3. FISCAL STRATEGY AND OUTLOOK

- In the 2022-23 Budget, the Government is investing in the State's long-term economic and fiscal sustainability with a suite of productivity reforms and support for the NSW community. This Budget supports families with measures to boost household budgets and delivers reform in areas such as early childhood education and care which will support women's opportunities.
- Since the 2021-22 Half Yearly Review, the expected fiscal outcome for 2021-22 has improved substantially, largely reflecting an upgraded revenue outlook driven by stronger than previously anticipated employment and wages growth, higher consumer spending and elevated resource prices.
- The Budget projects a return to surplus in 2024-25 consistent with the 2021-22 Budget and 2021-22 Half-Yearly Review. This is supported by a stronger than expected economy driving higher revenues (including GST, land tax and mining royalties) compared to the 2021-22 Half-Yearly Review.
- Some significant economic and fiscal risks and pressures remain. Higher inflation and upward pressure on interest rates is flowing through to expenses, including the State's borrowing costs. The international economic outlook currently faces heightened risks, with the NSW economy, and the State's budget, exposed to unanticipated fluctuations in international economic activity and global inflationary pressures.
- In this Budget, the Government is investing significantly in the health system to improve workforce capacity and resilience. This will help support health staff, boost service delivery, and continue the response to COVID-19. The Government is also providing $2.2 billion to boost household budgets, including subsidies for parents to use towards the cost of school supplies, reducing energy bills, providing toll relief, easing the cost of travel for regional university students and apprentices, and fee relief for the preschool and long day-care sectors.
- The Government will provide $13.7 billion to implement major reforms that aim to improve women's opportunities through reforms to early childhood education and care, as well as investments in education, skills and technologies for the future economy, quality affordable and accessible housing and a clean economy.
- These reforms reflect a transition from managing the immediate impacts of the COVID-19 pandemic and the flood response towards supporting the foundations of long-term sustainable growth and increased economic opportunity.
- The Government's record infrastructure program will continue to build a stronger economy that supports job creation and provide economic benefits over the medium-term. In the 2022-23 Budget, the Government continues to prioritise longer-term economic growth through its $112.7 billion infrastructure program, which in 2022-23 alone includes spending equivalent to almost 4 per cent of GSP. This compares to a pre-COVID annual average of around 3 per cent (2006-07 to 2018-19).
- Net debt is projected to stabilise around 14 per cent of GSP by June 2026 with net debt projected to decline in the second half of the decade.

3.1 A fiscal strategy that supports long-term growth

The Government's fiscal priorities for the 2022-23 Budget are to:

- continue to support and invest in the productive capacity of the State, to support and accelerate long-term economic growth for New South Wales
- rebuild a fiscal buffer with a return over the forward estimates to a sustainable operating and debt position, supported by fiscal repair measures (see Box 3.2).

The State's economy has recovered substantially since the Delta and Omicron outbreaks, supported by the Government's targeted and temporary support and recovery measures. The Government was able to leverage its strong fiscal position coming into the pandemic. More than $53 billion in economic, health and social support measures have been made available to support the economy and protect jobs. In addition to responding to the pandemic, this Budget includes $3.5 billion towards the February and March 2022 flood response. The Commonwealth Government has contributed to both the COVID-19 and flood response.

Despite these significant investments, the Government is projecting a return to surplus in 2024-25, broadly in line with expectations at the 2021-22 Budget and 2021-22 Half-Yearly Review. The return to surplus is supported by increased revenues as the economy reaches full capacity with unemployment at record low levels. The return to surplus will help restore capacity for the State to respond to future shocks, support infrastructure investments and allow the State to continue investing in our productive capacity.

The 2022-23 Budget provides $13.7 billion for productivity enhancing reforms, which will provide long term dividends for both economic growth as well as the State's revenue (see Box 3.3 for more details). Measures include providing more affordable access to early childhood education, quality housing, and investments in the renewable energy network including the Transmission Acceleration Facility to accelerate the delivery of the Electricity Infrastructure Roadmap and Renewable Energy Zones. This Budget provides a further $2.2 billion over four years to boost household budgets, including a subsidy for parents to use towards the cost of school supplies, reducing energy bills, providing toll relief, easing the cost of travel for regional university students and apprentices, and continuing fee relief for the preschool and long day-care sectors across the State.

