

## 5. EXPENDITURE

- Expenses in this Budget continue the State's world-leading response to the pandemic whilst also responding to the 2021 flood and storm events, the mouse plague, and further investments in our bushfire response capabilities.
- At the same time, new expenditure is being directed towards forward-looking economic reforms and delivering improved services across New South Wales.
- Total general government expenses are projected to be \$102.5 billion in 2021-22. This is 7.3 per cent higher than in the previous financial year due to continued economic stimulus and support programs, new policy measures and parameter adjustments.
- The Government is making a range of additional investments, including in:
  - Education, with curriculum reform and a teacher supply strategy
  - Health, with a focus on mental health and palliative care
  - Energy, with funding for the Energy Roadmap and incentives to support the transition to electric vehicles
  - Transport, with funding for more trains and more services, and road safety.
- Across the forward estimates, general government expense growth is projected to return to levels below revenue growth, in line with the Government's approach to fiscal discipline as required by the *Fiscal Responsibility Act 2012*. This will allow the Government to rebuild fiscal buffers for any future events.
- This Budget also includes a record infrastructure program of \$108.5 billion over the four years to 2024-25 including a record investment of \$7.9 billion in schools, \$10.8 billion on hospitals and health infrastructure<sup>1</sup>, the new Bradfield City Centre and \$71.5 billion for the State's roads and public transport.

### 5.1 Continuing response and recovery with a productivity focus

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The Government's priorities in the 2021-22 Budget are to:

- provide further health safeguards and support for communities impacted by COVID-19, bushfires and floods
- continue the Government's reform agenda, with long-term economic reforms to ensure the state's prosperity into the future.

The expense measures in this Budget build on the successful implementation of stimulus and support since March 2020. Stimulus measures continue with \$6.0 billion in expense measures (recurrent and capital) to be delivered in 2021-22. Box 5.1 provides more details and insights into the COVID-19 response and recovery measures to date.

The State has seen a need for further investment in disaster response with \$590.4 million provided for the 2021 flood and storm events in partnership with the Commonwealth Government, and \$150.0 million for the mouse plague across regional New South Wales. A further \$268.2 million in recurrent and capital expenditure is provided for the Government's second response to the NSW Bushfire Inquiry, in addition to the \$192.2 million already provided in October 2020.

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<sup>1</sup> This includes \$428.5 million of capital expenditure from the Ministry of Health's expense budget. Further information is provided at footnote C) of Table 1.2 in Budget Paper 3.

Government investment is also being prioritised for initiatives that drive long-term productivity reform, which will boost the quality of services. This includes incentives towards the take-up of electric vehicles and allocating \$27.2 million over four years to implement reforms identified in the NSW Productivity Commission *White Paper 2021, Rebooting the economy*.

Table 5.1: Expense reconciliation since the 2020-21 Half-Yearly Review

	2020-21 Revised \$m	2021-22 Budget \$m	2022-23 \$m	2023-24 Forward Estimates \$m	2024-25
<b>Expenses – 2020-21 Budget</b>	<b>98,133</b>	<b>94,519</b>	<b>92,692</b>	<b>93,390</b>	<b>n.a.</b>
Policy measures	135	208	427	334	n.a.
Parameter and technical adjustments	(317)	958	910	893	n.a.
<b>Expenses – 2020-21 Half-Yearly Review</b>	<b>97,951</b>	<b>95,684</b>	<b>94,029</b>	<b>94,617</b>	<b>n.a.</b>
Policy measures	49	6,041	2,670	2,030	1,708
Parameter and other budget variations	(2,509)	725	1,848	2,138	n.a.
<b>Expenses – 2021-22 Budget</b>	<b>95,491</b>	<b>102,450</b>	<b>98,547</b>	<b>98,785</b>	<b>99,862</b>

The Government's expense management strategy is to ensure annual expenses do not grow at a rate faster than long-term revenue growth. In prioritising the response to the pandemic and other crises, government expenditure growth is projected to be 8.2 per cent in 2020-21 and 7.3 per cent in 2021-22, which is higher than the benchmark for the long-term revenue growth rate of 5.6 per cent. The average expense growth rate is projected to be 1.1 per cent per annum from 2020-21 to 2024-25, reflecting the moderation of expenditure growth across the forward estimates as temporary support measures ease (see Table 5.2 for more detail).

