# 3. Fiscal Strategy and Outlook

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| * This Budget balances the needs of the community by investing in essential services and supporting housing while managing significant fiscal challenges. * The Government is providing new funding for essential services including establishing a $274.7 million Essential Health Services Fund to improve the capacity of our public health system, $245.6 million to prevent and respond to domestic, family and sexual violence, and $5.1 billion to address the current housing shortage and improve housing affordability. * Facing significant revisions to Goods and Services Tax (GST) relativities following the Commonwealth Grants Commission’s 2024 Update (with an estimated impact of $11.9 billion over four years to 2027-28), this Government is taking a more deliberate and considered path to fiscal recovery. The budget deficit is projected to reduce significantly from $9.7 billion in 2023-24 to $1.5 billion by 2027-28. * In addition to the $13 billion in budget improvement and reprioritisation measures in the 2023-24 Budget, this Budget outlines several measures to help improve the sustainability of the State’s finances. This includes a new contributions framework for the NSW Generations Fund (NGF). * To help stabilise the State’s gross debt trajectory and taking pressure off interest expenses this Budget suspends the remaining contributions to the NGF and redirects the funding towards infrastructure investment and essential services. * The Government will continue to work constructively with the Australian Government to negotiate for the State’s fair share of GST funding. This Budget includes $3.1 billion in additional investment for transport projects from the Australian Government. Work also continues on negotiations for health, education and National Disability Insurance Scheme (NDIS) agreements. * The State is expected to return to a net cash operating surplus of $4.9 billion in 2024‑25 and remain in surplus across the forward estimates (for more information see Chapter 6 Managing the State’s Assets and Liabilities). * The State’s infrastructure program is projected to be $119.4 billion across the four years to 2027-28. This includes investing in initiatives such as new social housing, delivering new preschools, critical health infrastructure upgrades and setting aside funding for Stage 2 of the Parramatta Light Rail. The overall program is expected to settle over the coming years as mega projects, such as the Sydney Metro City and Southwest, are completed. * In line with the Government’s efforts to stabilise gross debt (by suspending NGF contributions and initiating OneFund), gross debt is now projected to be $188.5 billion by June 2027 broadly in line with the 2023-24 Half-Yearly Review. According to the projections in the 2023 Pre-Election Budget Update, gross debt would have reached $188.2 billion by June 2026. |

1. Balancing fiscal pressures while supporting essential services

The Government is balancing the delivery of targeted cost-of-living relief and bolstering essential services for the people of New South Wales against the significant fiscal pressures the State continues to face.

The 2023-24 Budget introduced two key fiscal principles to guide the State’s fiscal strategy:

* returning to a sustainable operating position
* stabilising and then maintaining a sustainable debt position.

The Government remains committed to these principles while ensuring much needed investment is made in infrastructure and high quality service delivery is prioritised.

Since the 2023-24 Half-Yearly Review, the State’s challenging fiscal position has been worsened by updated GST relativities, which is projected to cost the State $11.9 billion over the four years to 2027-28 following the Commonwealth Grants Commission’s 2024 Update.

New South Wales’ share of the GST pool was reduced from 92.4 per cent of our per capita share in 2023‑24 to 86.7 per cent per capita in 2024-25. The new relativity is below the historical average for New South Wales and represents the largest single-year fall in New South Wales’ share of the GST pool since the introduction of the GST.

Taxation revenue has been revised up by $9.6 billion over the four years to 2027-28 since the 2023‑24 Half-Yearly Review. The NSW property market continues to remain strong, resulting in upward revisions to transfer duty and land tax of $4.1 billion and $5.6 billion respectively over the four years to 2027‑28. This is partially offset by downward revisions to payroll tax primarily driven by weaker collections year-to-date on the back of slower growth in private sector employment as well as a weaker outlook for growth in the average compensation of employees.

The Government is targeting new spending in areas where it is most needed, including in housing, health and cost of living, without making disruptive cuts to the State’s expenses in the short term. The Government will build 8,400 new and upgraded homes as it invests in NSW Social Housing with its $5.1 billion social housing program.

