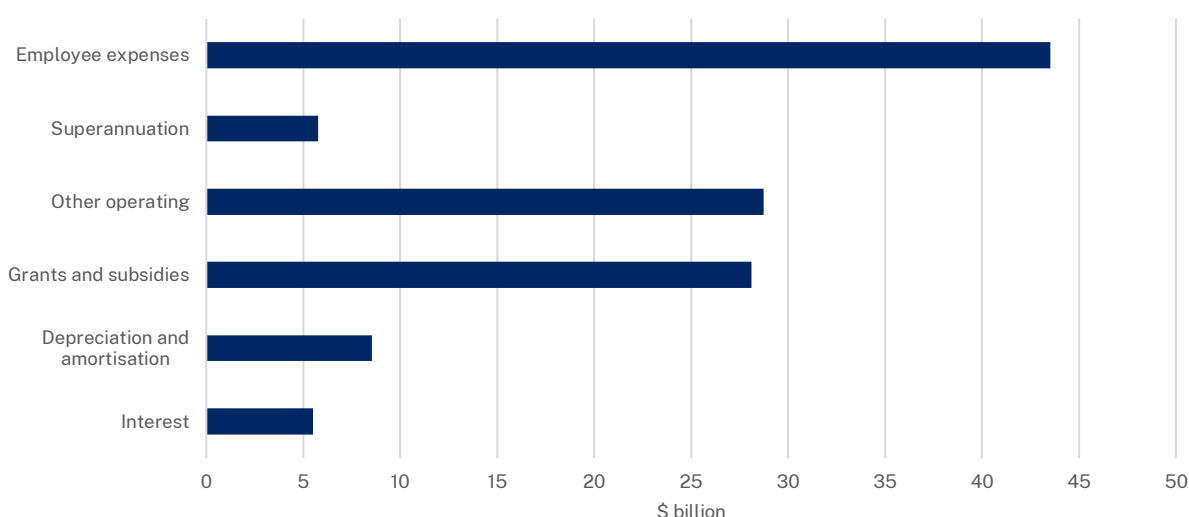
- higher depreciation and amortisation expenses for Department of Education projects (\$547.3 million over four years to 2026-27) and for TAFE projects (\$290.1 million over four years to 2026-27) which reflect newly completed capital projects and a revaluation of existing assets
- increase in wages for rail workers, reflecting the outcome of a Fair Work Commission arbitration (\$204.3 million over four years to 2026-27)
- the carrying forward of budgets where there were timing delays in 2022-23 and expenses have been reallocated into the budget and forward estimate years
- higher forecasts for inflation since the 2023 Pre-election Budget update, which flows through to projections for government expenses.

5.2 Expense trends and further analysis

Table 5.2: General government sector expenses

	2022-23 Estimate \$m	2023-24 Budget \$m	2024-25 \$m	2025-26 Forward Estimates \$m	2026-27 \$m	% Average growth p.a. 2022-23 to 2026-27
Employee	42,135	43,530	46,024	47,530	49,553	4.1
Superannuation	5,621	5,780	5,903	5,960	6,074	2.0
Depreciation & Amortisation	7,837	8,551	8,829	9,267	9,878	6.0
Interest	4,230	5,501	5,900	6,309	6,978	13.3
Other Operating Expense	28,777	28,738	26,105	25,864	26,065	(2.4)
Grants, Subsidies, and Other Transfers	27,675	28,125	23,704	22,195	21,515	(6.1)
Total Expenses	116,275	120,227	116,463	117,124	120,063	0.8
Annual change	-2.1%	3.4%	-3.1%	0.6%	2.5%	n.a

Chart 5.1: A visual breakdown of government's expenses in 2023-24



Employee expenses

Employee expenses, projected to be \$43.5 billion in 2023-24, is the largest component of the Budget. There has been an upward revision to employee expenses since the 2023 Pre-election Budget Update (\$43.2 billion). This is primarily due to the wage rise for public sector workers, partially offset by a reduction in employee expenses attributable to freezing senior executive pay and reducing the number of senior executives across the Government.

Over the budget and forward estimates, employee expenses are projected to grow by an average of 4.1 per cent per annum.

Superannuation expenses

Superannuation expenses include defined contribution plans (such as compulsory superannuation), as well as defined benefit plans and their associated interest costs. Superannuation expenses are projected to be \$5.8 billion in 2023-24, or 4.8 per cent of total expenses. This is an increase on the outlook at the 2023 Pre-election Budget Update (\$5.7 billion) mainly due to the Government's higher wage offer and changes in expected interest costs due to revised rate forecasts.