New policy measures since the 2020-21 Half-Yearly Review include<sup>2</sup>:

- ensuring the state is protected from the impacts of the COVID-19 pandemic through a range of health-related measures, such as contact tracing, pop-up clinics, hotel quarantine and the vaccine rollout. There is also a continuation of support for businesses as part of the economic recovery, including a new Dine & Discover voucher for the Sydney CBD on Fridays
- the Government will ensure New South Wales is the best place to visit by providing funding to secure major events for rejuvenating the state's visitor economy. There will also be further investment for our communities, including delivering better sporting facilities
- a range of measures to support families, such as strengthening palliative care services, continuing the uplift in Energy Social Programs and extending the Regional Seniors Travel Card for an additional two years. The Government will also invest to transform the State's services, including expanding the Digital Restart Fund
- driving economic growth beyond the recovery phase by lifting productivity through measures such as implementing curriculum reform to improve student outcomes; attracting and retaining high performing teachers through a new Teacher Supply Strategy; implementing the productivity-enhancing recommendations made by the NSW Productivity Commission; and incentivising the uptake of electric vehicles.

<sup>2</sup> Further information on new measures is provided in the Measures Statement in Appendix A5.

**Box 5.1: Delivering and extending the COVID-19 response and recovery package**

Since the start of the pandemic the Government has committed over \$29 billion in revenue and expenditure support. This is an unprecedented level of assistance with real benefits, including:

- more than 93,000 support and recovery grants paid out to small businesses in New South Wales, totalling over \$630 million
- over 6,000 tutors have been employed across 2,184 government schools for the Intensive Learning Support program, which is improving learning outcomes for our most disadvantaged students
- 90 per cent of preschools have opted into the free preschool funding program
- more than 1,200 women have received return to work grants
- over 70,000 job seekers and young people have taken advantage of fee-free training places available under Skilling for Recovery
- more than 520 social sector organisations have been supported through the Social Sector Transformation Fund, with direct grants that support their capacity, capability and future resilience
- supporting 7,600 new or redeployed cleaners to provide additional COVID-19 related cleaning of public infrastructure
- over 200,000 travellers (including international and domestic arrivals) quarantined.

Support for the economy will continue to be timely, targeted and temporary. Some targeted programs have concluded in line with the economic recovery. Others will continue through 2021-22 before then winding back. The Government has committed further targeted support for sectors that remain impacted by the ongoing closure of the international border. These measures include:

- a new CBD Fridays Dine & Discover voucher for dining and entertainment, to attract workers and visitors back into the Sydney CBD (\$50.0 million program)
- \$20.0 million towards a range of music, dining and cultural activations across the CBD
- enticing NSW residents to stay in the Sydney CBD over winter, with \$100 accommodation vouchers (\$20.0 million program in total)
- encouraging business events to be held in Sydney and regional New South Wales through a \$5.5 million Business Events Fund
- driving demand for Sydney and regional New South Wales tourism, with a \$2.0 million tourism industry marketing package through the Love NSW campaign.

### **Box 5.2: Regional New South Wales is a key component of the state's economic success**

Regional New South Wales accounts for around 34 per cent of the state's population and around 25 per cent of the NSW economy.

The Government is investing to support our vibrant and resilient regions which have faced strong challenges from recent natural disasters, but which have shown a capacity to adapt and thrive. Key components include:

#### **Rising from recent challenges**

- \$590.4 million for the 2021 NSW Storm and Flood Recovery Package, in partnership with the Commonwealth, to support local communities to clean-up and recover from the recent storm and floods
- \$150.0 million for the NSW Mouse Plague Response Program to directly support farmers and rural communities
- continuation of the Government's \$4.5 billion bushfire response and recovery package, in partnership with the Commonwealth, including:
  - \$540.0 million for the Bushfire Local Economic Recovery package to support job retention and creation in bushfire-impacted regions
  - \$460.4 million for the response to the NSW Bushfire Inquiry to bolster preparedness and capacity to respond to future disasters.

