

## 5. EXPENDITURE

- Throughout 2020, the Government placed the economy before the budget, providing an unprecedented level of fiscal support to families, communities and businesses during the COVID-19 pandemic. The response has included:
  - more than \$3.0 billion for our doctors, nurses and health system, to boost our hospital capacity, ensure the effective containment of COVID-19 and protect the community through the pandemic
  - over \$4.4 billion to support our state emergency services and help communities across the State to rebuild after the devastating bushfire season, in partnership with the Commonwealth.<sup>1</sup>
- The Government is sustaining its response through the 2020-21 Budget, taking total COVID-19 stimulus and support to almost \$29.0 billion.<sup>2</sup> General government sector expenses in 2020-21 are forecast to be \$98.1 billion, an increase of \$9.9 billion compared to 2019-20. The infrastructure program continues to grow, with \$107.1 billion committed over the budget and forward estimates.
- The Government's economic and fiscal strategy is firmly focused on delivering short-term stimulus to the economy that is timely, temporary and targeted, while maintaining a balanced commitment to fiscal discipline as the economy recovers from the pandemic. As a result, annual expense growth is forecast to fall from 11.2 per cent in 2020-21 to 0.8 per cent in 2023-24. This reflects a return to business-as-usual levels of expenditure by the end of the forward estimates, as stimulus measures progressively phase out.
- The 2020-21 Budget also incorporates \$5.6 billion in new savings measures over four years to 2023-24, including changes to public sector wages growth and procurement reform. These measures reflect the Government's strong commitment to fiscal discipline, with tight control on expense growth returning over the forward estimates, while making critical investments in our economic recovery now.

### 5.1 General government recurrent expenses

The Government's response to the COVID-19 pandemic and devastating bushfires has been decisive and on an unprecedented scale for a state government. This strong fiscal support continues in the 2020-21 Budget, with further temporary and targeted stimulus measures to drive job creation, the economic recovery, and additional investment in service delivery.

Recurrent expenses have materially increased in 2019-20 and 2020-21, predominantly driven by the COVID-19 and bushfire response effort, as well as service delivery investment:

- expenditure in 2019-20 was \$88.3 billion, up 9.7 per cent on the previous year
- expenditure in 2020-21 is forecast to be \$98.1 billion, or 11.2 per cent higher than 2019-20.

The Government's response to the health and economic crisis has seen expenditure growth rise above the long-run average revenue growth rate of 5.6 per cent in 2019-20 and 2020-21.

Further out, annual expense growth is forecast to be negative in 2021-22 as temporary and targeted stimulus measures are wound back, in line with the expected economic recovery, and as fiscal repair measures begin to be implemented. Expense growth then gradually rises to 0.8 per cent in 2023-24, in line with the Government's fiscal target in the *Fiscal Responsibility Act 2012 (FRA)*.

<sup>1</sup> Includes Commonwealth contributions and investments that do not have an impact on general government expenditure.

<sup>2</sup> Includes revenue, recurrent and capital expenditure impacts, and impacts outside the general government sector.

In total, the Government has committed almost \$29.0 billion in support through the immediate response and to drive a sustained economic recovery.<sup>3</sup> See Boxes 5.1 and 5.2 for the Government's key stimulus and support expenditure measures.

### **Box 5.1: The Government moved quickly to implement pandemic response measures, cushioning the health and economic impact**

At the onset of the pandemic the Government moved swiftly to support both the economy and communities. Immediate initiatives were rolled out to boost our health system, support job retention and protect the vulnerable. Measures already underway include:<sup>4</sup>

#### **Health**

- over \$1.0 billion to purchase personal protective equipment (PPE) to protect frontline emergency services workers and the public
- \$700.0 million to assist in quadrupling ICU capacity, undertake additional COVID-19 testing, and purchase additional medical equipment.

#### **Capital and maintenance**

- \$3.0 billion for the Jobs and Infrastructure Acceleration Fund, accelerating projects across the State, including commencing the \$385.0 million St George Hospital Integrated Ambulatory Care Precinct two years earlier than planned, and new public schools in Googong, Murrumbateman and Edmondson Park.

#### **Business and the economy**

- \$1.0 billion for the Working for NSW Fund to sustain businesses, create new jobs and retain employees, including \$250.0 million for new and redeployed cleaners to undertake additional cleaning of schools, transport and other public infrastructure
- \$750.0 million for a Small Business Support Fund to provide grants of up to \$10,000 for unavoidable expenses for small businesses, and \$3,000 to support businesses to safely relaunch their operations, with \$45.0 million for the Southern Border Small Business Support Grant, designed to support small businesses during the border restrictions between Victoria and New South Wales
- \$450.0 million allocated for land tax relief for landlords who provide rent relief to commercial and residential tenants in financial distress due to COVID-19.

#### **Communities and families**

- \$101.6 million for housing and support services for the homeless, including temporary accommodation and wraparound support to rough sleepers
- \$30.0 million to expand the Energy Accounts Payment Assistance (EAPA) scheme to provide energy bill relief to people experiencing short-term financial distress.

#### **Supporting government services**

- \$3.3 billion to ensure essential services are maintained, and public sector jobs are supported, during the COVID-19 pandemic.

<sup>3</sup> Includes revenue, recurrent and capital expenditure impacts, and impacts outside the general government sector.

<sup>4</sup> Figures are for recurrent and capital expenditure over five years to 2023-24.

**Box 5.2: This Budget announces a comprehensive plan for the State's recovery**

The Government's stimulus and reform measures, announced in this Budget, will stimulate job creation, while providing support to the most vulnerable cohorts in our community.<sup>5</sup>

**Building a better New South Wales**

- \$812.0 million to deliver new social housing and undertake significant maintenance and upgrades of social and Aboriginal housing
- \$256.0 million for upgrades and maintenance works across National Parks, the Royal Botanic Gardens, Centennial Park, Sydney Olympic Park and the Crown Land portfolio
- \$167.7 million for capital works and maintenance of courts, police stations and corrective services, as well as upgrades to the Goulburn Police Academy
- \$104.5 million for an Arts Maintenance and Upgrade Fund to stimulate jobs through improving accessibility, sustainability and functionality of our cultural assets.

**Investing in our people and their future**

- \$337.0 million to provide free small group tutoring to boost learning for vulnerable school children who have been left behind while remote learning during the pandemic
- \$318.6 million for Skilling for Recovery, with \$159.3 million from the NSW Government, to help job seekers retrain or upskill, and to support school leavers to enter the workforce
- \$80.0 million for 300 new housing sector pre-apprenticeships and cadetships to provide career pathways for young people and social housing tenants
- \$19.0 million for the Skill and Employment Generation program to significantly increase the apprenticeship intake for trade skills across road and rail industry sectors
- \$10.0 million to help women return to work via grants and Return to Work Coordinators
- \$2.5 million to develop a strategic business case for a dedicated TAFE Aged Care Centre of Excellence Training Facility.

**Making it easier to run a business**

- \$500.0 million in 2020-21 to provide digital vouchers for each NSW adult resident to stimulate spending at restaurants, visitor sites and cultural attractions
- \$472.0 million to provide small and medium sized businesses, which do not pay payroll tax, with a \$1,500 digital voucher for the cost of government fees and charges.