The Government is also investing $480.7 million in new initiatives to ease pressure on emergency departments, reduce wait times and improve patient outcomes. Support for the most vulnerable is also bolstered in this Budget, including $527.6 million for homelessness services along with $224.1 million in 2024-25 to build a better foster care system, including reforming the Out-of-Home-Care sector.

The Government will provide around $8.7 billion in 2024-25 to households to assist with growing cost-of-living pressures. This includes an additional $828 million for the Australian Government’s energy bill relief to households and small businesses. The budget includes funding for rental support, energy and water bill relief, preschool support and toll relief.

Further information on revenue and expense measures are outlined in Chapter 4 Revenue and Chapter 5 Expenditure.

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| 1. The path to fiscal sustainability   This Budget outlines a number of measures to help improve the sustainability of the State’s finances, including changes to land tax (see Chapter 4 Revenue) and a new NGF contributions framework (see Chapter 6 Managing the State’s Assets and Liabilities). These changes have allowed the Government to invest in essential services and infrastructure, while keeping the State’s debt trajectory broadly in line with the 2023-24 Half-Yearly Review.  One of the main reasons to stabilise gross debt is to take pressure off the State’s interest expenses. From 2011-12 to 2022-23, interest expenses more than doubled from $2.1 billion to $4.2 billion. By 2027-28, interest expenses are projected to rise to $8.6 billion. The State’s largely debt-funded infrastructure program is not only contributing to rising interest expenses, but also to rising depreciation expenses. From 2011-12 to 2022-23, depreciation expenses increased from $3.0 billion to $7.9 billion and are projected to rise to $10.8 billion by 2027-28.  With the significant rising pressure from unavoidable expenses such as interest and depreciation expenses, it is important for the Government to keep control on overall expenses. Over the four years to 2027-28, this Budget keeps expense growth below 3 per cent, well below the average annual expense growth of 6 per cent between 2011‑12 to 2022-23 (see Chart 3.1).   1. General government expenses and expense growth |

Stabilising debt is critical to the longer-term fiscal sustainability of the State, helping ensure the State’s interest expenses remain manageable (See Box 3.2).

Net debt to gross state product (GSP) is projected to be 11.9 per cent by June 2024, broadly in line with the 2023‑24 Half-Yearly Review. Over the forward estimates, net debt to GSP is projected to grow broadly in line with most other states, but well below the projection for Victoria at 25.1 per cent by June 2028.

The State remains exposed to interest rate and refinancing risks (see Chapter 6 Managing the State’s Assets and Liabilities), with the outlook for interest rates remaining uncertain. The broader economic outlook (see Chapter 2 The Economy) is also contributing to a volatile fiscal environment, with the future path of inflation and economic growth unlikely to be smooth.

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| 1. Continuing to stabilise the trajectory of gross debt   Since 2012, the State has faced significant fiscal challenges, including a surging housing market throughout the 2010s, 2019 bushfires, the COVID-19 pandemic, the 2022 floods, and recent surging inflation.  The State’s gross debt levels increased from $28.9 billion at June 2012 to $132.9 billion at June 2023 (see Chart 3.2) primarily driven by significant investment in infrastructure over the past decade.  The Government took a number of steps to stabilise gross debt in the 2023‑24 Budget, including the suspension of NGF contributions in 2023‑24, reform of the Transport Asset Holding Entity (TAHE), and more than $13 billion in budget savings and reprioritisation measures.  This Budget, contributions previously budgeted to go into the NGF will be suspended and redirected towards infrastructure investment and essential services. This will keep the State’s gross debt trajectory broadly in line with the 2023-24 Half-Yearly Review while facilitating essential initiatives such as significant housing investments in this Budget.   1. General government gross debt |

1. The State’s operating position remains challenging

Since the 2023-24 Half-Yearly Review, the State is facing another significant fiscal challenge. The reduction in New South Wales’ GST relativities presents a revenue shock comparable to the COVID-19 pandemic.

