4. FISCAL STRATEGY AND OUTLOOK

- To support continued investment in re-building our essential services and infrastructure, the Government remains committed to the two fiscal principles introduced in the 2023-24 Budget to return the State's operating and debt position to a more sustainable footing.
- The 2025-26 Budget sets a path to a modest surplus in 2027-28 without privatisation or an unfair wages cap. If realised, it will be the first budget surplus since 2018-19.
- The operating position is projected to improve from a deficit of $5.7 billion in 2024-25 to a surplus of $1.1 billion in 2027-28.
- The 2025-26 Budget demonstrates the Government's resolve to improve the State's fiscal sustainability and protect essential services by:
  - reducing gross debt by $9.4 billion by June 2026, relative to the 2023 Pre-election Budget Update
  - gross debt to gross state product is projected to be 19.5 per cent by June 2025 and remaining relatively stable over the four years to June 2029
  - the cash operating position is projected to grow from a surplus of $2.9 billion in 2024-25 to $12.5 billion in 2028-29.
- The State's fiscal position continues to face multiple fiscal risks and pressures, including:
  - additional insurance expenses including workers' compensation
  - increased costs of natural disasters and uncertainty over the timing of Australian Government contributions
  - rising depreciation and amortisation expenses
  - increasing interest expenses
  - significant volatility in the State's bond yields and equity markets.

4.1 Returning to a sustainable fiscal position

The State's pathway to budget surplus reflects a significant turnaround in fiscal performance. The operating deficit narrowed from $15.3 billion in 2021-22 to $10.7 billion in 2023-24, then improving to $5.7 billion by 2024-25, with a return to a budget surplus of $1.1 billion expected by 2027-28.

This progress builds on the return to a cash operating surplus achieved in 2023-24 and reflects the Government's commitment to stabilising the fiscal position while maintaining investment in essential services (see section 4.3 for more details).

The Government remains committed to investing in high-quality services, including those supporting vulnerable people, over the four years to 2028-29, including:

- additional expenditure for NSW public schools following the NSW and Australian Government signing the Better and Fairer Schools Agreement ($4.8 billion from the Australian Government plus additional NSW funded expenditure over ten years to 2034-35)
- $1.2 billion child protection package to support major reform of the out-of-home care system

- $1.2 billion investment in TAFE NSW to bring forward thousands of new construction trades and train the workforce for the growing care economy
- $836.4 million in 2025-26 for an Essential Health Services package to support core health services across the State
- over $650 million to support victim survivors and provide better access to justice across New South Wales.

The State is also continuing to invest in outcome-based partnerships with regional First Nations organisations to advance education and cultural connection outcomes for First Nations girls and partnering with the Australian Government to co-fund an initiative supporting the entry of disengaged youth into education, training and employment.

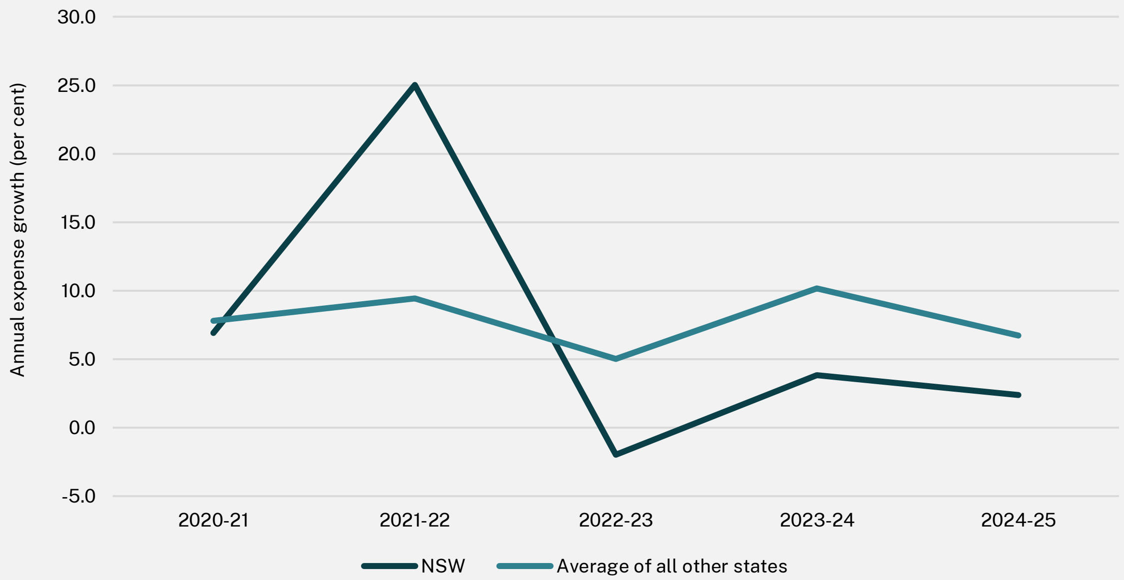
The NSW Government has been able to make record investments in rebuilding essential services by maintaining responsible expense growth (see Chapter 7 Recurrent expenditure), while managing budget pressures.