#### **Fostering regional growth**

- \$462.3 million over four years for moving Special Activation Precincts from development to delivery, which includes Regional Jobs Precincts and early land acquisition
- \$197.9 million for digital connectivity, including for the Gig State project, the expanded Farms of the Future program and the Mobile Coverage Project

#### **Delivering high quality and accessible services**

- Over \$900 million in 2021-22 for four new and 24 upgraded regional hospitals and six hospital car parks
- Over \$1 billion in 2021-22 for new and upgraded regional schools
- Over \$200 million in 2021-22 for the Great Western Highway Upgrade and the Coffs Harbour Bypass.

### **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 Commonwealth Government grants, technical accounting and actuarial adjustments and the allocation of centrally held expenditure into agency budgets.

The major variations since the 2020-21 Half-Yearly Review include:

- an increase of \$1.5 billion in defined benefit superannuation expenses due to movements in the Commonwealth Government bond rate
- a \$923.2 million increase in interest expenses due to rising bond yields and investment in new services and infrastructure<sup>3</sup>

<sup>3</sup> The comparison period for interest expense is from 2020-21 to 2023-24

- an additional \$479.3 million for schools to continue to meet the State's commitments under the National School Reform Agreement ("Gonski 2.0")
- reprofiling expenditure across years, to better align with planned service and project delivery schedules
- adjustments to depreciation expenditure to reflect the Government's record investment in new infrastructure.

## Fiscal discipline and sustainable expense growth

The *2021-22 NSW Intergenerational Report* highlights the importance of managing expense growth and maintaining sustainable debt levels. With jobs returning and the economy recovering, the Government's temporary economic support measures will conclude over the forward estimates, which will ensure expenditure returns to a more sustainable level.

A strong financial position will enable the Government to respond to any unexpected future shocks or events – as it did with the recent drought, bushfires, COVID-19 pandemic, storm and floods and the mouse plague.

The Government has continually managed expense growth in line with the objectives of the *Fiscal Responsibility Act 2012*, with the exception of COVID impacted years when temporary and targeted response and stimulus measures were required.

The Government's fiscal repair program is underway and includes:

- ongoing delivery of procurement reforms across the sector, including those introduced in the 2020-21 Budget
- investigation of strategies to improve the delivery of back-office support functions
- ongoing reviews of expenditure across the sector to ensure resource allocation is efficient, effective, delivering value for money and aligned to the delivery of the highest priority outcomes.

These measures are in addition to the temporary restraint on public sector wages growth implemented in 2020-21.

The NSW Government's approach to Outcome Budgeting is driving a performance and delivery culture across more than 100 agencies. It has introduced greater visibility of performance and therefore greater management of resources. The Government can now better evaluate whether programs are delivering value for money, whether they benchmark well compared to other jurisdictions and whether they remain fit for purpose. Budget Paper No. 2 *Outcomes Statement* provides information on investment levels and performance across 37 State Outcomes.