Over the budget and forward estimates, superannuation expenses are projected to increase at an average rate of 2.0 per cent per annum.

Other operating expenses

Other operating expenses mainly represent the day-to-day running costs incurred in the delivery of government services and programs. It is the second largest category of expenses – projected to be \$28.7 billion in 2023-24 (24.0 per cent of total expenses). There is a downward revision to other operating expenses relative to the 2023 Pre-election Budget Update (\$29.2 billion). This is driven by the net effect of increased investment in accessibility and car park upgrades at train stations, disaster recovery support, energy bill relief, toll relief and fast-tracking elective surgeries, offset by the Government's savings across legal expenses, advertising expenses, consultants, labour hire, contractors, and domestic and international travel.

Over the budget and forward estimates, other operating expenses are projected to decrease at an average rate of 2.4 per cent per annum.

Grants, subsidies and other transfer expenses

Grants and subsidies include payments to other government sectors (for example State Owned Corporations), local government, individuals, households, community groups and non-profit organisations. They also support the delivery of services and infrastructure projects.

Grants and subsidies are projected to be \$28.1 billion in 2023-24, or 23.4 per cent of total expenses. This is an upward revision relative to the 2023 Pre-election Budget Update (\$23.7 billion). The upwards revision is driven by a number of new measures, including expense re-classifications for TAHE, increased payments for disaster recovery, energy bill relief, toll relief and increased support for out of home care.

Depreciation and amortisation

Depreciation and amortisation expenses are forecast to be \$8.6 billion in 2023-24, comprising 7.1 per cent of total expenses. This is an upward revision on the outlook in the 2023 Pre-election Budget Update (\$8.2 billion), attributable in part to a significant rise in asset valuations due to inflation.

The Government is reprofiling its infrastructure program following the Strategic Infrastructure Review. This eases pressure on depreciation and amortisation expenses over the budget and forward estimates (noting many of the changes largely take effect beyond 2026-27).

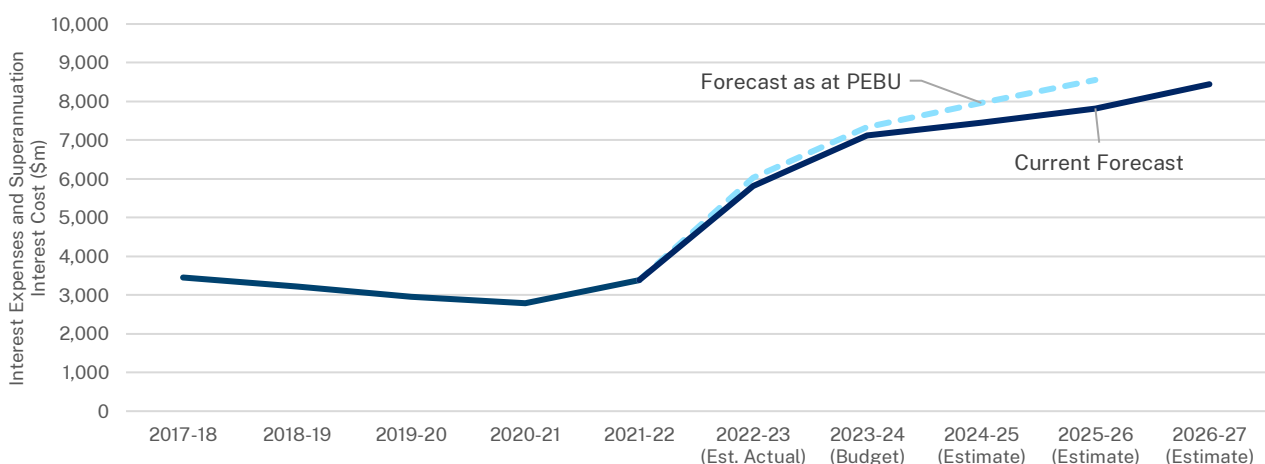
Over the budget and forward estimates, depreciation and amortisation expenses are forecast to grow by an average rate of 6.0 per cent per annum.

Interest

Interest expenses are projected to be \$5.5 billion in 2023-24 (4.6 per cent of total expenses). There has been a downward revision to interest expenses relative to the 2023 Pre-election Budget Update (\$5.7 billion). This relative reduction in interest expenses is projected to continue across the forward estimates (see Chart 5.2 below). Lower expected interest costs are the result of reduced borrowing requirements, largely arising from the suspension of NSW Generations Fund contributions in 2023-24, reduced debt requirements from the TAHE restructuring and improvements in the cash operating position over the forward estimates.

Over the budget and forward estimates, interest expenses are projected to increase at an average rate of 13.3 per cent per annum.