Box 4.1: Managing expense growth

Between 2011-12 and 2023-24, expenses grew at an average rate of 6.3 per cent. In contrast, expense growth is projected to average 2.4 per cent over the five years to 2028-29. Managing expense growth is a primary lever in returning the Budget to a more sustainable position, while still accommodating insurance and natural disaster expenses.

In the first half of 2025, legislation to reduce claims farming has had some impact on insurance expenses. Future reforms to workers' compensation, if accepted, are likely to reduce future deterioration in the workers' compensation scheme. New investments in the Reconstruction Authority will support increased confidence in the profile of Australian Government reimbursements under the Disaster Recovery Funding Arrangements. This strong focus will see expense growth in New South Wales fall below other states (see Chart 4.1).

Chart 4.1: Annual expense growth (NSW and average of all other Australian states)



Source: Latest Budget Papers or Half-Yearly Reviews of Australian States as at 11 June 2025; NSW Treasury

The 2024-25 budget result has been reduced relative to the 2024-25 Half-Yearly Review due to an $879.6 million increase in insurance expenses[1] as well as a $530.1 million decrease in revenues primarily driven by the reprofiling of Australian Government funding for natural disaster relief.

[1] This figure excludes provisions taken at the 2024-25 Half-Yearly Review to account for the impacts on workers' compensation expenses associated with the police wage increase and reforms to the Police Officer Support Scheme.

Over the forward estimates, revenues are projected to improve supported by a better outlook for GST. The State's GST relativity will fall from 0.87 in 2024-25 to 0.86 in 2025-26, but this fall is less than previously forecast at the 2024-25 Half-Yearly Review. For more detail, see Chapter 6 Federal financial relations.

The budget result in 2026-27 and 2027-28 is projected to improve since both the 2024-25 Budget and 2024-25 Half-Yearly Review (see Table 4.1).

Table 4.1: Reconciliation of 2024-25 Budget to 2025-26 Budget[(a)]

	2024-25 Revised $m	2025-26 Budget $m	2026-27 $m	2027-28 Forward Estimates $m	2028-29 $m
Budget result: 2024-25 Budget	**(3,633)**	**(2,489)**	**(2,364)**	**(1,518)**	**N/A**
Changes from the 2024-25 Budget to 2024-25 Half-Yearly Review					
Revenues	90	2,089	3,018	794	N/A
Expenses	1,440	1,818	2,390	584	N/A
Total budget result impact	(1,350)	271	628	211	N/A
Budget result: 2024-25 Half-Yearly Review	**(4,983)**	**(2,218)**	**(1,737)**	**(1,307)**	**N/A**
Changes from the 2024-25 Half-Yearly Review to 2025-26 Budget					
Revenues	(530)	806	1,370	4,818	N/A
Expenses	202	2,015	782	2,379	N/A
Total budget result impact	(733)	(1,209)	589	2,439	N/A
Budget result: 2025-26 Budget	**(5,715)**	**(3,427)**	**(1,148)**	**1,132**	**1,058**

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

Since the 2024-25 Half-Yearly Review, the State's budget result has been impacted by several fiscal pressures, including an increase in funds for natural disaster response (see Box 4.2) and $790.7 million increase in depreciation and amortisation expenses over the four years to 2027-28. For more details, see Chapter 7 Recurrent expenditure.