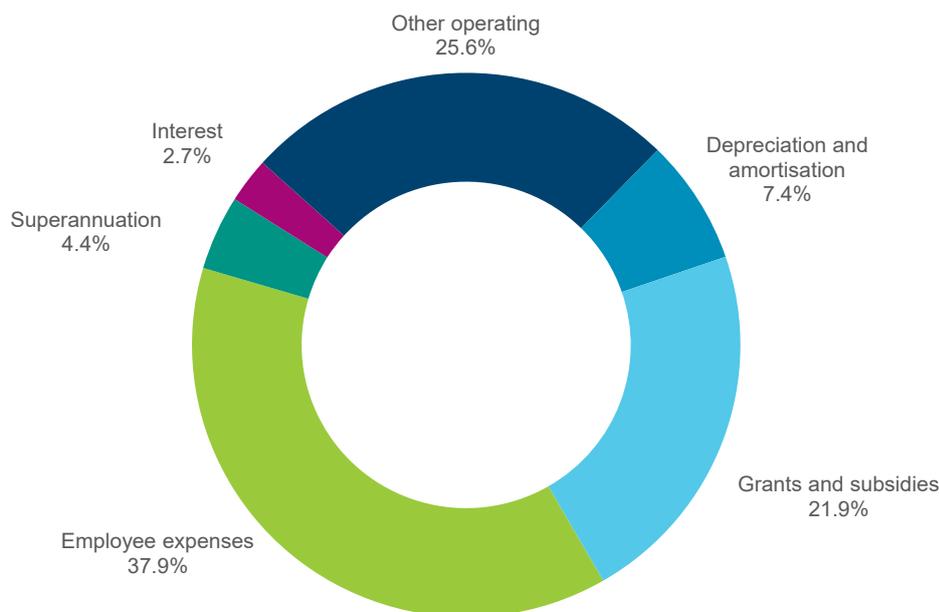
## 5.2 Trends and outlook – expenses

Table 5.2: General government sector expenses

	2020-21	2021-22	2022-23	2023-24	2024-25	% Average growth p.a. 2020-21 to 2024-25
	Revised	Budget	Forward Estimates			
	\$m	\$m	\$m	\$m		
Employee	37,349	38,835	40,105	41,241	42,664	3.4
Superannuation	3,978	4,538	4,686	4,890	5,209	7.0
Depreciation & Amortisation	7,043	7,625	8,129	8,617	8,969	6.2
Interest	2,403	2,741	3,238	3,873	4,535	17.2
Other Operating Expense	23,823	26,251	23,713	23,674	21,937	(2.0)
Grants, Subsidies, and Other Transfers	20,895	22,459	18,676	16,491	16,549	(5.7)
<b>Total Expenses</b>	<b>95,491</b>	<b>102,450</b>	<b>98,547</b>	<b>98,785</b>	<b>99,862</b>	1.1
Annual change	8.2%	7.3%	-3.8%	0.2%	1.1%	

This section provides an expense line analysis of the Government's operating statement. It should be read in conjunction with Table 5.2 and Chart 5.1. In summary, interest expenses, and depreciation and amortisation expenses are growing from 2021-22 due to the significant infrastructure investments in recent years. This increase has been offset by a reduction in other operating and employee expenses as temporary stimulus and support measures are phased out. Chart 5.1 shows the composition of expenses in 2021-22:

Chart 5.1: Composition of 2021-22 expenses



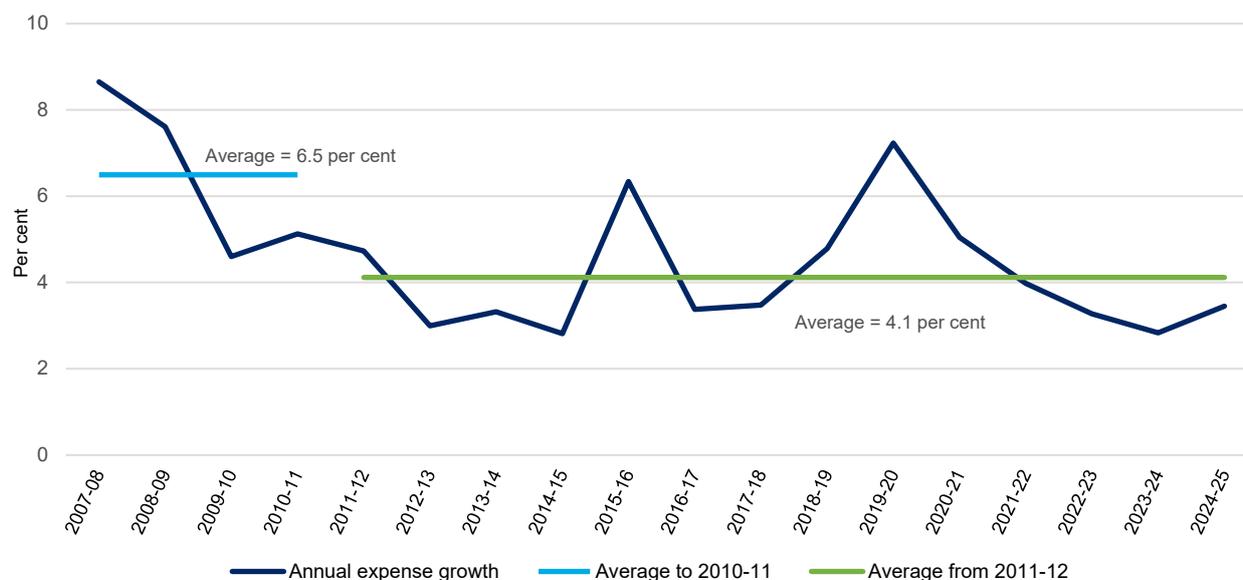
## Employee expenses

Employee expenses, excluding superannuation, are projected to be \$38.8 billion in 2021-22. This reflects the Government's focus on delivering essential services and includes teachers, nurses and police.

