

5. EXPENDITURE

- Over the past three years, the NSW Government has delivered unprecedented levels of emergency support to businesses and households. Government expenses are now projected to have peaked at \$120.3 billion in 2021-22.
- General government sector expenses are projected to be \$114.9 billion in 2021-22. While lower than the previous year, it is an upwards revision on the \$103.2 billion projected at the 2021-22 Half-Yearly Review.
- Measures in the Budget include:
 - Boosting household budgets, with \$1.3 billion for the Brighter Beginnings Affordable Preschool Initiative to provide fee relief for families
 - Investing in our public sector, with an increase in remuneration to public sector employees in each of the next two years, as well as a \$3,000 payment to NSW Health Employees
 - Strengthening frontline services, with \$4.5 billion invested in the NSW Health workforce to ease pressure on existing health workers and support the delivery of quality healthcare
 - Helping families get through tough times, with over \$2 billion in additional COVID-19 response measures (such as procuring rapid antigen tests and business support)
 - Flood response and rebuilding, with a \$3.5 billion in joint commitments between the NSW and Commonwealth Governments
 - Supporting women’s opportunities, including the establishment of the Affordable and Accessible Childcare and Economic Participation Fund (up to \$5 billion over 10 years) and supporting families with the high cost of fertility treatment (\$62 million)
 - Introducing a high-quality universal pre-Kindergarten year for all children in New South Wales in the year before school by 2030 (\$5.8 billion over 10 years)
 - A quality home for everyone, including \$780.4 million for a two-year trial of a shared equity scheme for up to 6,000 eligible single parents, older singles and first home buyers who are teachers, nurses and police
 - Empowering First Nations communities, with an additional \$715.8 million invested in First Nations policies, programs, and to help meet NSW’s targets under the National ‘Closing the Gap’ agreement
 - Protecting our planet and growing a clean economy with \$1.2 billion net (maximum, after recycling proceeds) to accelerate the delivery of the new transmission projects required for Renewable Energy Zones across regional New South Wales.
- The Budget includes a record infrastructure program of \$112.7 billion over the four years to 2025-26. This includes an investment of \$12.4 billion in the new Sydney Metro West, \$1.4 billion to upgrade facilities in preparation for universal pre-kindergarten, \$1.3 billion for Bankstown Hospital and \$3.2 billion to upgrade the Great Western Highway.
- This Budget also sets out new savings measures. These include the introduction of efficiency dividends from 2023-24 onwards, changes to the funding of public sector agencies worker’s compensation contributions and lower wages growth for senior executives.

5.1 Building a brighter future with ongoing response and recovery

Since the 2021-22 Half-Yearly Review, the Government has supported the community through two significant crises – the Omicron outbreak and floods. Despite the significant support, expenses for 2021-22 are broadly in line with previous expectations at \$120.3 billion.

Expenses are projected to be \$114.9 billion in 2022-23. This is an upward revision on expectations at the Half-Yearly Review (\$103.2 billion). The revision takes into account new policy measures to support families and deliver transformational reforms, as well as the impact of spending that was previously anticipated to occur in 2021-22 slipping to 2022-23.

Table 5.1 sets out the expense profile over a longer period (2021-22 to 2025-26). The projection is that expenses have peaked in 2021-22, with a step down in 2022-23 and again in 2023-24. Major drivers of the profile are:

- the phasing out of time-limited business and household support programs introduced in response to COVID-19 outbreaks
- the time-limited nature of much of the flood assistance, given the Government designed measures to assist communities as quickly as possible following the 2022 floods
- savings measures agreed since the Half-Yearly Review, which are detailed below.