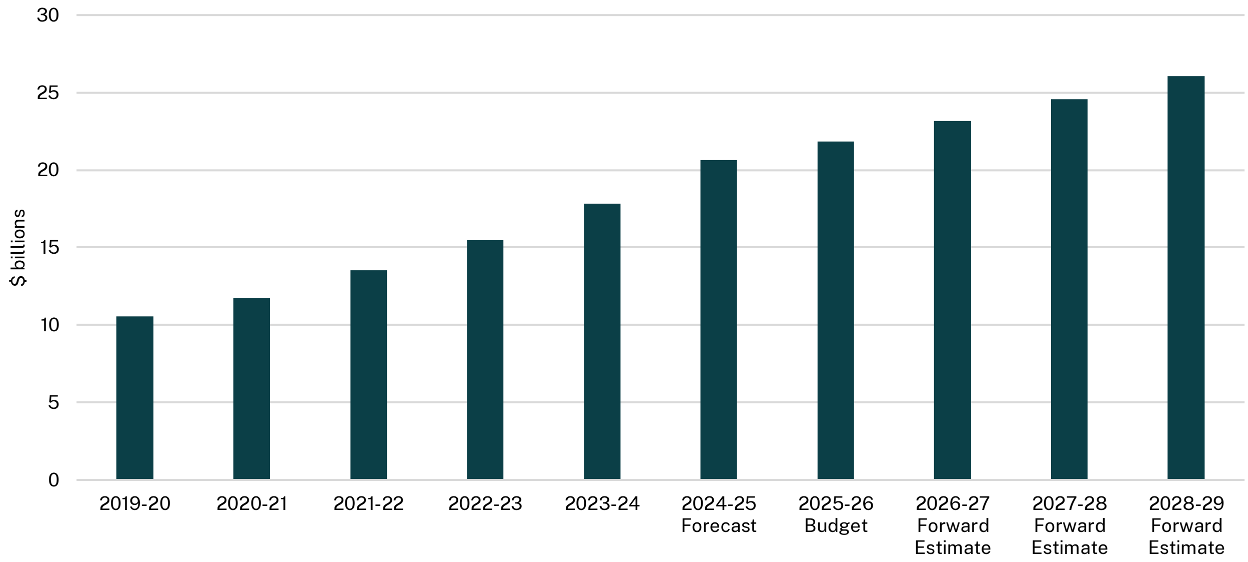
The 2024-25 Budget result was significantly impacted by the following pressures:

- $3.4 billion increase in insurance expenses over five years, of which $2.6 billion relates to the deteriorating performance of workers' compensation scheme (see Chart 4.2 below for increasing Treasury Managed Fund liabilities), with $879.6 million of this deterioration occurring in 2024-25 since the Half-Yearly Review[2]
- increase in costs from natural disasters and uncertainty around the timing of Australian Government contributions
- rise in depreciation and amortisation expenses (see Chart 4.3), with further information on depreciation, and valuation reforms found in Chapter 8 Balance sheet
- significant volatility in the State's bond yields and equity markets
- lower transfer duty (see Chapter 5 Revenue).

Notably, the 2024-25 Budget result has been achieved despite New South Wales receiving a lower GST revenue share, with the largest single-year drop in the GST relativity since the introduction of the tax.

[2] These figures exclude provisions taken at the 2024-25 Half-Yearly Review to account for the impacts on workers' compensation expenses associated with the police wage increase and reforms to the Police Officer Support Scheme. Reforms to workers' compensation being considered by Parliament will impact the reporting of these figures.

Chart 4.2: Treasury Managed Funds liability valuations from 2019-20 to 2028-29



Source: iCare

Note: Actuals from 2019-20 to 2023-24 are based on published financial statements for SiCorp at each balance date. Forecast and Budget are based on the latest 2025-26 Statement of Business Intent Budget. The Pre-Managed Fund Reserve, Government Workers Compensation Account, and Residual Workers Compensation Liabilities of the Crown were amalgamated into TMF on 7 August 2024.

Box 4.2: Addressing natural disaster impacts

Since March 2023, the NSW Government has committed an extra $8.2 billion to support communities affected by natural disasters and to strengthen the State's resilience to future events. In the six years since the unprecedented 2019-20 bushfires, the NSW and Australian Governments have spent $9.5 billion providing disaster relief and recovery across the State. The costs of responding to natural disasters are rising:

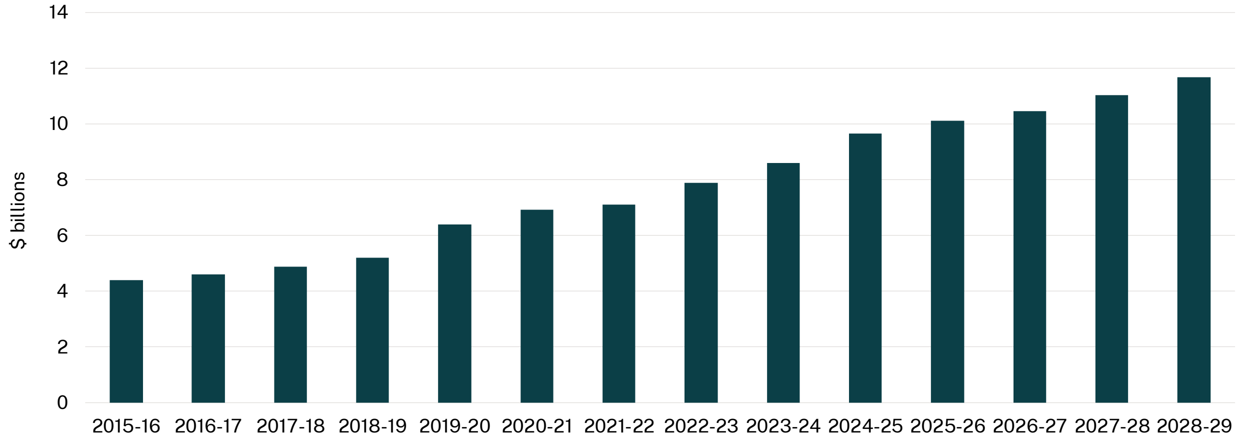
- $1.6 billion average annual expenditure in the six years from 2019-20
- $154 million average annual expenditure in the six years prior to 2019-20.

The 2025-26 Budget allocates $4.2 billion to disaster relief across the forward estimates, including Australian Government contributions.

This investment responds to the increased prevalence and severity of natural disasters, which is resulting in escalating costs in New South Wales, which have increased by over 1,000 per cent in recent years. These events represent a material fiscal risk, reinforcing the importance of proactive resilience investment and long-term recovery planning.

From 2015-16 to 2023-24, depreciation and amortisation expenses nearly doubled from $4.4 billion to $8.6 billion and are projected to rise to $11.7 billion by 2028-29 (see Chart 4.3). This growth in depreciation is broadly in line with the expansion of the State's infrastructure program (see Chart 4.5).

Chart 4.3: Depreciation and amortisation expenses



Source: NSW Treasury

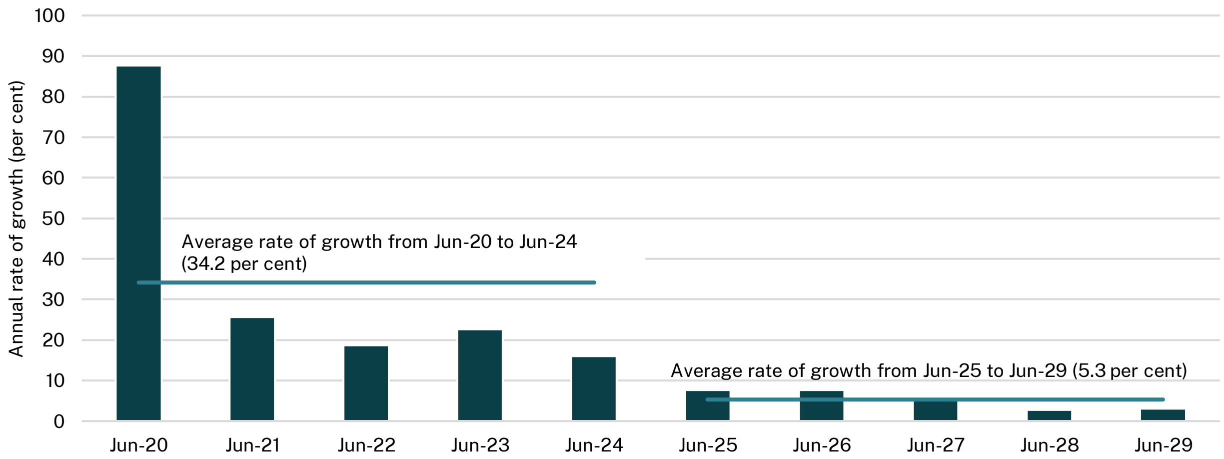
The 2025-26 Budget is also impacted by significant volatility in the State's bond yields and equity markets. The volatility has led to interest expenses being $279.8 million higher over the four years to 2027-28 compared with the 2024-25 Half-Yearly Review.

Despite recent volatility in global financial markets, OneFund has demonstrated good resilience generating a net return of 4 per cent per annum in the eight months since its inception (31 August 2024) and outperforming several global equity markets.