Employee expenses are forecast to grow by an average of 3.4 per cent from 2020-21 to 2024-25. This includes a forecast increase of 4.0 per cent in 2021-22, driven mainly by additional workers, including for the continuation of the COVID-19 response and growth in the frontline workforce. It also includes assumed increases to salaries and related allowances of up to 2.5 per cent from 2021-22. This change in wages policy is estimated to cost \$2.7 billion over the four years to 2024-25. From 2022-23, the employee expense growth rate is forecast to moderate while maintaining investment in essential services.

As shown in Chart 5.2, annual employee expense growth is more contained than in past years with average growth falling from 6.5 per cent (2007-08 to 2010-11) to 4.1 per cent (2011-12 to 2024-25). While the growth rate has fallen, frontline staffing continues to increase with almost nine in 10 staff being frontline as at 2019-20.

Chart 5.2: Employee expense growth from 2007-08 to 2024-25



## Superannuation expenses

Superannuation expenses are projected to be \$4.5 billion in 2021-22, or 4.4 per cent of total recurrent expenses. These costs are associated with defined benefit and defined contribution plans. This expense line also incorporates the legislated increase to the superannuation guarantee, which rises from 9.5 per cent to 10.0 per cent from 1 July 2021. It then increases incrementally each year up to 12.0 per cent on 1 July 2025.

Superannuation expenses are forecast to increase by 7.0 per cent on average each year from 2020-21 to 2024-25. The main driver of this is related to the movements in the 10-year Commonwealth Government bond rate. Expenditure relating to the bond rate movements is expected to rise progressively until 2024-25.

## Other operating expenses

Other operating expenses mainly represent the day-to-day running costs incurred in the delivery of government services and programs. They are projected to be \$26.3 billion in 2021-22, comprising 25.6 per cent of total expenses.

Other operating expenses are forecast to be 10.2 per cent higher in 2021-22 compared to the prior year, largely due to reprofiling of expenditure to better align planned services, additional costs for services, and the continuation of the COVID-19 response and stimulus measures.

Other operating expenses are forecast to decline from 2022-23 as temporary COVID-19 response and recovery measures ease off.

## 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 support the delivery of services and infrastructure projects.

Grants and subsidies are forecast to be \$22.5 billion in 2021-22, or 21.9 per cent of total expenses.

Grants and subsidies are expected to be \$1.6 billion higher in 2021-22 than the previous year. This increase includes payments to support operation of the rail network.

## Depreciation and amortisation

Depreciation and amortisation expenses are forecast to be \$7.6 billion in 2021-22, comprising 7.4 per cent of total expenses. These expenses are forecast to grow by 8.3 per cent in 2021-22 and by an average of 6.2 per cent annually from 2020-21 to 2024-25.

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

## Interest

Interest expenses in 2021-22 are forecast to be \$2.7 billion (2.7 per cent of total expenses).

From 2020-21 to 2024-25, interest expenses are forecast to grow at an average annual rate of 17.2 per cent. This is associated with borrowings to fund the State's record infrastructure program in the unprecedented low interest rate environment.

The increase in interest expense in the later years of the forward estimates is driven by rising bond yields, compared to the record low levels at the time of the 2020-21 Budget. Even with the increases in borrowing costs, the Government's interest expense as a percentage of revenue is estimated to be an average of 3.2 per cent over the four years to 2023-24, which is slightly above the 3.1 per cent projected at the 2020-21 Half-Yearly Review (see Box 6.3 in Chapter 6 for detailed analysis).

## 5.3 Capital expenditure

### General Government Sector

This section provides analysis of capital expenditure in the general government sector. It excludes the investment program of Government corporations (such as Sydney Water). General government capital expenditure is projected to be \$23.2 billion for 2021-22, an increase of 15.2 per cent when compared to the previous year. Table 5.3 outlines the profile over the four years to 2024-25 as well as changes since the previous Budget.