Table 5.1: Expense reconciliation since the 2021-22 Half-Yearly Review

| | 2021-22 Revised | 2022-23 Budget | 2023-24 | 2024-25 Forward Estimates | 2025-26 |
|--|--------------------|-------------------|----------------|------------------------------|----------------|
| | \$m | \$m | \$m | \$m | \$m |
| Expenses – 2021-22 Budget | 102,450 | 98,547 | 98,785 | 99,862 | n.a. |
| Policy measures | 14,867 | 3,654 | 2,027 | 2,135 | n.a. |
| Parameter and technical adjustments | 3,330 | 973 | 524 | 393 | n.a. |
| Expenses – 2021-22 Half-Yearly Review | 120,647 | 103,174 | 101,336 | 102,390 | n.a. |
| Policy measures | 6,199 | 9,970 | 5,463 | 3,156 | 2,836 |
| Parameter and other budget variations | (6,578) | 1,766 | 2,825 | 4,167 | n.a. |
| Reforms, savings and offsets | 0 | (32) | (127) | (213) | (274) |
| Expenses – 2022-23 Budget | 120,268 | 114,878 | 109,497 | 109,500 | 111,513 |

Notes

- 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 2022-23 Budget, the allowance is set at a level equivalent to 0.3 per cent of expenses each year, 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.
- 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, which have been exacerbated by recent disruption from COVID-19 and floods. In the 2022-23 Budget, the allowance is set at the equivalent of 4.7 per cent in 2022-23. In setting the allowance it is assumed that 90 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.
- The final impact of health worker payments will be updated in the 2022-23 Half-Yearly Review, to reflect the measure being funded in 2022-23 but expensed in 2021-22, following accounting treatment refined after 6 June 2022.
- Further information on new measures is provided in the Measures Statement in Appendix A5.

Significant new expense measures since the 2021-22 Half-Yearly Review include:

- helping communities devastated by flood and storms (\$3.5 billion), with a broad package of measures to support households, businesses, communities and councils
- responding to the outbreak of the Omicron variant of COVID-19, with measures including the procurement of rapid antigen tests (\$1 billion) and support for impacted businesses (\$1.1 billion)
- investing in the ambulance service, with 2,128 new staff and 30 new ambulance stations across Sydney and regional New South Wales (\$1.76 billion)

- providing increased pay for public sector employees including nurses, teachers and paramedics. The Government is lifting the wages policy cap to 3.0 per cent for 2022-23 and 2023-24, with an additional 0.5 percentage points available in 2023-24 should appropriate productivity improvements be implemented (\$1.4 billion). In addition, a one-off payment of \$3,000 will be provided to NSW Health employees in recognition of their work on the frontline of the COVID-19 pandemic (\$435 million)
- significant investment in early childhood education reforms (\$1.3 billion) to help families meet the costs of preschool education. This includes contributing up to \$4,000 per child towards service fees, ensuring children get the best start in life while at the same time boosting workforce participation
- a combination of measures totalling \$1.1 billion over four years to encourage greater economic opportunities for women. This level of investment is unparalleled in any state and will lift overall productivity in New South Wales. Specific measures include:
 - \$775 million for the creation of the Affordable and Accessible Childcare and Economic Participation Fund
 - \$62.0 million to support affordable fertility treatments across New South Wales, including extending the fertility testing rebate (up to \$2,000 per family) and increasing the number of fertility treatment places in public clinics
 - \$20.2 million to contribute to a whole-of-government Women in Construction strategy to achieve a goal of women making up 15 per cent of employees in the construction industry by 2030
 - \$8.0 million for dedicated support for women business owners through Service for Business and Business connect programs
- \$703.4 million for a Future Economy Fund to drive growth in emerging high-value industries such as digital technology, medtech and the clean economy
- expanding the Regional Growth Fund by a further \$1.3 billion
- providing toll relief to commuters (\$520.0 million over two years), where every quarter, eligible non-business and small business customers will receive a 40 per cent cash rebate for every dollar spent on tolls once they have reached a minimum of \$375, saving NSW drivers up to \$750 a year
- \$780.4 million two-year trial of a shared equity scheme for up to 6,000 eligible single parents, older singles and first home buyers who are teachers, nurses and police.
- \$300.0 million over 10 years to provide grants for new business activities to competitively produce low emissions materials, green chemicals, hydrogen, power fuels, clean fuels and agricultural materials
- the transfer of Sydney Football Stadium from Infrastructure NSW to Venues NSW to operate the redeveloped stadium
- investing in measures that support First Nations communities and further expand the NSW Government's commitments under the National Closing the Gap Agreement (\$715.8 million).