**Delivering quality services for everyone in New South Wales**

- \$169.4 million in mental health support measures, including additional community health workers, 100 additional wellbeing and in-reach nurses, and to establish 12 mental health and wellbeing community collaboratives
- \$120.0 million to continue fee relief for community and mobile preschools
- \$55.9 million for palliative care measures, including to provide an additional 5,000 End of Life home support packages and specialist allied health professionals
- \$29.0 million to extend the Together Home program to transition rough sleepers into permanent housing with wraparound support services.

**Strong local industry, big global outlook**

- \$250.0 million for the Jobs Plus Program, to entice companies from interstate and across the globe to New South Wales if they create at least 30 new net jobs
- \$175.0 million in additional funding for the Made in NSW program, focusing on investment in new film and TV projects.

<sup>5</sup> Figures are for recurrent and capital expenditure over five years to 2023-24.

Table 5.1 outlines movements in Government expenses between the 2019-20 Half-Yearly Review and 2020-21 Budget.

Table 5.1: Expense reconciliation since the 2019-20 Half-Yearly Review

	2019-20 Actual \$m	2020-21 Budget \$m	2021-22 \$m	2022-23 Forward Estimates \$m	2023-24 \$m
<b>Expenses – 2019-20 Budget</b>	<b>83,300</b>	<b>86,405</b>	<b>88,016</b>	<b>89,410</b>	<b>n.a.</b>
Policy measures	(109)	25	(123)	15	n.a.
Parameter and technical adjustments	265	469	182	710	n.a.
<b>Expenses – 2019-20 Half-Yearly Review</b>	<b>83,455</b>	<b>86,899</b>	<b>88,075</b>	<b>90,135</b>	<b>n.a.</b>
Policy measures	5,720	11,937	5,465	3,288	2,607
Parameter and other budget variations <sup>(a)</sup>	(893)	72	2,255	981	n.a.
Savings, reprioritisations and offsets	...	(775)	(1,276)	(1,712)	(1,908)
<b>Expenses – 2020-21 Budget</b>	<b>88,283</b>	<b>98,133</b>	<b>94,519</b>	<b>92,692</b>	<b>93,390</b>

(a) The increase in parameter and other variation expenses in 2021-22 is primarily driven by movements in Transport Asset Holding Entity expenditure, which is offset by equivalent revenue, and other technical adjustments.

Since the 2019-20 Half-Yearly Review, expenses from 2019-20 to 2022-23 have increased by \$25.1 billion, including an additional \$11.2 billion in 2020-21.

Over four years to 2023-24, the major drivers of the change in recurrent expenditure are:

- \$11.8 billion for COVID-19 stimulus and support measures (see Boxes 5.1 and 5.2)<sup>6</sup>
- \$1.6 billion to assist regional communities to recover from the 2019-20 bushfires (see Box 5.3)<sup>7</sup>
- \$9.8 billion for other new policy measures, including supporting critical service delivery in Stronger Communities, TAFE NSW, Service NSW, Transport and Health
- \$5.7 billion for expense savings (\$5.6 billion budget result impact), reprioritisation and offset measures, including changes to wages growth for public sector workers (see Box 5.5)
- parameter and other budget variations associated with the implementation of accounting standards, actuarial adjustments, the reprofiling of expenditure to align with updated program delivery schedules, and the allocation of centrally held expenditure into agency budgets.

<sup>6</sup> Includes depreciation expenses and expenditure associated with Commonwealth co-contributions. Excludes measures identified as both bushfire response and COVID-19 stimulus and support measures.

<sup>7</sup> Further bushfire response measures have capital expenditure impacts and impacts outside the general government sector.

The Government continues to support communities in regional New South Wales, helping them recover from drought, the 2019-20 bushfires, and the COVID-19 pandemic. This support is detailed in Box 5.3.

### **Box 5.3: Supporting regional New South Wales through 2020**

The three crises have hit regional New South Wales hard over the last 12 months.

The Government, in partnership with the Commonwealth, has announced \$4.4 billion over five years to 2023-24 to assist communities recover from the 2019-20 summer bushfires.<sup>8</sup>

This includes:

- \$1.0 billion to rebuild bushfire impacted communities across New South Wales, including to repair and rebuild vital infrastructure
- \$540.0 million committed in partnership with the Commonwealth Government for the Bushfire Local Economic Recovery Fund, to drive economic recovery in areas affected by the bushfires
- \$335.0 million for small business bushfire recovery grants, supporting over 20,000 businesses impacted by bushfires to help them keep their doors open and maintain jobs
- \$192.2 million to 2024-25 in response to recommendations from the NSW Bushfire Inquiry, including to support frontline firefighters and implement a mental health strategy for emergency services, with a further \$68.0 million to enhance hazard reduction and for fleet upgrades to prepare for the next bushfire season<sup>9</sup>
- \$187.5 million to 2024-25 for Resilience NSW to deliver the best possible whole-of-government approach to prevention, preparedness, response and recovery from disasters and emergencies<sup>10</sup>
- \$140.0 million for the Bushfire Industry Recovery Package to support industries impacted by bushfires
- \$110.0 million for Primary Producer Recovery grants, supporting 1,800 farmers so far.

The Government is also supporting regional New South Wales during the COVID-19 pandemic, including:

- \$1.8 billion from the \$3.0 billion Jobs and Infrastructure Acceleration Fund, including additional funding to accelerate the Fixing Country Bridges and Fixing Local Roads programs
- \$198.8 million from the \$750.0 million Small Business Support Fund, which has flowed through to small businesses in regional New South Wales via the Small Business Support, Small Business Recovery and the Southern Border Support Grants programs.

A further \$300.0 million has been invested for a Regional Growth Fund 2.0, bringing the total investment to \$2.0 billion, and supporting the economic growth and development of regional New South Wales.

Drought has lifted in large parts of the State but there are still areas, particularly in the north and north west, which continue to suffer. A further \$310.0 million has been provided for drought relief since the 2019-20 Half-Yearly Review, which brings the State's total commitment for drought and water security to around \$4.5 billion since 2015.

<sup>8</sup> Bushfire response measures include Commonwealth contributions and investments that do not have an impact on general government expenditure. Includes \$349.0 million over five years for Crown Lands fencing repair and the Bushfire Industry Recovery Package, which are also included as COVID-19 stimulus and support measures.

<sup>9</sup> Figure for the response to the NSW Bushfire Inquiry to 2023-24 is \$168.3 million.

<sup>10</sup> Figure to 2023-24 is \$147.7 million.

## New policy measures

The 2020-21 Budget includes the financial impact of policy decisions made since the 2019-20 Half-Yearly Review.

New policy measures since the Half-Yearly Review include:

- protecting the community from COVID-19, and supporting healthcare workers during the pandemic
- supporting bushfire and drought affected communities in regional New South Wales
- helping small businesses experiencing financial difficulties during COVID-19
- helping vulnerable members of the community and supporting those in need during COVID-19
- investing in digital solutions to transform Government service delivery, including further investment in the Digital Restart Fund (see Box 5.4)
- continuing to provide accessible, safe and reliable public transport
- supporting our justice system and protecting our communities
- investing in people by building skills across the workforce, including through TAFE NSW training and skills services.