Table 5.3: Capital expenditure reconciliation

	2020-21 Revised \$m	2021-22 Budget \$m	2022-23 \$m	2023-24 Forward Estimates \$m	2024-25 \$m
<b>Capital – 2020-21 Budget</b>	<b>22,644</b>	<b>22,930</b>	<b>20,131</b>	<b>18,523</b>	<b>n.a.</b>
Capital measures	(6)	74	64	59	n.a.
Parameter and other variations	(1,594)	417	110	361	n.a.
<b>Capital – 2020-21 Half-Yearly Review</b>	<b>21,045</b>	<b>23,421</b>	<b>20,306</b>	<b>18,943</b>	<b>n.a.</b>
Capital measures	204	845	1,738	2,268	1,951
Parameter and other variations	(1,080)	(1,037)	929	(640)	n.a.
<b>Capital – 2021-22 Budget</b>	<b>20,169</b>	<b>23,229</b>	<b>22,972</b>	<b>20,570</b>	<b>18,857</b>

The four-year general government capital expenditure program to 2024-25 is expected to be \$85.6 billion. This is an increase of \$1.9 billion since the 2020-21 Half-Yearly Review. Significant investments include:

- record investment of \$10.8 billion over four years in hospitals and health infrastructure<sup>4</sup>
- an additional \$2.1 billion over four years for 44 new and upgraded schools as part of the Government's record investment of \$7.9 billion in school infrastructure

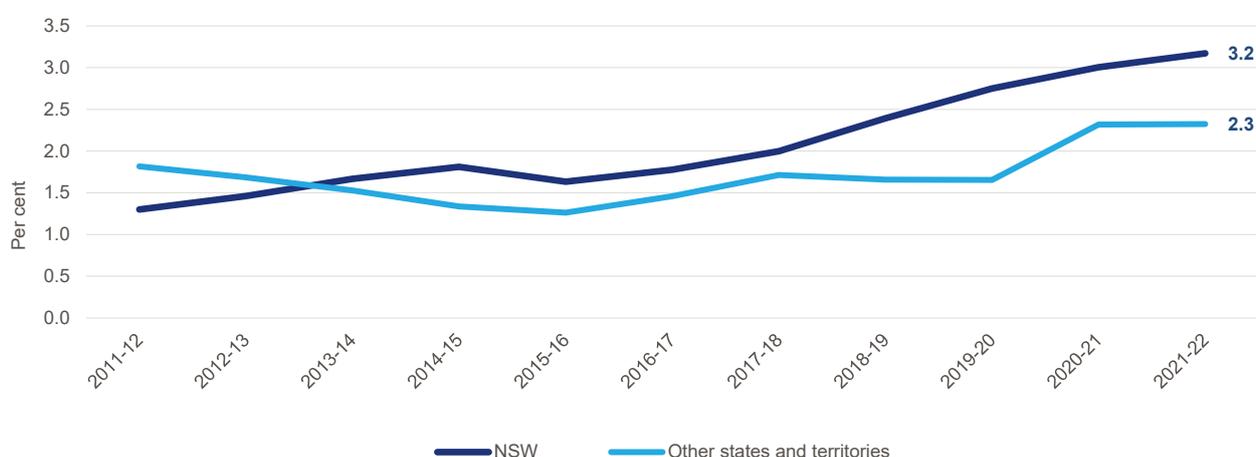
<sup>4</sup> This includes \$428.5 million of capital expenditure from the Ministry of Health's expense budget. Further information is provided at footnote C) of Table 1.2 in Budget Paper 3.

- \$870.0 million for enabling works for the Bradfield City Centre to catalyse the creation of a world-class city precinct adjacent to the new Western Sydney International (Nancy-Bird Walton) Airport
- \$660.2 million over four years for Stage 4 of the Critical Communications Enhancement Program, which is consolidating Government owned radio networks to facilitate a co-ordinated Government response to critical incidents and emergencies
- \$168.7 million over four years to continue planning, design and pre-construction for the Muswellbrook Bypass to improve travel times and safety for all road users on the New England Highway.

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

As a share of Gross State Product (GSP), general government capital expenditure has increased over the last 10 years from 1.3 per cent in 2011-12 to 3.2 per cent in 2021-22. It is also higher than other states and territories (see Chart 5.3).

Chart 5.3: 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, as a 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.