The 2022-23 Budget directs resources to areas that create and support private sector employment, while investing in overall productive capacity to build a better economy, including the continuation of the Government's record $112.7 billion four-year infrastructure program.

This Government is committed to maintaining net debt at sustainable levels with net debt projected to stabilise around 14 per cent of GSP by June 2026, and then decline in the second half of the decade.

The *Fiscal Responsibility Act 2012* (FRA) provides the framework for the management of NSW Government fiscal policy, including targets, and the performance against these is reported in Appendix E.

Box 3.1: COVID-19 and natural disasters continue to weigh on the fiscal outlook

COVID-19 has had a significant impact on the NSW Government's fiscal position, with the Government having committed over $53 billion towards its COVID-19 response and stimulus measures to support the economic recovery, including Commonwealth contributions.

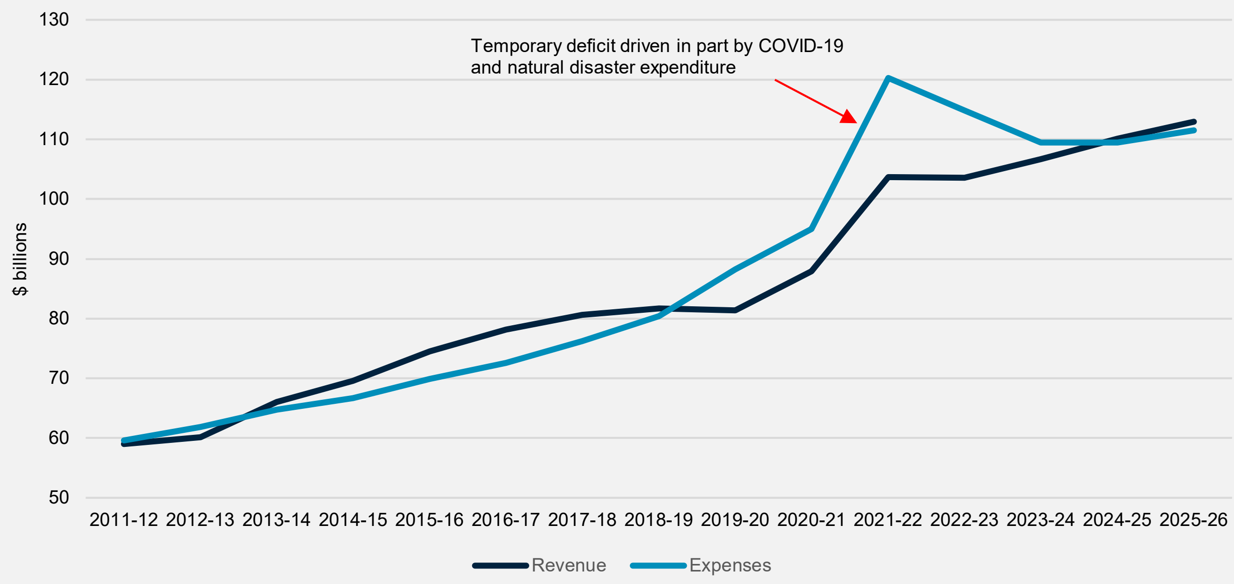
As the economic impacts of the pandemic subside and temporary stimulus measures are phased out, the 2022-23 Budget projects a return to surplus from 2024-25 onwards. The return to surplus follows a period of temporary operating deficit reflecting the Government's targeted and time-limited response to COVID-19.

Relative to the 2021-22 Half-Year Review, the deficit in 2022-23 has increased by $7.6 billion to a deficit of $11.3 billion with the key drivers including:

- $5.3 billion towards health and transport systems and flood response, including investments in the health system to respond to pressures from the continuing effects of COVID-19 and improving workforce capacity and resilience; substantial assistances required to help communities recover from devastating and record breaking floods, particularly in the Northern Rivers region of NSW; and increased transport related expenditure to address substantial reductions in anticipated farebox reductions in the wake of changed public transport demand patterns following COVID-19
- $2.0 billion investment in productivity enhancing reforms outlined in Box 3.3
- $1.2 billion towards cost-of-living measures including toll relief and reducing energy bills and investment into improving the quality of life in regional and remote communities
- $2.3 billion as a result of reprofiling COVID-19 and other expenditure from 2021-22 to 2022-23 and revisions to the NSW Public Sector Wages Policy.