Further information on new measures is provided in section 1.4 in Chapter 1 and in the *Measures Statement* in Appendix A5.

### **Box 5.4: Investing in digital transformation through the Digital Restart Fund**

The Government is transforming service delivery through investment in digitisation, to drive productivity, efficiency and customer satisfaction across government services. A further \$1.6 billion has been invested into a Digital Restart Fund (DRF), in addition to the \$100.0 million in seed funding provided at the 2019-20 Budget.

This Budget includes additional investments from the DRF, including:

- closing the digital gap between regional and metropolitan schools through better integration of digital technology into the school curriculum and infrastructure, with \$365.8 million over two years
- enhancing the efficiency and productivity of courts and tribunals, with a \$54.5 million investment over three years to provide new digital technologies
- further improving the customer experience and reducing assessment times through ePlanning, with a \$45.8 million investment over three years to implement the next phase of an end-to-end digital planning service
- improving the online customer experience for Revenue NSW online services through a \$17.5 million investment over two years to ensure better integration of services with Service NSW for taxes and fines.

A further \$240.0 million is also reserved in the DRF for cyber security initiatives, including \$60.0 million over the next three years for CyberSecurity NSW to provide a centralised government response to incidents and proactively manage cyber security threats.

## 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 the Government's control. This includes changes to demand, changes to the timing of project delivery (for example, construction delays due to weather events), changes to input costings, variations in Commonwealth Government grants, actuarial variations (including for depreciation expenses) and changes associated with the implementation of new accounting standards.

Major parameter and other budget variations since the 2019-20 Half-Yearly Review, over the budget and forward estimates, which increase expenses include:

- \$2.0 billion for the transfer of assets outside the general government sector, and the reclassification of capital expenditure to grants to local government, associated with the completion of major transport projects
- \$1.5 billion in actuarial adjustments for NSW Self Insurance Corporation, largely associated with increased insurance scheme liabilities
- \$1.5 billion in higher expenses related to the implementation of new accounting standards for AASB 1059 *Service Concession Arrangements: Grantors*, partially offset by increases in revenue
- \$1.3 billion in higher interest expenses related to additional borrowings, largely to fund the Government's COVID-19 response and recovery, and the record infrastructure program
- \$1.1 billion for expenditure associated with Commonwealth funding, primarily for Transport infrastructure projects
- additional expenses associated with the reprofiling of expenditure across the budget and forward estimates, to better align with planned service and project delivery schedules.

The above parameter and other budget variations are partially offset by other variations, including a decrease in superannuation expenses of \$711.0 million over the budget and forward estimates, largely due to movements in the 10-year Commonwealth Government bond rate.

## Fiscal discipline and sustainable expense growth

The 2020-21 Budget reflects the Government's fiscal strategy to support the economy in the short-term through temporary, timely and targeted stimulus, while ensuring expense growth returns to sustainable levels in the medium-term. This is demonstrated in this Budget through the inclusion of targeted reprioritisation and reform measures totalling \$5.6 billion over four years to 2023-24.

As a result of this fiscal discipline, expense growth is expected to fall from 11.2 per cent in 2020-21 to 0.8 per cent by 2023-24. This equates to an average growth rate of 1.4 per cent per annum over the budget and forward estimates, which is under the long term average for revenue growth of 5.6 per cent and demonstrates the Government's unwavering commitment to the *Fiscal Responsibility Act 2012*.

Box 5.5 provides further details on these savings, reprioritisation and reform measures, including changes to the NSW Government's wages policy for public sector workers. This measure adjusts wages growth down across the budget and forward estimates. Because wages are a significant component of general government expenses (outlined further below), this saves \$4.3 billion over four years to 2023-24.

**Box 5.5: Redirecting expenditure to support businesses and employment**

The Government has announced \$29.0 billion in stimulus and support measures since March 2020. This includes targeted spending now, to create jobs and support the economic recovery. To help fund this unprecedented economic response, the Government needs to deliver services more efficiently and effectively, focusing on outcomes rather than how much is spent.

In this respect, the Government is starting to transform how public services are delivered through outcomes evaluations, which will lead to improved productivity, increased efficiency and a cutting of waste and duplication.

Decisions taken now on expense reform will deliver increasing benefits over time as the economy recovers from the pandemic. Expense reform also provides the Government with fiscal capacity to respond to any future natural disasters or economic shocks.

Savings, and reprioritisation measures in the 2020-21 Budget total \$5.6 billion over four years to 2023-24 and include:

- \$4.3 billion from lower wages growth for public sector workers and Members of Parliament, reflecting:
  - 0.3 per cent wages growth in 2020-21 for approximately 170,000 workers, as decided by the Industrial Relations Commission, and a 12-month pause to wages growth for both senior public servants and Members of Parliament, enabling the Government to reinvest these savings into job creating initiatives
  - no more than 1.5 per cent wages growth for all public servants over the forward estimates, which is in line with average underlying inflation forecasts up to 2023-24. The Government's wages policy will continue to allow increases beyond this level to be considered, where employee-related cost savings are achieved to fully offset the additional cost.
- \$729.0 million from additional procurement savings across contingent labour, travel, events, marketing and training, facilities and fleet management, medical procurement, software licensing and maintenance, telecommunications, and ICT. These savings are to be achieved through leveraging whole-of-government economies of scale, renegotiating commercial rates, managing supplier performance, rationalising specifications and demand management
- \$600.0 million in expenses across Government departments, redirected to partially fund the \$1.6 billion Digital Restart Fund. This initiative creates incentives and a contestable pool for agencies to identify transformation opportunities.

As part of its fiscal reform program in 2020-21, the Government will also investigate options for further efficiencies in the way Government delivers services, including reviewing existing grants and subsidies, as well as Cluster outcomes and expenditure.



Table 5.2 outlines the targeted savings, reprioritisation and reform measures implemented in this Budget. These measures reduce expenditure by \$5.7 billion (\$5.6 billion budget result impact) over the budget and forward estimates and enable the Government to reprioritise expenditure to priority areas.

Table 5.2: Savings, reprioritisation and offset measures

	2020-21	2021-22	2022-23	2023-24	Total
	Budget	Forward estimates			
	\$m	\$m	\$m	\$m	\$m
Changes to wages policy for public sector workers <sup>(a)</sup>	595	904	1,249	1,597	<b>4,344</b>
Procurement savings initiatives	...	164	254	312	<b>729</b>
Digital Restart Fund expense reprioritisation	180	210	210	...	<b>600</b>
<b>Total reprioritisation, saving and offset measures</b>	<b>775</b>	<b>1,276</b>	<b>1,712</b>	<b>1,908</b>	<b>5,670</b>

(a) The budget result impact of changes to wages policy is \$4,311 million over four years to 2023-24, incorporating revenue changes.