Box 5.1: The Government previously set aside \$7 billion for productivity reform and as a COVID-19 contingency

The 2021-22 Half-Yearly Review set aside \$7 billion to 2024-25¹ for productivity reform and as a COVID-19 contingency. This provision has been fully released to enable the following expense and capital expenditure measures²:

- COVID-19 business support package in response to the Omicron outbreak (\$1.1 billion)
- supporting NSW Health to continue management of COVID-19 into the 2022-23 year (\$770.8 million).
- the creation of the Crisis Reserve to address remaining liabilities and residual operational pressures within NSW government agencies resulting from COVID-19 (\$300 million)
- the establishment of the Affordable and Accessible Child Care and Economic Participation Fund (\$1.7 billion)
- supporting the introduction of universal pre-kindergarten for all children in New South Wales by 2030 (\$1.8 billion)
- supporting energy initiatives which will accelerate the implementation of the Electricity Infrastructure Roadmap and the transition to a low carbon economy (\$1.4 billion) including funding for the Transmission Acceleration Facility (\$909.5 million)³
- supporting the rollout of Electric Vehicle Charging Infrastructure to facilitate a faster uptake of electric vehicles (\$38.3 million)
- rewarding farmers who opt in to a Sustainable Farming accreditation program to improve carbon and biodiversity outcomes on their land, while maintaining or enhancing productive land use (\$18.1 million⁴)
- establishing a new Biodiversity Credits Supply Fund designed to increase the supply of biodiversity credits by purchasing credits to re-sell to public and private proponents (\$21.0 million⁵)
- the construction of six Rural Fire Service Fire Control Centres/Emergency Services Operations Centres (\$8.2 million).

¹ \$7.3 billion to 2026-27.

² In releasing the provision to individual projects, the annual profile of the \$7.3 billion has been updated since the Half-Yearly Review. For example, the COVID-19 business support package had impacts in 2021-22. The expense and capital expenditure aggregates in the Budget are updated for this reprofiling.

³ For further information on this 10 year project see page 10-4 in Budget Paper 2.

⁴ This is the recurrent expense component for this measure only.

⁵ This is the recurrent expense component for this measure only.

Box 5.2: Delivering the COVID-19 response and recovery package to the Omicron variant

Over \$200 million in additional support has been delivered since the 2021-22 Half-Yearly Review in response to the Omicron outbreak. Support to date has included:

- over 25,500 businesses received weekly payments of between \$500 and \$5,000 per week to help survive the immediate impacts of the Omicron wave. This was made available via the 2022 Small Business Support Program, with over \$97.0 million in support paid to businesses
- approximately \$500,000 was reimbursed to employing small businesses to offset the cost of Rapid Antigen Tests, to support the safety of their employees. This was part of the Small Business Fees and Charges program, a program that has now delivered over \$151.0 million in rebates against government fees and charges to small businesses since 1 April 2021
- 960 music and performing arts workers were supported, with over \$2 million in crisis relief payments
- \$500,000 paid to performing arts venues, producers and promoters to assist the relaunch of performing arts sector in New South Wales to 19 May 2022. Since September 2021, over \$125 million has been paid to over 10,000 performing arts venues, producers and promoters to help survive COVID-19 impacts
- over \$5 million was paid to some 720 commercial landlords between 31 March and 13 May 2022, via an extension to the Commercial Landlord Hardship Fund. Since November 2021, the program has provided over \$20 million in support
- \$3.9 million has been paid in emergency relief grants, and over 55 case workers employed, to support over 27,000 temporary visa holders, refugees and vulnerable community members
- for those requiring emergency food and relief, OzHarvest, Foodbank and the Rapid Relief Team delivered an equivalent of 10.6 million meals between January and April 2022.

In addition, the Government issued approximately 50 million Rapid Antigen Tests (RATs) to support children to return to preschool, primary and secondary schools across the state.