4.2 Keeping the State's debt in check

This Budget continues to move the State's finances to a more sustainable footing while safeguarding essential services. Gross debt is projected to be $9.4 billion lower by June 2026 than forecast in the 2023 Pre-election Budget Update (equivalent to around $1,000 per person in New South Wales or around 1 per cent of gross state product (GSP)) and the rate of new borrowings has moderated significantly (see Chart 4.4).

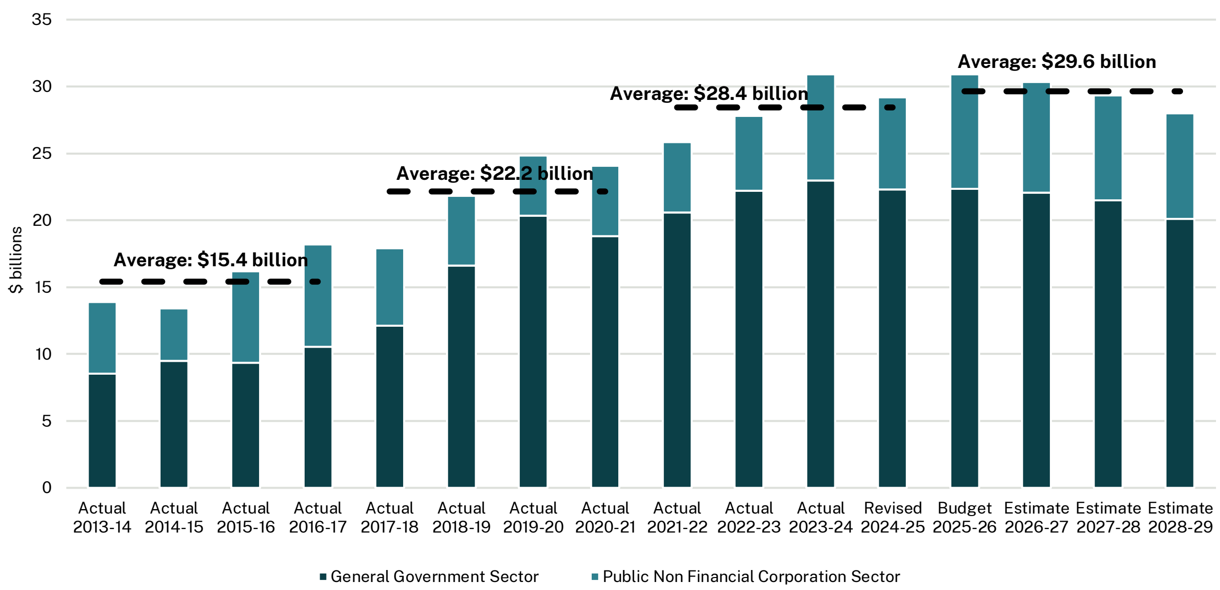
Chart 4.4: Annual change in NSW's gross debt



Source: NSW Treasury

The reduction in gross debt has been achieved while still delivering on the general government's infrastructure program and investment in essential services that support long-term economic growth (see Chart 4.5).

Chart 4.5: Infrastructure investment program



Source: NSW Treasury

Box 4.3: Keeping the State's debt in check

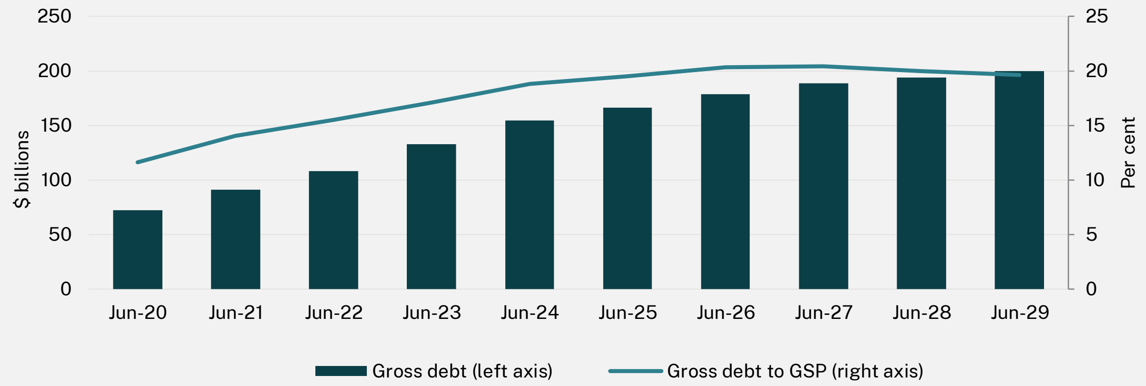
To help stabilise the State's gross debt at around 20 per cent of GSP over the four years to June 2029 (see Chart 4.6), the Government is focused on:

- returning the operating position to balance and maintaining a strong cash operating position to reduce pressure on the State's borrowing requirements
- resetting the State's infrastructure program to be around 2 per cent of GSP over the forward estimates. This will help relieve market capacity pressures and reduce borrowing requirements.