In the face of the fiscal pressures, the Government is balancing the need to maintain essential services and protect household budgets. While the State’s operating position has deteriorated since the 2023-24 Half-Yearly Review, the Government has managed to keep gross debt and net debt broadly in line with previous projections.

This Budget projects a deficit of $3.6 billion in 2024-25, a $6.1 billion improvement from the expected $9.7 billion deficit in 2023-24. The Budget projects the State will remain in deficit across the forward estimates as the State invests in essential priorities, including housing and new programs to address domestic and family violence.

The Government is projected to return to a net cash operating surplus in 2024-25 and maintain surpluses across the forward estimates. This means the Government will no longer be borrowing to fund its operating expenses, for the first time since 2020-21. See Chapter 6 Managing the State’s Assets and Liabilities for additional information on the State’s cash operating position.

1. General government budget result, relative to the 2023-24 Half-Yearly Review

### Expense and revenue growth projections to 2027-28

One indicator of a sustainable operating position is expense growth remaining in line with long‑term average revenue growth. In this Budget, expense growth is projected to moderate to 2.5 per cent in 2027-28. This is lower than the long-term average revenue growth rate of around 5.6 per cent from 2000-01 to 2023-24.

In this Budget, revenue growth is projected to moderate to 3.2 per cent by 2027-28 (see Chapter 4 Revenue for detailed analysis). This is significantly lower than the long-term average growth rate.

Chart 3.4 shows the long-term trends in general government revenue and expense growth.

1. General government revenue and expense growth(a)
2. Expense growth increased substantially in 2021-22 to 25.0 per cent. The changes in expense growth thereafter should be considered with respect to the effective rebasing of expenses to the elevated levels in 2021-22. In the absence of this context, the smaller increases in expenditure year on year following the spike in 2021-22 do not completely convey the elevated levels of expenditure which are persisting across the forward estimates.

Table 3.1 provides a reconciliation of the budget result movements between the 2023‑24 Budget and this Budget. Changes in revenues from the 2023-24 Half‑Yearly Review to the 2024-25 Budget reflect the changes of all the State’s revenue sources, including GST. Further details of revenue and expense movements are set out in Chapter 4 Revenue and Chapter 5 Expenditure.

1. Reconciliation of 2023-24 Budget to 2024-25 Budget(a)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 |
|  | Revised | Budget | Forward Estimates | | |
|  | $m | $m | $m | $m | $m |
| **Budget result: 2023-24 Budget** | **(7,847)** | **844** | **1,582** | **1,508** | **N/A** |
| Changes from the 2023-24 Budget to 2023-24 Half-Yearly Review |  |  |  |  |  |
| Revenues | (1,325) | 490 | 506 | (491) | N/A |
| Expenses | (383) | (859) | (869) | (729) | N/A |
| Total budget result impact | (1,708) | (369) | (363) | (1,220) | N/A |
| **Budget result: 2023-24 Half-Yearly Review** | **(9,555)** | **475** | **1,219** | **288** | **N/A** |
| Changes from the 2023-24 Half-Yearly Review to 2024-25 Budget |  |  |  |  |  |
| Revenues | (213) | 733 | 2,047 | 2,569 | N/A |
| Expenses | 92 | (4,841) | (5,755) | (5,221) | N/A |
| Total budget result impact | (121) | (4,108) | (3,708) | (2,652) | N/A |
| **Budget result: 2024-25 Budget** | **(9,676)** | **(3,633)** | **(2,489)** | **(2,364)** | **(1,518)** |
| *Underlying Budget Result ($m) (without net impact of NGF investment returns)* | *(9,580)* | *(4,436)* | *(3,359)* | *(3,309)* | *(2,543)* |

1. Positive amounts reflect a positive impact on the budget result e.g., an increase in revenue or a decrease in expenses.
2. Delivering the Government’s essential infrastructure plan

By suspending NGF contributions, the Government has been able to invest in infrastructure while keeping gross debt broadly in line with the 2023-24 Half-Yearly Review.