This spending has been partially offset by $4.1 billion improvement in government revenue primarily driven by a strong economy with low unemployment and high mineral prices.

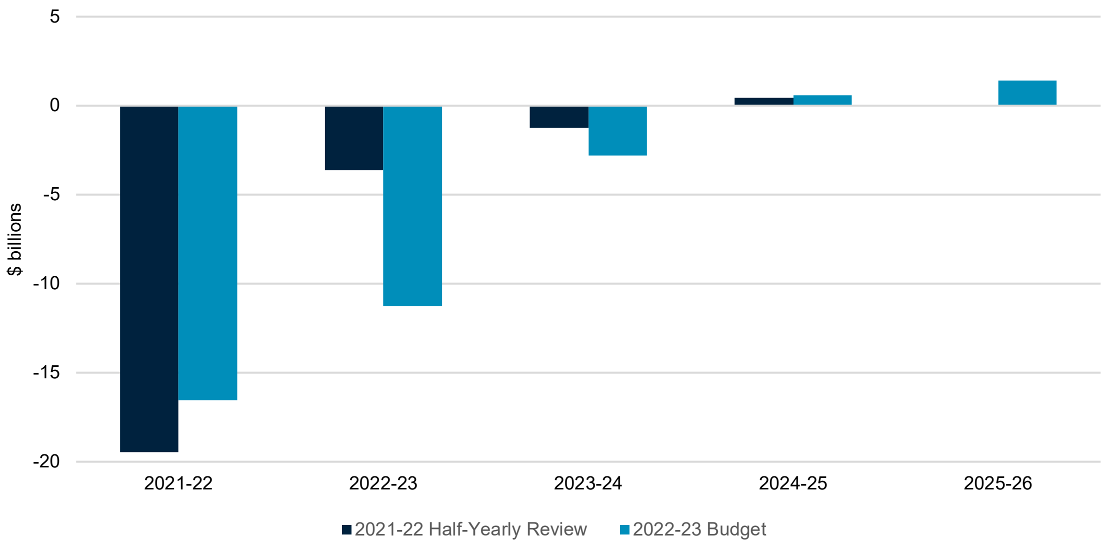
Chart 3.1: Revenue and expenses from 2011-12 to 2025-26



3.2 A return to a surplus by 2024-25

In 2021-22, the projected budget result deficit is $16.6 billion, an improvement of $2.9 billion since the 2021-22 Half-Yearly Review, which projected a deficit of $19.5 billion. The improved result reflects upwards revisions to revenues of $2.5 billion as well as lower than expected expenses of $0.4 billion.

Chart 3.2: NSW budget result comparison from 2021-22 Half-Yearly Review to 2022-23 Budget



Despite the fiscal impacts of Omicron and floods, the 2022-23 Budget maintains a trajectory to surplus by 2024-25, broadly in line with the 2021-22 Budget projections. Record low unemployment and strong consumer and business spending has led to a strong upgrade in the economic outlook (see Chapter 2 – The Economy). This strengthened economic outlook has driven an upwards revision to forecast revenue providing scope for the Government's investments in infrastructure and reform.

Table 3.1: General government sector budget result aggregates

	2020-21 Actual	2021-22 Revised	2022-23 Budget	2023-24	2024-25 Forward Estimates	2025-26
Revenue ($m)	87,965	103,706	103,617	106,701	110,101	112,944
Revenue growth (per cent p.a.)		17.9	(0.1)	3.0	3.2	2.6
Expenses ($m)	95,038	120,268	114,878	109,497	109,500	111,513
Expense growth (per cent p.a.)		26.5	(4.5)	(4.7)	0.0	1.8
Budget Result ($m)	(7,072)	(16,562)	(11,260)	(2,796)	601	1,431
GSP ($m)	643,100	686,000	753,200	786,400	810,900	837,200
Per cent of GSP	(1.1)	(2.4)	(1.5)	(0.4)	0.1	0.2