This support brings the Government's total commitment to over \$53 billion since March 2020 – across health, economic and social response measures (including Commonwealth contributions).

Box 5.3: Delivering support for flood affected communities

Floods in February and March 2022 had a devastating impact on communities, with 61 local government areas experiencing extensive damage to residential properties, public infrastructure, agriculture, businesses and the environment. Many of the affected local government areas were previously affected by floods in 2021, with the Northern Rivers region significantly impacted.

Over 169,000 people were required to evacuate due to flooding throughout February and March 2022. More than 10,000 buildings have been damaged, and 4,000 buildings found to be uninhabitable.

The NSW and Commonwealth Governments have jointly committed \$3.5 billion in total assistance (2021-22 to 2024-25) to support communities, businesses and councils recover from these natural disasters. As part of this, the NSW Government has committed \$2 billion in total (2021-22 to 2024-25) to the flood recovery. Key components include:

- \$350 million for immediate clean up assistance for properties and other public, community and environmental assets, and waste disposal
- \$350 million for the procurement and management of temporary and medium-term housing to support people unable to secure stable and ongoing accommodation
- \$312.5 million to deliver State and Local government transport infrastructure resilience improvements and upgrades in the Northern Rivers
- \$285.2 million for the Housing Support Package, covering rental assistance support, emergency and immediate housing measures as well as a housing flood recovery service
- \$168 million to deliver new social and police housing, as well as repair and replace existing homes damaged during the floods
- \$150 million for the Primary Industry Support Package, aimed at protecting supply chains, and boosting recovery and rebuilding efforts
- \$150 million for the Northern Rivers Business Support Package, with \$100 million earmarked to support small and medium businesses in the region
- \$145 million for replacement of water and sewerage critical infrastructure in Northern NSW Local Government Areas⁶
- \$142 million for the Property Assessment and Demolition Program to undertake an assessment of properties and demolish those found to be uninhabitable
- \$112.5 million for Back Home Grants to help those most impacted restore their homes to a safe and habitable condition
- Primary Producer Grants of up to \$75,000 to help salvage damaged crops, produce and stock, rebuild fences, and replace machinery
- Storm and Flood Disaster Recovery Small Business Grants of up to \$50,000 for small business and not-for-profit organisations.

⁶ The replacement of water and sewerage infrastructure is a fully State funded program.

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. They also include the adjustment of agency budgets to account for updated inflation forecasts.

The estimates in Table 5.1 also take into account central adjustments. These include adjustments to reflect historical underspends and carry forwards in agencies, as well as an allowance to recognise the likelihood of future parameter and technical adjustments for existing programs across Government.

The major variations since the 2021-22 Half-Yearly Review include:

- \$972 million in higher depreciation expenses for motorway service concession assets, due to an increased valuation of the assets (valuation undertaken in compliance with Accounting Standard AASB 1059)
- an additional \$509 million for schools to continue to meet the State's commitments under the National School Reform Agreement ("Gonski 2.0")
- an additional \$437 million to recognise increased insurance premiums related to the Police Death and Disability scheme⁷
- an additional \$322.9 million to address increased demand of claims for Victim Support Services
- other adjustments to depreciation expenses, to reflect the Government's investment in new infrastructure.

Fiscal management and sustainable expense growth

The Government has managed expense growth in line with the target of the *Fiscal Responsibility Act 2012*, with the exception of COVID affected years (2019-20 to 2021-22) when targeted response and support measures were required.

In 2022-23 the Government is projecting a reduction in total expenses. This primarily reflects the phasing out of temporary support measures as the economy recovers. Expenses are projected to fall further again in 2023-24. As a result, over the Budget and forward estimates, expense growth is expected to average -0.7 per cent per annum. This is within the target set out in the *Fiscal Responsibility Act 2012*.