## Trends and outlook – expenses

Table 5.3: General governments sector expenses

	2019-20	2020-21	2021-22	2022-23	2023-24	% Average growth p.a. 2019-20 to 2023-24
	Actual	Budget	Forward Estimates			
	\$m	\$m	\$m	\$m		
Employee Expenses	35,555	37,087	37,610	38,888	40,075	3.0
Superannuation	4,170	3,888	3,756	3,771	3,969	(1.2)
Other Operating	23,156	24,824	23,506	22,132	21,681	(1.6)
Depreciation & Amortisation	5,948	7,042	7,425	7,750	8,044	7.8
Grants and Subsidies	17,369	22,743	19,548	17,282	16,542	(1.2)
Interest	2,084	2,549	2,673	2,869	3,079	10.2
<b>Total Expenses</b>	<b>88,283</b>	<b>98,133</b>	<b>94,519</b>	<b>92,692</b>	<b>93,390</b>	<b>1.4</b>
Annual change	9.7%	11.2%	-3.7%	-1.9%	0.8%	

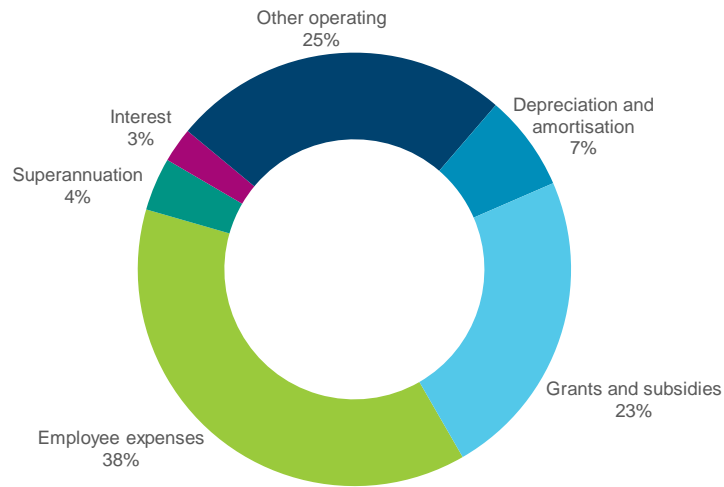
This section provides an expense line analysis of the Government's operating expenditure, as outlined in Table 5.3.

Consistent with past years, and reflecting the service-oriented nature of the State Government, employee-related expenses (excluding superannuation) account for the largest share of spend at 37.8 per cent of total expenses in 2020-21. This is consistent with other Australian states and territories.

Other operating expenses make up the second largest category (25.3 per cent) and include consultant and contractor fees, and repairs and maintenance costs.

Grants and subsidies make up almost a quarter of expenses (23.2 per cent), followed by depreciation and amortisation (7.2 per cent), superannuation expenses (4.0 per cent), and interest expenses (2.6 per cent).

Chart 5.1: Composition of 2020-21 expenses



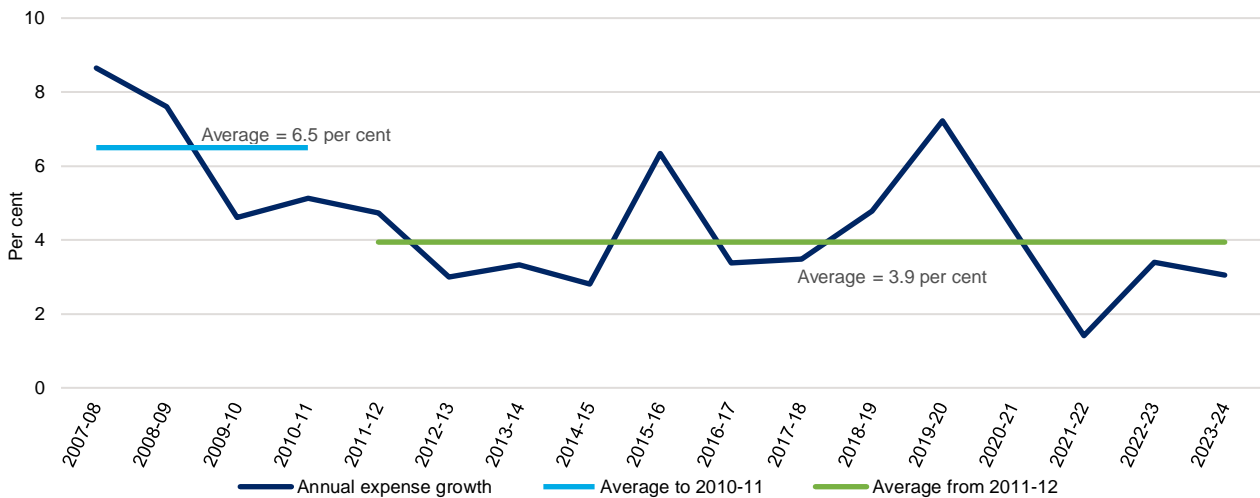
### Employee expenses

Employee expenses, excluding superannuation, are projected to be \$37.1 billion in 2020-21, comprising the largest share of Government operating expenses at 37.8 per cent of the total. This reflects the Government’s focus on delivering essential services to support the community and includes expenditure for teachers, nurses and police.

Employee expenses are forecast to grow by 4.3 per cent in 2020-21, driven by additional frontline workers, including for the COVID-19 response. This growth is forecast to moderate over the budget and forward estimates, increasing by an average of 3.0 per cent per year. This growth is partially due to increases in frontline staff in health, education and police. It also incorporates the downward revision of wages growth to 0.3 per cent in 2020-21 for some public sector workers and 1.5 per cent over the forward estimates.

Chart 5.2 shows average annual employee expense growth falling from 6.5 per cent from 2007-08 to 2010-11, compared to forecast average annual growth of 3.9 per cent from 2011-12 to 2023-24.

Chart 5.2: Employee expense growth from 2007-08 to 2023-24



The Government continues to focus on efficient back-office operations so expenditure can be redirected towards frontline service delivery. Frontline numbers have increased as a proportion of the total New South Wales public sector from 2010-11 to 2019-20, comprising 87.2 per cent of the public sector in 2019-20. From 2010-11 to 2019-20, frontline staff increased by 20,273 full-time equivalents (FTEs), while non-frontline staff numbers fell by 1,784 FTEs. Frontline staff continued to grow by 7,785 FTEs from 2018-19 to 2019-20 as a result of an increase in teachers, school support staff, nurses, medical practitioners, ambulance officers, police and firefighters.

This Budget reflects the Government's significant investment in frontline workers to support the community during COVID-19. In addition to boosting healthcare, support and hospital security staff to protect the community during the pandemic, the Government is also providing:

- 5,295 new and redeployed cleaners (as at 31 July 2020) from the \$250.0 million stimulus package to support additional cleaning of public infrastructure, including schools and public transport
- 1,000 additional Service NSW customer service staff from a \$102.9 million investment in 2020-21 to enable families and businesses to readily access non-health related COVID-19 advice and support 24/7.

The Government is also supporting frontline staff during the pandemic by:

- ensuring continued access to childcare, particularly for frontline staff, by helping to maintain jobs for over 7,900 community preschool workers through the \$120.0 million extension of the free preschool package
- investing over \$1.0 billion to provide additional personal protective equipment (PPE) to keep our frontline workers safe throughout the duration of the pandemic.