Higher revenue driven by a faster than expected economic recovery

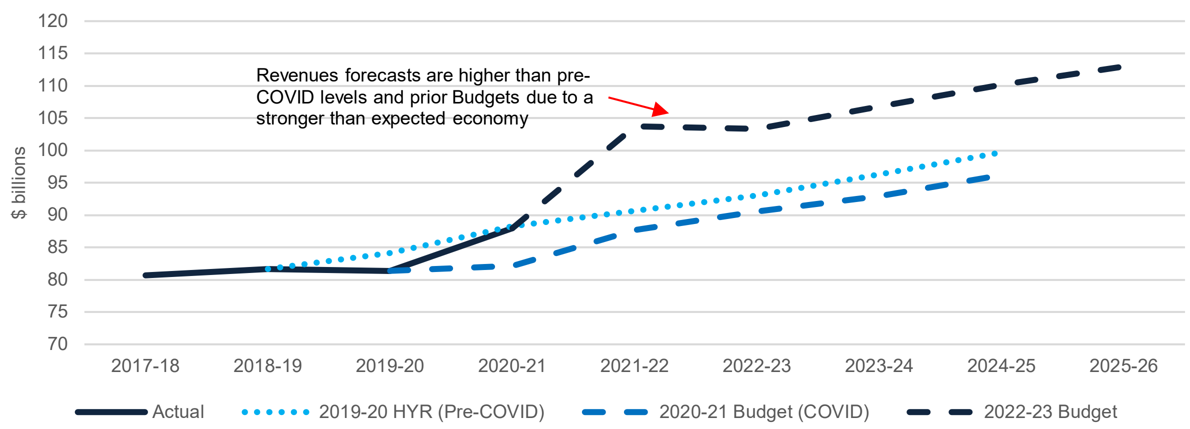
Since the 2021-22 Half-Year Review, the forecast average revenue growth rate has increased from 1.0 per cent per year to 2.2 per cent across the four years to 2025-26 (See Chapter 4 – Revenue for detailed analysis).

The stronger than previously anticipated economic recovery has resulted in a significant upwards revision to general government sector revenues. Over the four years to 2025-26, revenue is forecast to increase by $25.7 billion, mainly driven by:

- higher GST revenues of $11.5 billion reflecting higher forecast consumer spending and improved GST relativities for NSW
- higher commodity prices resulting in higher forecast mineral royalties revenue of $3.8 billion
- higher payroll tax revenue of $2.3 billion due to higher than previously anticipated levels of employment as the economy recovers
- higher land tax revenue of $2.2 billion driven by stronger than expected land prices, reduction in the discount available for early payment of land tax and increase to the foreign investor surcharge land tax
- funding from the Commonwealth for infrastructure investment and flood response.

Chart 3.3 shows that forecast revenue levels are now projected to exceed pre-pandemic estimates in 2021-22 and beyond.

Chart 3.3: General government revenue - current projection compared to pre-pandemic expectations