## Public Non-Financial Corporations Sector

Public non-financial corporations also invest in infrastructure assets, leading to improved service levels for citizens. When this infrastructure program is taken into account with that of the general government sector, total capital expenditure is forecast to be a record \$108.5 billion over the four years to 2024-25. Significant investments include:

- \$7.1 billion in capital expenditure from Sydney Water over the next four years. This includes investment in water and wastewater infrastructure to cater for increased population and development, as well as the delivery of asset upgrades in line with mandatory standards
- \$3.1 billion over the next four years for the More Trains, More Services program to increase rail services on the Illawarra, Airport and South Coast lines
- \$1.3 billion over the next four years for the Mariyung Fleet (New Intercity Fleet), delivering a new state-of-the-art fleet for customers who travel between Sydney, the Central Coast and Newcastle, the Blue Mountains, and the South Coast.

### Box 5.3: Continuing record levels of infrastructure investment across the state

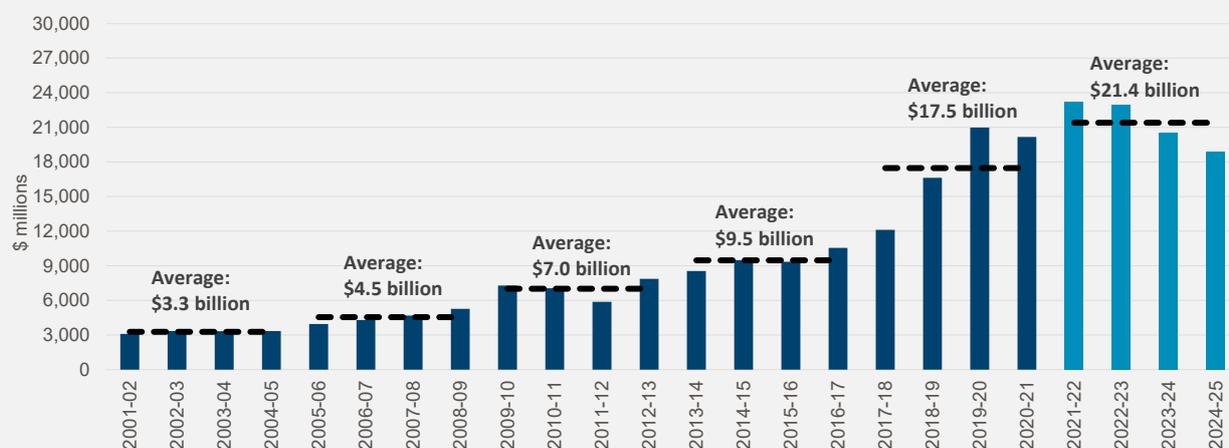
The four-year investment program of \$108.5 billion is a record for New South Wales. The unprecedented scale of the Government's infrastructure investment is supporting tens of thousands of jobs each year, including direct and indirect jobs across the wide variety of industries supporting the construction supply chain. This investment will support high-quality services for many years to come.

- There is a record investment across the health and education portfolios. The Budget includes \$300.0 million for the Rouse Hill Health Service to provide a range of new health services to support the needs of the growing population in the North West of Sydney.
- Transport investment continues to focus on efficiency and connectivity across the public transport and road networks, including \$2.0 billion allocated over four years for the Great Western Highway Upgrade between Katoomba and Lithgow.
- Investment in digital infrastructure is supporting the changing ways communities and businesses connect.
- Funding is allocated to improve access to national parks, to make New South Wales a unique destination for domestic and international visitors. The Budget includes \$80.4 million over three years for Great Walks: Multi-day Walking Experiences, creating new signature multi-day walking trails including the Great Southern Walk in the Illawarra
- Investment will drive a cheaper, cleaner and more reliable energy network. The Government is allocating \$164.4 million over four years<sup>5</sup> for the Electricity Infrastructure Roadmap.

These projects add to the comprehensive suite of infrastructure coming online, including:

- the Pacific Highway upgrade from Woolgoolga to Ballina, which opened to traffic in December 2020
- the Wagga Wagga Base Hospital Redevelopment, comprising the Wagga Wagga Base Hospital, a 24-hour emergency department and a custom-built Health Services Hub which commenced its community-based services in March 2021
- the iconic Australian Museum is being redeveloped, transforming the space with new public galleries, an exhibition hall and expanded educational facilities, with the final stage due for completion in 2022.

Chart 5.4: General government sector capital expenditure since 2001-02



<sup>5</sup> Capital investment component