## Superannuation expenses

Superannuation expenses are projected to be \$3.9 billion in 2020-21, or 4.0 per cent of total recurrent expenses. These costs are associated with defined benefit and defined contribution plans.

Superannuation expenses are forecast to decrease by 1.2 per cent on average each year over the budget and forward estimates. This is attributable to a decrease in forecast expenses for defined benefit superannuation liabilities, partially offset by an increase in expenses for defined contribution superannuation liabilities.

Changes in expenses for defined benefit superannuation liabilities are largely driven by movements in the 10-year Commonwealth Government bond rate. These expenses are expected to fall in 2021-22 and 2022-23 before beginning to rise in 2023-24, reflecting forecasts of the 10-year bond rate over those years.

Falls in defined benefit superannuation expenses are partially offset by increased defined contribution superannuation expenses across the budget and forward estimates, primarily associated with additional health, education and police employee costs.

## Other operating expenses

Other operating expenses mainly represent the day-to-day running costs incurred in the delivery of government services and programs and comprise 25.3 per cent of total expenses in 2020-21.

Other operating expenses are forecast to be 7.2 per cent higher in 2020-21 compared to the prior year, largely due to COVID-19 response and recovery measures.

Other operating expenses are forecast to decline over the budget and forward estimates by an average of 1.6 per cent per annum to 2023-24. The decrease from 2020-21 to 2023-24 is driven by the temporary COVID-19 response and recovery measures ceasing in the forward estimates. Other drivers of the decrease are the completion of major transport projects being delivered in the public non-financial corporations sector, and the implementation of budgeted savings measures, including the increase in agency procurement savings.

Information on the Aboriginal Procurement Policy is provided in Box 5.6.

### Box 5.6: Driving sustainable economic prosperity

The Aboriginal Procurement Policy leverages the NSW Government's procurement activities to support Aboriginal employment opportunities and participation along with growth of Aboriginal-owned businesses, to drive prosperity across Aboriginal communities.

Following significant consultation and review, the policy will be strengthened from 1 January 2021 by combining the Aboriginal Procurement Policy and the Aboriginal Participation in Construction Policy. This will concentrate Government's procurement activities through a single policy framework to improve outcomes. Government clusters have each been set a target to direct 1 per cent of addressable spend to Aboriginal businesses, a total of \$59.0 million from 1 January to 30 June 2021.

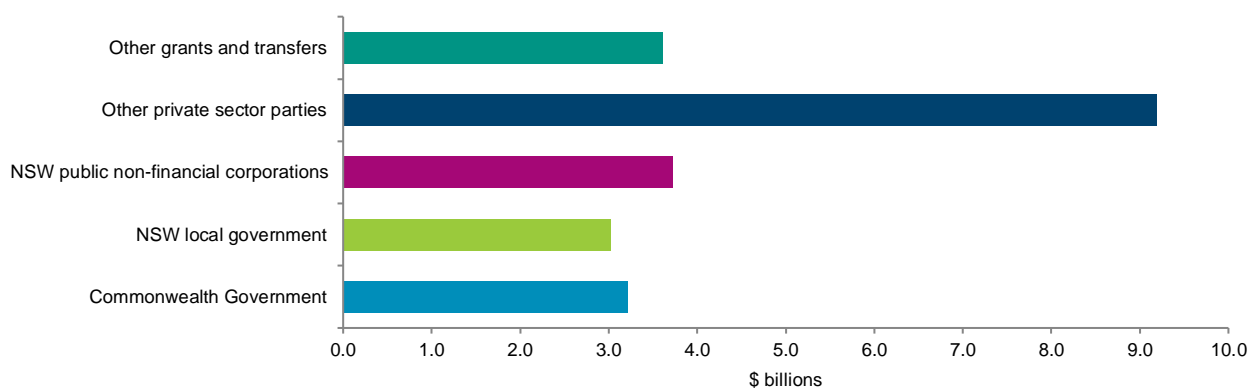
This new target aims to increase the spend with Aboriginal businesses by almost 30 per cent based on a 6-monthly average of the previous financial year spend with Aboriginal businesses. The target to award 3 per cent of goods and services contracts to Aboriginal businesses has been retained from the previous policy and targets assigned to each cluster to better assist clusters to understand their requirements and achieve their targets.

## Grants, subsidies and other transfer expenses

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

Grants and subsidies are forecast to be \$22.7 billion in 2020-21 and comprise 23.2 per cent of total expenses. Chart 5.3 below outlines the composition of grants and subsidies in 2020-21 by recipient.

Chart 5.3: Composition of grants and subsidies in 2020-21 by recipient



Grants and subsidies are expected to increase by \$5.4 billion (30.9 per cent) from 2019-20 to 2020-21. This is driven by the Government's bushfire and COVID-19 response and recovery measures.

Over the budget and forward estimates, grants and subsidies decrease by an average of 1.2 per cent annually. The decrease recognises the temporary COVID-19 stimulus and bushfire recovery measures in 2019-20 to 2020-21, which reduce across the forward estimates. This is partially offset by an increase in grants associated with the continued roll-out of the National Disability Insurance Scheme (NDIS).

Grants to local governments and councils are forecast to increase to \$3.0 billion in 2020-21 and comprise 13.3 per cent of grants and subsidies. These payments include Restart NSW grants and support local councils to deliver infrastructure and services. They also provide targeted benefits to local communities, including repairing and upgrading local roads and airports, and providing sporting facilities and parks.

## Depreciation and amortisation

Depreciation and amortisation expenses are forecast to be \$7.0 billion in 2020-21, comprising 7.2 per cent of total expenses. These expenses are forecast to grow by 18.4 per cent in 2020-21 and by an average of 7.8 per cent annually over the budget and forward estimates.

Depreciation and amortisation expenses are often correlated to the level of infrastructure investment. As the Government continues to make record infrastructure investments into schools, hospitals, transport projects and digital service delivery, higher depreciation expenses are forecast.

The introduction of accounting standard AASB1059: *Service Concession Arrangements: Grantor* has also increased depreciation and amortisation expenses across the four years to 2023-24. See the accompanying publication '*How to Read the Budget Papers*' for further detail.

## Interest

Interest expenses in 2020-21 are forecast to be \$2.5 billion (2.6 per cent of total expenses) and increase by an average of 10.2 per cent annually over the budget and forward estimates. This is associated with increased borrowings to offset a decline in revenue sources as a result of COVID-19, significant investment for COVID-19 recovery and response measures, and to fund the State's record infrastructure program.

The increase in borrowings is partially offset by historically low interest rates. The Government has leveraged these low interest rates to fund the State's infrastructure program, while keeping interest servicing costs at sustainable levels.

Even with the increase in borrowings to support the infrastructure program, the State's interest expenses are expected to average only 3.2 per cent of revenue over four years to 2023-24.

## 5.2 General government capital expenditure

This section provides analysis of capital expenditure in the general government sector, which excludes the investment program of Government-owned corporations such as Sydney Water, Water NSW, Transport Asset Holding Entity and Sydney Opera House Trust. Table 5.4 provides a reconciliation of the changes in capital expenditure between the 2019-20 Half-Yearly Review and 2020-21 Budget.