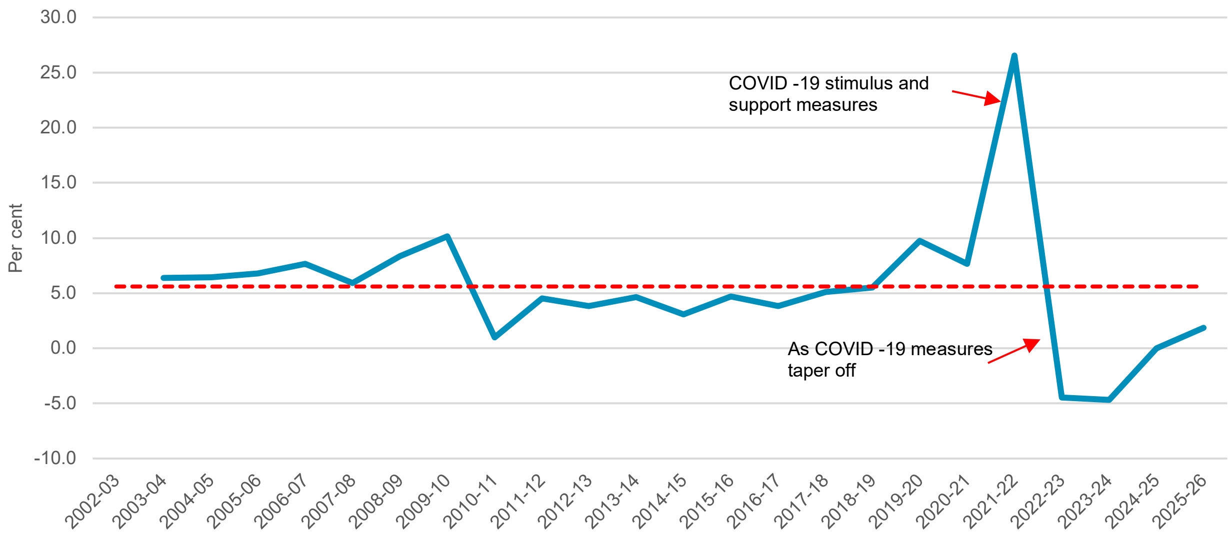


Expenses to moderate as Government invests in longer term policy reforms

There was strong growth in expenses in 2020-21 and 2021-22, as the Government implemented substantial health and stimulus measures in response to the pandemic. The 2021-22 expense growth is projected to be 26.5 per cent as the Government supported public health and the economy during the Delta and Omicron outbreak. The 2022-23 Budget projects a moderation in expense growth in 2022-23 with a decrease of 4.5 per cent as a result of the phasing out of some temporary COVID-19 support measures.

Expense growth is projected to taper off to an average decrease of 1.9 per cent across the forward estimates, bringing annual expense growth back below the long-term average revenue growth rate in line with the FRA. Lower expense growth is projected over the forward estimates as COVID support measures are phased out and the Government introduces new measures to control expenditure (see Box 3.2 for details). This is partially offset by Government investing in reform, which will support economic growth over the medium to long term (see Box 3.3 for more details).

Chart 3.4: Annual general government expense growth



The fiscal outlook is subject to risks arising from unprecedented global events, including the ongoing pandemic and the Russian invasion of Ukraine (for more detail, see Appendix B – Fiscal Risks).

Box 3.2: Fiscal repair and budget improvement measures help support the return to surplus and stabilising net debt

Fiscal sustainability remains a key priority for the NSW Government, following the unprecedented economic response to COVID-19 and natural disasters. The 2022-23 Budget includes $2.0 billion in budget improvement measures over four years to 2025-26 (see Table 3.2) including:

- $1.4 billion in revenue measures, including amendments to the point of consumption and betting tax settings, increases to the foreign investor surcharge land tax rate, a reduction in the discount available for the early payment of land tax and additional compliance investments within Revenue NSW. See Chapter 4 – Revenue for further detail
- $645.8 million in savings measures through the introduction of a further efficiency dividend commencing in 2023-24, better management of workplace injuries and risks and lower wages growth for senior executives. See Chapter 5 - Expenditure for further detail.

In addition to the above, the Government is continuing to deliver on previously announced measures and reforms to strengthen fiscal discipline across the sector. This includes the continued delivery of procurement reforms, ongoing targeted reviews, as well as the implementation of the Government response to the Review of Grants Administration (see Chapter 5 – Expenditure).

These measures contribute to strengthening the State's fiscal position and creating fiscal capacity to respond to future economic shocks and delivery of strategic priorities including the $13.7 billion investment in this Budget towards a suite of policy reforms that will provide long-term benefits to the State economy and strengthen the State's fiscal position (see Box 3.3).

Table 3.2: Budget improvement measures

	2022-23	2023-24	2024-25	2025-26	Four years to 2025-26
	$m	$m	$m	$m	$m
Subtotal: Revenue Measures	**269**	**329**	**391**	**384**	**1,372**
Additional compliance investment for land tax and transfer duty	83	103	160	163	**508**
Amendments to the point of consumption and betting tax settings	78	102	118	127	**424**
Increase to the foreign investor surcharge land tax	74	88	75	57	**294**
Reduction in the discount for early payment of land tax	34	37	38	37	**146**
Subtotal: Savings and Efficiency Measures	**32**	**127**	**213**	**274**	**646**
Efficiency dividend	...	95	180	240	**515**
Better management of workplace injuries and risks	26	27	28	28	**109**
Lower wages growth for senior executives	5	5	6	6	**22**
Total Budget Result Impact	**300**	**457**	**604**	**658**	**2,018**