This Budget incorporates additional savings measures, totalling \$645.8 million over the four years to 2025-26. These include:

- \$515 million savings stemming from the introduction of an efficiency dividend of 1 per cent in 2023-24, rising to 2 per cent in 2024-25 and 3 per cent in 2025-26 onwards. Savings are targeted to be delivered through non-frontline activities, grants management and administration, and ongoing digital transformation
- \$108.7 million savings achieved through changes to the funding of public sector agencies' workers compensation contributions to incentivise better management of workplace injuries and risks by agencies
- \$22.1 million in savings associated with the Government's decision to limit senior executive service remuneration increases to 2.0 per cent in 2022-23.

⁷ This expense was held in a central provision at the 2021-22 Half-Yearly Review and was recognised in the aggregates at the time.

In addition to the above measures, the Government is continuing to deliver on previously announced measures and reforms to strengthen fiscal management across the sector and ensure spending is efficient, effective and aligned to the delivery of highest priority outcomes. This includes the delivery of

- ongoing procurement savings and reforms
- targeted reviews
- the Government response to the Review of Grants Administration, to ensure any public money invested in grants programs is spent fairly, effectively and transparently.

The NSW Government's approach to Outcome Budgeting aims to drive a performance and delivery culture across agencies. Budget Paper No. 2 *Outcomes Statement* provides information on investment levels and performance across 39 State Outcomes.

5.2 Trends and outlook – expenses

Table 5.2: General government sector expenses

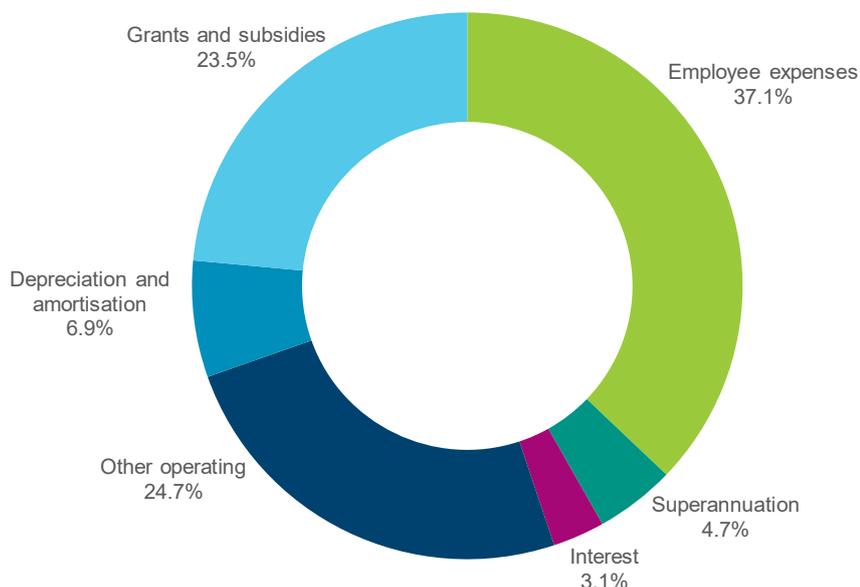
| | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | % Average growth p.a. 2021-22 to 2025-26 |
|--|----------------|----------------|-------------------|----------------|----------------|--|
| | Revised | Budget | Forward Estimates | | | |
| | \$m | \$m | \$m | \$m | \$m | |
| Employee | 40,430 | 42,640 | 42,866 | 44,033 | 45,264 | 2.9 |
| Superannuation | 4,464 | 5,396 | 5,520 | 5,633 | 5,751 | 6.5 |
| Depreciation & Amortisation | 7,481 | 7,907 | 8,228 | 8,546 | 9,047 | 4.9 |
| Interest | 2,500 | 3,566 | 4,602 | 5,252 | 5,973 | 24.3 |
| Other Operating Expense | 30,410 | 28,380 | 26,060 | 24,643 | 25,272 | (4.5) |
| Grants, Subsidies, and Other Transfers | 34,983 | 26,988 | 22,221 | 21,392 | 20,205 | (12.8) |
| Total Expenses | 120,268 | 114,878 | 109,497 | 109,500 | 111,513 | (1.9) |
| Annual change | 26.5% | -4.5% | -4.7% | 0.0% | 1.8% | |

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, the major trends are:

- interest expenses and depreciation and amortisation expenses growing from 2022-23, due to significant infrastructure investments and investments in COVID-19 over recent years, as well as higher bond rates
- this increase being more than offset by a reduction in grants expenses and other operating expenses, as temporary stimulus and support measures are phased out
- employee expenses and superannuation trending upwards in reflection of the Government's increase to the wages cap for 2022-23 and 2023-24 (3 per cent) and increases in staffing levels for frontline services.