Table 5.4: Capital expenditure reconciliation

	2019-20	2020-21	2021-22	2022-23	2023-24
	Actual	Budget		Forward Estimates	
	\$m	\$m	\$m	\$m	\$m
<b>Capital – 2019-20 Budget</b>	<b>22,345</b>	<b>17,750</b>	<b>17,247</b>	<b>14,349</b>	<b>n.a.</b>
Capital measures	706	834	810	1,038	n.a.
Parameter and other variations	631	237	69	20	n.a.
<b>Capital – 2019-20 Half-Yearly Review</b>	<b>23,683</b>	<b>18,821</b>	<b>18,126</b>	<b>15,407</b>	<b>n.a.</b>
Capital measures	(120)	4,135	5,032	4,592	1,907
Parameter and other variations	(2,578)	(311)	(228)	132	n.a.
<b>Capital – 2020-21 Budget</b>	<b>20,985</b>	<b>22,644</b>	<b>22,930</b>	<b>20,131</b>	<b>18,523</b>

Capital expenditure in the general government sector is forecast to be \$22.6 billion for 2020-21, an increase of 7.9 per cent from 2019-20. The four-year capital expenditure program to 2023-24 is expected to be \$84.2 billion. This is an increase on the forecast program in the 2019-20 Half-Yearly Review and is driven by COVID-19 response and recovery measures and new project approvals including:

- \$9.2 billion over the next four years for Sydney Metro – Western Sydney Airport
- \$3.0 billion Jobs and Infrastructure Acceleration Fund, which has funded shovel ready projects across the State. Further information on the Jobs and Infrastructure Acceleration Fund is in Box 1.1 of Budget Paper No. 3 *Infrastructure Statement*
- \$1.6 billion Digital Restart Fund (\$1.2 billion capital and \$400.0 million recurrent) to accelerate whole of government digital transformation (see Box 5.4).

Taking into account the investment program of the Public Non-Financial Corporations, total non-financial public sector capital expenditure is expected to be \$107.1 billion over four years to 2023-24. See Box 5.7 and Budget Paper No 3. *Infrastructure Statement* for more information.

### Box 5.7: Continuing record levels of infrastructure investment across the State

The Government's record four-year \$107.1 billion capital program is creating much needed jobs during the pandemic and building up the productivity of our State. These investments will generate an economic dividend for decades. New schools upskill our kids, hospitals improve our health and quality of life and transport infrastructure connects people to jobs.

The infrastructure program in this Budget has a strong focus on improving the State's resilience. It recognises now that the decade ahead is different from the decade just finished. The program responds to challenges of bushfire and drought, which are not going away. It also focuses investment towards better digital services.

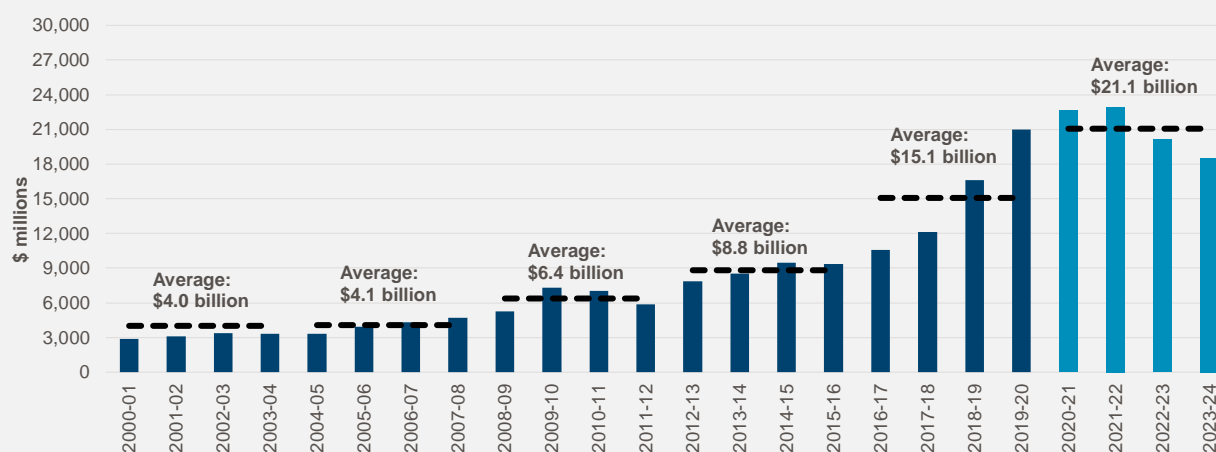
The 2020-21 Budget includes investment in new projects and acceleration of others:

- \$10.4 billion over the next four years for the Sydney Metro West
- over \$1.4 billion in new school infrastructure funding for new and upgraded schools
- \$438.0 million for the Shoalhaven Hospital Redevelopment
- \$104.5 million for an Arts Maintenance and Upgrade Fund to both stimulate jobs and the economy through improving accessibility, sustainability and functionality of our cultural assets.

New South Wales residents are also continuing to enjoy the benefits of the Government's infrastructure investment with major projects such as the CBD and South East Light Rail, the Arthur Phillip High School, the WestConnex M8 and NorthConnex are now complete and open. For the first time citizens in Sydney have access to a fast metro rail service – Sydney Metro Northwest.

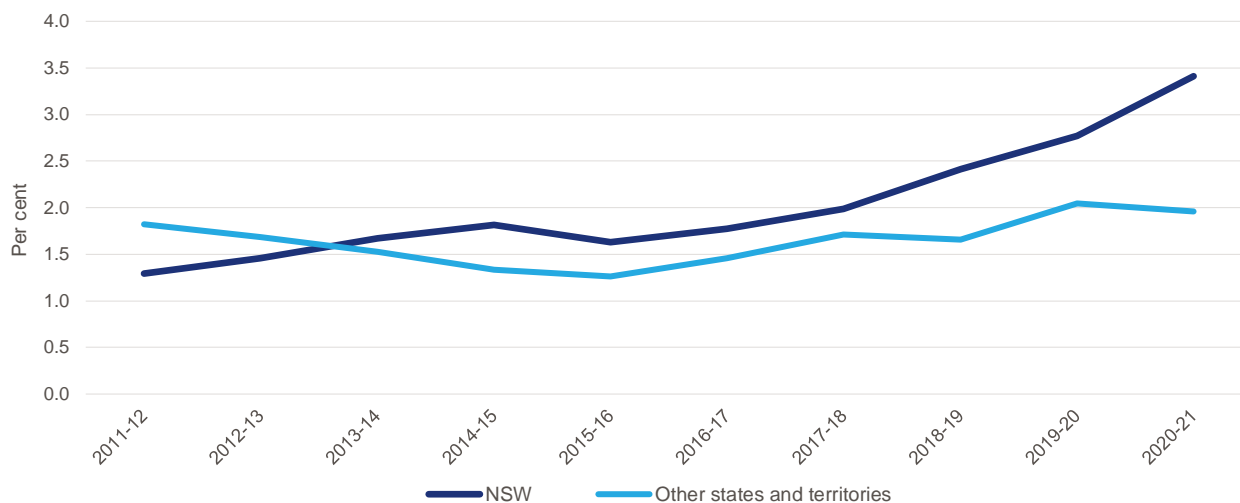
Chart 5.4 shows how general government sector capital expenditure has increased substantially since 2000-01. Since 2011, active balance sheet management, supported by the Government's successful asset recycling program, has allowed the Government to deliver a record infrastructure pipeline. This balance sheet strength and the use of operating surpluses means borrowings are maintained at manageable levels (see Box 3.4 in Chapter 3).