In this Budget, the Government continues the work of prioritising critical infrastructure investments to support the delivery of additional housing and the energy transition roadmap.

The State’s infrastructure program is projected to be $119.4 billion across the four years to 2027-28 which includes investing in initiatives such as new social housing, delivering new preschools, critical health infrastructure upgrades and setting aside funding for Stage 2 of the Parramatta Light Rail. The overall program is expected to moderate over the coming years as transport mega projects, such as the Sydney Metro City and Southwest, are completed.

Funding for the infrastructure program is comprised of state funding, public non-financial corporations own source revenue, and Australian Government grants. The majority of state funding is through borrowings, with approximately 71 per cent of the infrastructure program from 2023-24 to 2027-28 projected to be funded by borrowings. See Box 3.3 and Chapter 6 Managing the State’s Assets and Liabilities for more information on the State’s approach to debt management.

The Government is lifting the freeze on the sale of surplus land and property. Where suitable, surplus Government land will be prioritised for use as social, affordable and market housing, subject to a Government Property Framework currently being developed by Property and Development NSW.

Box 3.3 provides more information on the Government’s approach to a sustainable infrastructure program.

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| 1. A long-term fiscally responsible approach to the State’s infrastructure program   In recent years, the State’s infrastructure program has continued to expand, while high inflation was driving up input prices and market capacity was highly constrained. There have been high levels of capital slippage and significant cost escalation pressures. The program continues to pressure the State’s balance sheet, with the 2024-25 Budget projecting gross debt to rise to $199.9 billion by June 2028 and interest expenses to $8.6 billion by 2027-28.  In response, the Government’s ongoing infrastructure program is designed to be sustainable and well targeted to deliver the essential services the State needs. This will contribute to stabilising debt while providing the infrastructure needed for a growing population (see Chart 3.5).   1. Infrastructure program as a per cent of gross state product (GSP) |

### Infrastructure investment in the 2024-25 Budget

The general government capital expenditure is projected to be $23.5 billion for 2024-25, an increase of 2.5 per cent from 2023-24. General government investment excludes the investment program of State-Owned Corporations, such as Sydney Water.

Since the 2023-24 Half-Yearly Review the Government has allocated new funding in transport, health, education and the State’s largest ever investment in social housing, with major new investments including:

* $4.0 billion over four years for new social housing. This will fund the land purchase and construction of 5,400 new social homes, which includes 1,300 replacement dwellings
* $118.0 million over four years to the Aboriginal Housing Office to support critical capital maintenance of First Nations social housing.

Funding has also been provided to establish 100 new public preschools along with $2.1 billion set aside for Parramatta Light Rail Stage 2.

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

Table 3.2 outlines the profile over the four years to 2027-28 as well as changes since the 2023-24 Half-Yearly Review.

1. Capital expenditure reconciliation

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 |
|  | Revised | Budget | Forward Estimates | | |
|  | $m | $m | $m | $m | $m |
| **Capital – 2023-24 Half-Yearly Review** | **22,296** | **23,029** | **20,624** | **19,930** | **N/A** |
| Capital measures | (1,130) | 2,608 | 2,315 | 2,438 | 2,133 |
| Parameter and other variations | 1,743 | (2,161) | (742) | (1,247) | N/A |
| **Capital – 2024-25 Budget** | **22,909** | **23,476** | **22,197** | **21,121** | **19,653** |

Note: Total estimated capital expenditure includes an allowance for the established tendency for capital expenditure to slip each year. The extent of slippage has been increasing in recent years due to market capacity constraints and supply chain disruptions. In setting the allowance, observed past slippage and broad assessments of market capacity are considered. In the 2024-25 Budget, this allowance for capital slippage is set at $5.6 billion in 2024-25 reducing to $0.8 billion in 2027-28.