Chart 5.1: Composition of \$114.9 billion in government expenses (2022-23)

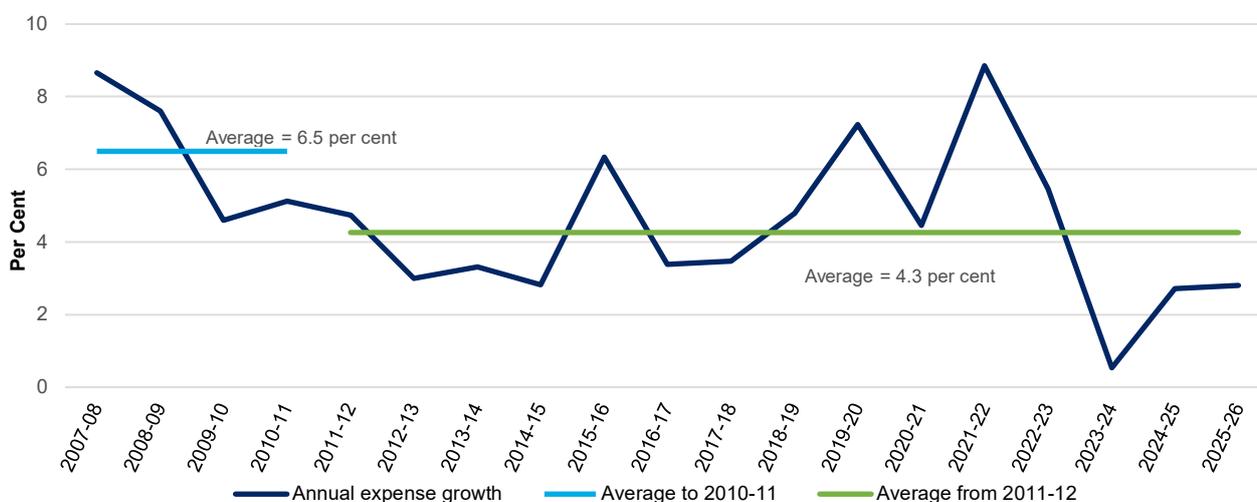


Employee expenses

Total employee expenses, excluding superannuation, are projected to be \$42.6 billion in 2022-23. Employee expenses are the largest component of expenses, reflecting the NSW Government's role in delivering essential services. This projection includes the impact of the Government's decision to provide for higher wages.

Employee expenses are forecast to grow by an average of 2.9 per cent from 2021-22 to 2025-26. 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 4.3 per cent (2011-12 to 2025-26).

Chart 5.2: Employee expense growth from 2007-08 to 2025-26



Superannuation expenses

Superannuation expenses are projected to be \$5.4 billion in 2022-23, or 4.7 per cent of total 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 10.0 per cent to 10.5 per cent from 1 July 2022. It then increases incrementally each year up to 12.0 per cent on 1 July 2025.

Superannuation expenses are forecast to increase by nearly 29 per cent from 2021-22 to 2025-26, an average growth of 6.5 per cent per annum. The majority of this increase occurs in 2022-23, driven by a material rise in 10-year Commonwealth Government bond rates in recent months. The primary driver of the remainder of the increase over the period is the combination of gradually increasing wages expense and the rise in the level of the superannuation guarantee.

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 \$28.4 billion in 2022-23 (24.7 per cent of total expenses).

Other operating expenses are projected to be 6.7 per cent lower in 2022-23 than 2021-22. This is primarily due to the reductions in contractor, cleaning and health related expenses associated with the COVID-19 response and stimulus measures. Other operating expenses will continue to decline across the forward estimates as temporary COVID-19 response and recovery measures are phased out.