Adjustments since the 2021-22 Half-Yearly Review

Table 3.2 provides a reconciliation of the budget operating balance estimates at the 2022-23 Budget relative to estimates at the 2021-22 Budget and at the 2021-22 Half-Yearly Review. Since the 2021-22 Half-Yearly Review, revisions to the estimated budget operating balance in 2021-22 and over the forward estimates period to 2024-25 include:

- a reduction in the estimated deficit of $2.9 billion in 2021-22, primarily driven by an improvement in revenue and underspends across Clusters, partly offset by increased flood recovery expenditure
- an increase in the anticipated budget deficit in 2022-23 of $7.6 billion, primarily driven by increased expenditure on health system to improve capacity and resilience, continuing COVID-19 and flood recovery expenditure, a comprehensive suite of cost of living measures and significant investments in reforms to boost productivity and participation (see Box 3.3), partly offset by a substantial upwards revision to estimated State revenues
- an overall deterioration of $6.1 billion across the four years to 2024-25 with a return to surplus in 2024-25, in line with previous projections.

Table 3.3: Reconciliation of 2021-22 Budget to 2022-23 Budget[(a)]

	2020-21 Actual	2021-22 Revised	2022-23 Budget	2023-24 Forward Estimates	2024-25 Forward Estimates
	$m	$m	$m	$m	$m
Budget result: 2021-22 Budget	(7,072)	(8,604)	(1,755)	(306)	466
Revenues	-	7,344	2,770	1,590	2,511
Expenses	-	18,197	4,627	2,551	2,528
Total budget result impact	-	(10,854)	(1,857)	(961)	(17)
Budget result: 2021-22 Half-Yearly Review	**(7,072)**	**(19,458)**	**(3,612)**	**(1,267)**	**449**
Revenues	-	2,516	4.055	6,631	7,262
Expenses	-	(379)	11,704	8,161	7,110
Total budget result impact	-	2,895	(7,648)	(1,529)	152
Budget result: 2022-23 Budget	**(7,072)**	**(16,562)**	**(11,260)**	**(2,796)**	**601**

(a) Positive amounts reflect a positive impact on the budget result e.g., an increase in revenue or a decrease in expenses.

Box 3.3: Productivity reforms will support a better fiscal position in the future

In the 2022-23 Budget, the Government has committed to invest **$13.7 billion** over the forward estimates on reforms that will provide long-term benefits to the State's economy and strengthen the State's fiscal position.

The Government is investing in the following priorities in the 2022-23 Budget including:

- **Women's opportunities** – investment of **$1.2 billion** to increase women's workforce participation by addressing some of the biggest barriers that have limited women's opportunities for many decades, from affordable childcare and assisting women to secure steady employment through to supporting female entrepreneurs and small business owners
- **Giving children and young people the best start to life** – investment of **$3.8 billion** to support better education and wellbeing outcomes for children, including funding for more affordable and accessible preschool and developmental checks for all children. Funding will also attract and retain quality early childhood educators, addressing existing shortages. These reforms will have immediate and ongoing economic benefits including higher women's workforce participation which will in return result in fiscal benefits over the medium term
- **Housing** – investment of **$2.8 billion** to support greater opportunities to access and own a quality home and help the most vulnerable. This will support housing supply and improve housing affordability by funding critical enabling infrastructure and streamlining planning assessment and rezoning. It will also reduce the barriers to home ownership for first home buyers, single parents and older singles. The Government will also improve the resilience of the State's social housing system through upgrades to existing social homes and delivery of new social housing
- **The future economy** – developing the future economy by investing **$2.6 billion** in programs that support research and development in NSW, and the commercialisation ecosystem. Technology is creating opportunities for the NSW economy and increasing the need for a skilled and adaptable workforce
- **Protecting our planet and growing a clean economy** – investments of **$3.3 billion** to improve the sustainability of the economy by addressing the physical risks of climate change; investments in Renewable Energy Zones through the Transmission Acceleration Facility; taking advantage of clean technologies and preparing the state to take advantage of emerging green markets; diversifying Regional NSW's economy by investing in nature-based tourism through activating National Parks; and protecting biodiversity.