Chart 5.4: General government sector capital expenditure since 2000-01



As a share of GSP, general government capital expenditure has increased from 1.3 per cent in 2011-12 to 3.4 per cent<sup>11</sup> in 2020-21 and remains higher than the average of other states and territories (Chart 5.5).

Chart 5.5: General government sector capital spending relative to GSP<sup>(a)</sup>



(a) General government sector – purchases of non-financial assets per the cash flow statement, percentage of GSP. For consistency with other states, assets acquired through finance leases are excluded.

Source: ABS cat no. 5220.0 and 5512.0 for years 2002-03 to 2018-19. State Budget papers and NSW Treasury calculations for 2019-20 and 2020-21.

### 5.3 Functional classification of government expenditure (COFOG-A)

This section provides advice on NSW Budget spending according to the categories in the international standard ‘Classification of the Functions of Government – Australia’ (COFOG-A). Further information on COFOG-A can be found at the Australian Bureau of Statistics website.

COFOG-A classification is an international standard, which allows for benchmarking and comparisons to be undertaken across jurisdictions. Its subcategories are different to the 37 State Outcomes and includes items, such as defence, which are less relevant to New South Wales service delivery priorities. The expenditure data discussed below is presented on a general government sector eliminated basis and will vary from the data presented on a cluster and State Outcome basis in Budget Paper No. 2 *Outcomes Statement*.

The 37 State Outcomes presented in Budget Paper No. 2 *Outcomes Statement* categorise expenditure with a greater level of consideration to the services delivered by the NSW Government and the priorities of our citizens. Analysis on State Outcomes can be found in Budget Paper No. 2 *Outcomes Statement*.

<sup>11</sup> Calculated as purchases of non-financial assets per the cash flow statement. For consistency with other states, assets acquired through finance leases are excluded.



## Recurrent and capital expenditure by COFOG-A

Total recurrent expenditure in 2020-21 is \$98.1 billion. In New South Wales, four categories make up 71.1 per cent of expenditure – health, education, transport and public order and safety (see Chart 5.6).

Total capital expenditure in 2020-21 is \$22.6 billion. Transport, health and education represent 78.4 per cent of the total capital expenditure budget in 2020-21 (see Chart 5.7).

For further information on the Government's infrastructure program, refer to Budget Paper No. 3 *Infrastructure Statement*.

Chart 5.6: \$98.1 billion in recurrent expenditure, by COFOG-A category (2020-21)

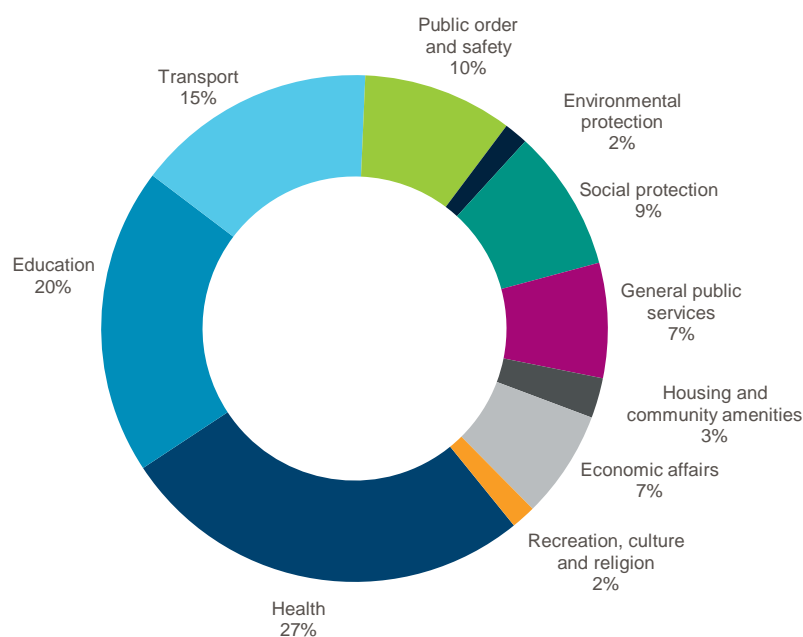
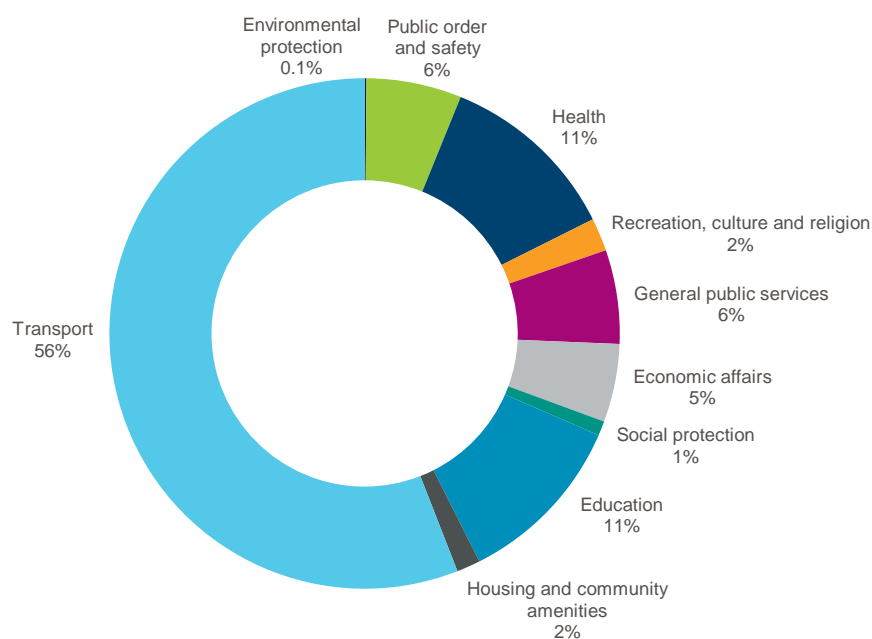


Chart 5.7: \$22.6 billion in capital expenditure, by COFOG-A category (2020-21)



## Analysis of expenditure by COFOG-A category

### Health

Recurrent health expenses for 2020-21 are expected to be \$26.1 billion, representing 26.6 per cent of total recurrent expenses. This is a \$2.7 billion increase from 2019-20.

The 2020-21 Budget includes spending to provide high-quality care in public hospitals, ambulance and emergency health services, mental health services, as well as funding for recovery measures and for the continued public health response to the COVID-19 pandemic.