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 \$27.0 billion in 2022-23, or 23.5 per cent of total expenses. This is \$8.0 billion lower than the previous year. This significant decrease is largely attributable to the winding back of grant payments attached to temporary and targeted stimulus.

Of the \$5 billion set aside for WestInvest at the 2021-22 Half-Yearly Review, a portion (approximately \$2 billion) was accounted for as future grants in recognition that projects will be delivered by non-NSW Government partners. This remains in the projections for the Budget and forward estimates. Funding is not allocated to individual agencies until projects are evaluated and approved.

Depreciation and amortisation

Depreciation and amortisation expenses are forecast to be \$7.9 billion in 2022-23, comprising 6.9 per cent of total expenses. These expenses are forecast to grow by 5.7 per cent in 2022-23 and by an average of 4.9 per cent annually from 2021-22 to 2025-26.

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

Interest

Interest expenses are projected to be \$3.6 billion in 2022-23 (3.1 per cent of total expenses). They are projected to increase to \$6.0 billion in 2025-26, driven by a rise in bond yields and increasing borrowings throughout the forward estimates to fund the State's record infrastructure program.

There has been an upward revision in interest expenses across the Budget and forward estimates compared to expectations in the 2021-22 Half-Yearly Review. This is driven mainly by rising bond yields, compared to the much lower levels at the time of the 2021-22 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 3.7 per cent over the four years to 2024-25, which is slightly above the 3.4 per cent projected at the 2021-22 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). After accounting for likely slippage, general government capital expenditure is projected to be \$22.7 billion for 2022-23, an increase of 14.9 per cent from 2021-22.

Table 5.3 outlines the profile over the four years to 2025-26 as well as changes since the previous Budget.

Table 5.3: Capital expenditure reconciliation

| | 2021-22 Revised | 2022-23 Budget | 2023-24 | 2024-25 Forward Estimates | 2025-26 |
|---|--------------------|-------------------|---------------|------------------------------|---------------|
| | \$m | \$m | \$m | \$m | \$m |
| Capital – 2021-22 Budget | 23,229 | 22,972 | 20,570 | 18,857 | n.a. |
| Capital measures | 86 | 2,084 | 1,097 | 893 | n.a. |
| Parameter and other variations | (351) | (1,407) | (606) | (14) | n.a. |
| Capital – 2021-22 Half-Yearly Review | 22,964 | 23,649 | 21,061 | 19,736 | n.a. |
| Capital measures | (251) | 1,814 | 3,346 | 3,337 | 3,121 |
| Parameter and other variations | (2,979) | (2,797) | (1,761) | (1,105) | n.a. |
| Capital – 2022-23 Budget | 19,734 | 22,666 | 22,646 | 21,968 | 21,114 |

Notes

- (a) 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 2022-23 Budget, this allowance for capital slippage is set at \$8.0 billion in 2022-23 reducing to \$50 million in 2025-26.

Significant investments since the 2021-22 Half-Yearly Review include:

- \$1.4 billion over the four years to 2025-26 as part of a total \$3.6 billion capital expenditure investment for the implementation of the Universal Pre-Kindergarten initiative
- \$565.3 million over the four years to 2025-26 for the NSW Ambulance Infrastructure Program
- \$261.9 million for the Advanced Manufacturing Research Facility in Bradfield City Centre.