The Government's investment in the State's productive capacity through these reforms is forecast to create tens of thousands of jobs. These reforms will generate long-term economic and fiscal returns for the state.

3.3 Supporting people and the economy with the State's balance sheet

Transforming the State through infrastructure

This Budget includes $88.4 billion over four years in a diversified pipeline of infrastructure investment for the general government sector, including:

- $76.7 billion on delivering transport and infrastructure cluster projects, including Sydney Metro West, Sydney Metro Western Sydney Airport, Western Harbour Tunnel Upgrade, Coffs Harbour Bypass, Pacific Motorway (M1) to Raymond Terrace, and Circular Quay Precinct Renewal (Planning)

- $11.9 billion on delivering health infrastructure to plan and deliver new and upgraded hospital builds including Bankstown Hospital, NSW Ambulance Infrastructure Program and Grafton Base Hospital Redevelopment
- $9.2 billion on schools and skills infrastructure to provide modern learning environments to allow students across the State to thrive and reach their potential.

When the planned investment by State-Owned Corporations are taken into account[1], total capital expenditure is projected to reach a record $112.7 billion over the four years to 2025-26. The NSW Government has the largest state capital program in the nation, investing in four years nearly as much as the Commonwealth does in a decade.

Road, rail and other transport infrastructure account for 68 per cent of this investment. A detailed analysis of this infrastructure program is available in Budget Paper No. 3 *Infrastructure Statement*.

Infrastructure Australia in its 2021 *Infrastructure Market Capacity* report outlined significant market capacity constraints in delivering infrastructure, exacerbated further by global supply constraints. The Government has committed to delivering infrastructure with a sustainable and diversified infrastructure pipeline that supports a strong and resilient infrastructure sector.

The Government's strong financial management supports the funding of the State's infrastructure program, including asset recycling.

The State successfully sold its residual stake in WestConnex for $11.1 billion in October 2021 with proceeds deposited into the NSW Generations Fund (NGF), as required by legislation. The NGF, which is a dedicated debt retirement fund, will be retiring $11 billion of debt in 2021-22 and 2022-23 thereby resulting in lower debt levels and borrowing requirements than would otherwise prevail.

Following the completion of a scoping study, and careful consideration of the costs and overall risks of such a transaction, the NSW Government has determined that it will not proceed with a transaction to monetise its lotteries duty revenues stream.

Maintaining sustainable levels of debt over the next decade

Even though the Government is committed to delivering a record infrastructure program of $112.7 billion, and investing $13.7 billion in policy reforms (see Box 3.3), net debt is forecast to stabilise at lower levels than previously projected.

Net debt is projected to be 7.8 per cent of GSP ($53.5 billion) at June 2022. Net debt is forecast to stabilise at around 14 per cent of GSP ($114.8 billion) by June 2026 before trending back down across the planning years. An improving operating position and a growing economy will help bring the ratio of net debt to GSP down over the second half of the decade, helping to ensure sustainable levels of debt and balance sheet resilience over the medium term.

[1] When combined, the general government sector and public non-financial corporations sector is known as the non-financial public sector. See *How to Read the Budget Papers* for more information.

Box 3.4: Maintaining sustainable levels of debt whilst investing in a record infrastructure program

The Government is committed to maintaining sustainable debt levels over the medium term. The 2022-23 Budget projects a stabilisation of net debt to GSP at around 14 per cent by June 2026, with net debt gradually declining towards the end of the decade. This is achieved while maintaining the Government's commitment to a sustainable and diversified infrastructure pipeline that supports a strong and resilient infrastructure sector.

This stabilisation in net debt reaffirms the State's strong financial position whilst delivering record infrastructure investment and policy reform.

Chart 3.5 illustrates that the 2022-23 Budget projection for net debt to GSP over the forward estimates will be at lower levels than previously projected in the 2021-22 Budget. The 2022-23 Budget projects that net debt to GSP will be 13.0 per cent in June 2025, compared to 13.7 per cent projected in the 2021-22 Budget.

Chart 3.5: Net debt to GSP – 2021-22 Half-Yearly Review and 2022-23 Budget