Chart 5.2: *Change in interest expense forecasts (borrowings and superannuation) since the 2023 Pre-election Budget Update*



Box 5.3: Closing the Gap and improving Aboriginal and Torres Strait Islander Outcomes

To support the continued implementation of the 28 co-developed Closing the Gap initiatives, developed in partnership with the NSW Coalition of Aboriginal Peak Organisations, this Budget includes an ongoing investment of \$131.4 million over the forward estimates. This includes:

- \$34.1 million to tackle overrepresentation in the out-of-home care and justice systems
- \$25.0 million to promote health and wellbeing in Aboriginal and Torres Strait Islander communities including access to culturally appropriate mental health and cancer treatment services.

To track and monitor progress against the Priority Reforms and Socio-Economic Outcomes of the National Agreement, New South Wales has embedded processes to routinely capture Aboriginal and Torres Strait Islander-specific expenditure data. The 2023-24 Budget includes \$1.5 billion of existing targeted programs and services highlighted by:

- \$375.5 million in Communities and Justice to fund early intervention programs, Aboriginal-led commissioning and child and family support programs
- \$366.5 million in Planning and Environment to fund housing solutions, restoring land rights, and essential community infrastructure
- \$321.1 million in services to be delivered by Aboriginal Community Controlled Organisations in line with Priority Reform 2
- \$270.7 million in Transport for procurement with Aboriginal and Torres Strait Islander-owned businesses as part of the procurement policy, alongside driver licensing and road education programs.

To determine the effectiveness of ongoing initiatives designed to address the overrepresentation of Aboriginal and Torres Strait Islander people in the Out of Home Care and justice systems, evaluation requirements have been built into the 28 co-developed programs. The evaluation results in conjunction with expenditure data will be used to identify potential savings and redirect funding to initiatives that deliver positive outcomes and better serve Aboriginal and Torres Strait Islander communities.

To complement existing reform initiatives under Closing the Gap, the NSW Government has commenced work on the development of a First Nations Budget Model. The First Nations Budget Model will include an Impact Assessment and be designed to ensure resources are allocated to priority areas as determined by Aboriginal and Torres Strait Islander communities.

5.3 Capital expenditure

General government sector¹

This section provides analysis of capital expenditure in the general government sector. It excludes the investment program of government corporations (such as Sydney Water). After accounting for likely slippage, general government capital expenditure is projected to be \$22.2 billion for 2023-24, an increase of 2.2 per cent from 2022-23.

Table 5.3 outlines the profile over the four years to 2026-27 as well as changes since the previous Budget.

Table 5.3: Capital expenditure reconciliation

	2022-23 Revised \$m	2023-24 Budget \$m	2024-25 \$m	2025-26 Forward Estimates \$m	2026-27 \$m
Capital – 2023 Pre-election Budget Update	22,806	22,211	22,573	21,406	n.a.
Capital measures	(408)	(248)	(205)	(1,362)	(755)
Parameter and other variations	(652)	264	605	412	n.a.
Capital – 2023-24 Budget	21,746	22,227	22,973	20,456	19,919

Note: Total estimated capital expenditure includes an allowance for the established tendency for capital expenditure to slip each year. The extent of slippage has been increasing in recent years due to market capacity constraints and supply chain disruptions. In setting the allowance, observed past slippage and broad assessments of market capacity are considered. In the 2023-24 Budget, this allowance for capital slippage is set at \$6.8 billion in 2023-24 reducing to \$1.8 billion in 2026-27.

Significant investments since the 2023 Pre-election Budget Update include:

- funding towards 24 new and 51 upgraded schools in Western Sydney (\$3.5 billion over four years to 2026-27)
- funding for 19 new and 35 upgraded schools in regional NSW (\$1.4 billion over four years to 2026-27)
- improving healthcare access through the expansion and upgrades of:
 - Fairfield Hospital (\$350.0 million over four years to 2026-27)
 - Canterbury Hospital (\$328.0 million over four years to 2026-27)
 - Rouse Hill Hospital (\$255.0 million over four years to 2026-27)
- implementing the revised delivery strategy for the Sydney Metro City & Southwest Project (\$1 billion over three years to 2025-26).

Detailed analysis of the Government's capital program is available in Budget Paper No. 3 *Infrastructure Statement*.

Public non-financial corporations sector

Public non-financial corporations also invest in infrastructure assets, leading to improved service levels for New South Wales residents. When this infrastructure program is combined with that of the general government sector, the Government's total capital expenditure investment is forecast to be \$116.5 billion over the four years to 2026-27.

¹ This section should be read in conjunction with Budget Paper No 3. *Infrastructure Statement*.