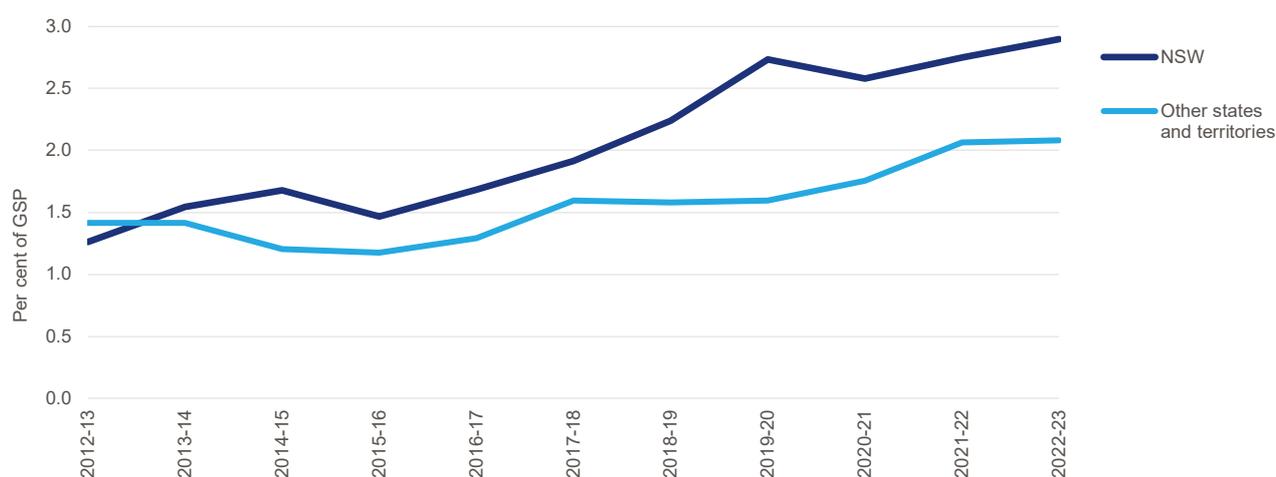
Detailed analysis of the Government's capital program is available in Budget Paper No. 3 *Infrastructure Statement*.

Delivering a record infrastructure investment will require active risk management. Risks include uncertainty around the ongoing impacts of COVID-19, international supply chain disruptions, material cost management and responding to any future natural disasters. Delivery agencies are working closely with industry to mitigate these risks as much as possible so residents can reap the benefits of this record capital program.

The parameter and other variation estimates in Table 5.3 take into account central adjustments for capital underspends and carry forwards, informed by historical data.

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 2012-13 to 2.9 per cent in 2022-23. It is also higher than other states and territories (see Chart 5.3).

Chart 5.3: General government sector capital spending relative to GSP^(a)



(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 2012-13 to 2020-21. State Budget papers and NSW Treasury calculations for 2021-22 and 2022-23.

Public Non-Financial Corporations Sector

Public non-financial corporations also invest in infrastructure assets, leading to improved service levels for 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 a record \$112.7 billion over the four years to 2025-26. Significant investments include:

- \$8.3 billion in capital expenditure over four years by Sydney Water. This includes investment in water and wastewater infrastructure driven by the Greater Sydney Water Strategy to service growing population and cities, maintain existing infrastructure, provide new and resilient sources of water, and improve environmental and drinking water standards
- \$2.2 billion in capital expenditure over the next four years for More Trains, More Services.

Box 5.4: Continued delivery of capital projects on the back of record investment

The 2022-23 Budget includes a record \$112.7 billion infrastructure investment over four years across the General Government and Public Non-Financial Corporations Sector. The investment will build a better future and support economic growth. The record program includes:

- \$12.4 billion over four years for Sydney Metro West
- \$3.2 billion over four years for the Great Western Highway Upgrade
- \$1.3 billion for Bankstown Hospital (estimated total cost)
- \$9.2 billion over four years in new and upgraded schools and TAFE infrastructure all across the State.

These projects add to infrastructure delivered, or soon to be delivered, including:

- the \$630 million Albion Park Rail Bypass, which extended the M1 Princes Motorway between Yallah and Oak Flats to bypass Albion Park
- the \$470 million new Maitland Hospital which will deliver a range of new and expanded health services to meet the growing healthcare needs of communities in Maitland and the Lower Hunter
- the new Meadowbank Employment and Education Precinct, a connected education community catering for 1,000 primary school students, 1,500 secondary school students and a further 120 intensive English Centre students.

The package of infrastructure projects in this Budget continues a sustained effort over more than a decade. Chart 5.4 below highlights how the profile of the Government's capital spend has increased over the last 20 years.

Chart 5.4: General government sector capital expenditure since 2002-03