Capital expenditure for health in 2020-21 is \$2.6 billion, or 11.5 per cent of total 2020-21 GGS capital expenditure. This is an increase of \$73.4 million since 2019-20. This is largely attributable to the continued delivery and acceleration of hospital and health infrastructure projects, such as the redevelopments of the Campbelltown, Coffs Harbour, Goulburn, Maitland, Nepean, Randwick, Royal Prince Alfred, St George, Sydney Children's Hospital Randwick, Tweed and Wyong hospitals.

### Education

Recurrent education expenses in 2020-21 are expected to be \$19.2 billion, or 19.6 per cent of total recurrent expenses.

This covers investments in pre-primary, primary, secondary, technical and tertiary education and teacher training. This includes additional funding to address workforce challenges, through providing redeployment pathways and expanding training opportunities to support displaced workers impacted by COVID-19.

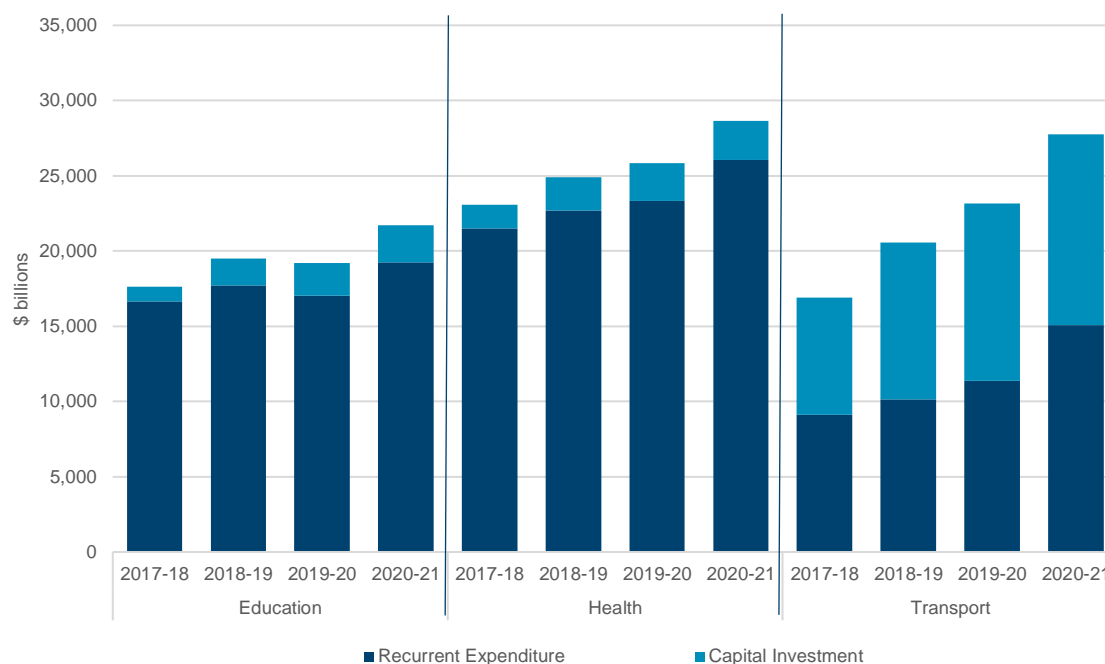
Education capital expenditure for 2020-21 is expected to be \$2.5 billion, representing 11.0 per cent of total GGS capital expenditure. This continues the Government's record schools infrastructure program, including new funding for the upgrades of North Sydney Public School and Carlingford West Public School, as well as for the build of new primary schools in Murrumbateman, Googong and Edmondson Park. It also includes funding for the rebuild of Moruya High School in regional New South Wales.

### Transport

Within the transport COFOG-A classification, recurrent expenditure in 2020-21 is expected to comprise of \$15.1 billion, which is 15.4 per cent of total recurrent expenditure. This is an increase of 32.7 per cent from transport recurrent expenditure in 2019-20 of \$11.4 billion. This spending covers the delivery of services and maintaining service levels across the transport system, including on roads, trains, buses, ferries and light rails.

Transport capital expenditure in 2020-21 is \$12.7 billion, or 55.9 per cent of total capital expenditure. The Government continues to deliver major capital transport projects such as Sydney Metro West, Sydney Metro – Western Sydney Airport, Warringah Freeway Upgrade and the Western Harbour Tunnel, and Pacific Highway Upgrade - Woolgoolga to Ballina.

Chart 5.8: General government recurrent and capital expenditure by function <sup>(a)(b)</sup>



- (a) The COFOG-A framework has replaced the former Government Purpose Classification framework under the new ABS GFS Manual. This was implemented for the first time in the 2017-18 Budget. Appendix A1 of this Budget Paper provides further information on the Uniform Presentation Framework and COFOG-A functions.
- (b) Figures for 2020-21 are budget forecasts.

Chart 5.8 illustrates the Government's focus on delivering core services within the education, health and transport policy areas, with recurrent and capital expenditure totalling \$268.9 billion since 2017-18. The Government's expenditure on education, health and transport has increased from \$57.6 billion in 2017-18 to \$68.2 billion in 2019-20. This is forecast to further increase to \$78.1 billion in 2020-21.

## Public order and safety

The 2020-21 Budget provides \$9.4 billion in recurrent expenditure on the public order and safety government function, making up 9.6 per cent of total recurrent expenditure. Recurrent expenditure in 2020-21 is largely attributable to maintaining services for courts, prisons, fire and civil protections and police. It also includes support for border operations and hotel quarantining programs.

Capital spending on public order and safety is forecast to be \$1.4 billion, or 6.0 per cent of total 2020-21 capital expenditure. This includes the continuation of the Prison Bed Capacity Program, a range of capital upgrades across the criminal justice network.

## General public services

The Government will spend an estimated \$7.2 billion in 2020-21 on recurrent services within general public services, representing 7.3 per cent of total recurrent expenditure. This includes the delivery of bushfire response measures, land tax concessions, small business recovery grants, digital voucher scheme, and the Jobs Plus program to support job creation and business growth.

Capital expenditure in general public services is \$1.3 billion in 2020-21.

## **Social protection**

The Government is committed to protecting the vulnerable, breaking the cycles of disadvantage and supporting people with disabilities.

In 2020-21, social protection recurrent expenses represent 9.0 per cent of total GGS expenditure at \$8.9 billion. This includes the establishment of a Social Sector Transformation Fund to support charities and social enterprises, continuation of Out of Home Care support packages and contributions to the National Disability Insurance Scheme.

Capital investment for social protection in 2020-21 is \$208.3 million, an increase of \$121.6 million from 2019-20. This increase is largely attributable to Aboriginal Housing Office maintenance and capital works.

## **Economic affairs**

The Government will spend an estimated \$6.8 billion in recurrent expenses in 2020-21 on economic affairs and a further \$1.1 billion in capital. This represents a \$1.5 billion increase in recurrent expenses from 2019-20 or 28.3 per cent, and a \$1.0 billion increase in capital expenses from 2019-20.

This functional classification includes expenditure in the following areas:

- commercial and labour affairs
- agriculture, forestry, fishing and hunting
- fuel and energy
- mining, manufacturing and constructions
- communication
- other industries
- research and development.