In this Budget, the operating position is projected to improve from a $10.7 billion deficit in 2023-24 to return to a surplus of $1.1 billion by 2027-28. This reflects the Government's intention to balance the need for prudent fiscal management with continued investment in the delivery of essential services. The State's cash operating position is projected to grow from a surplus of $377.8 million in 2023-24 to $12.5 billion in 2028-29. This improvement means the State is less reliant on borrowings to fund its infrastructure program. Debt-funding of the State's infrastructure program has reduced from a peak of 83.4 per cent of debt in the 2020-21 Budget to 53.1 per cent in this Budget.

The State's infrastructure program has expanded significantly in recent years and has been impacted by high inflation, market capacity constraints and delivery delays. The Government is resetting the State's infrastructure program to more sustainable levels of around 2 per cent of GSP, which will also take pressure off the State's borrowing requirements.

Chart 4.6: NSW's gross debt from June 2020 to June 2029



Source: NSW Treasury

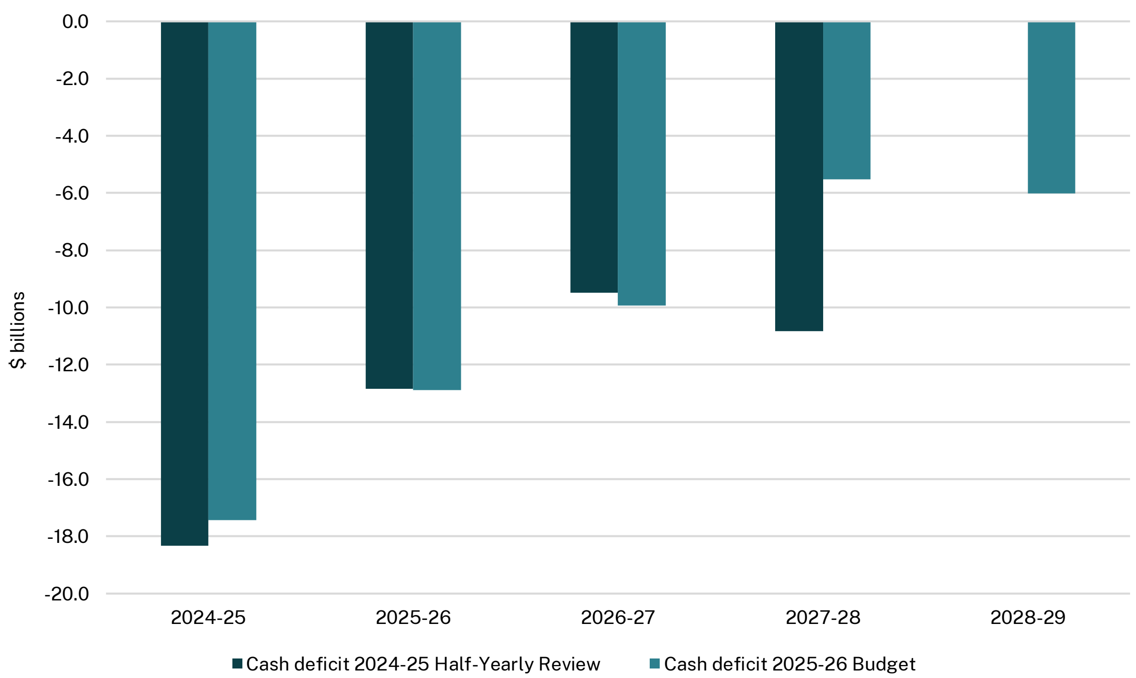
4.3 Efficiently managing the State's cash flows

The Government is efficiently managing the State's cash operating position to free up resources to invest in infrastructure and take pressure off the State's borrowing requirements.

Over the four years to 2028-29, the net cash operating position is projected to improve from $7.4 billion in 2025-26 to $12.5 billion in 2028-29. This is primarily due to the Government's careful management of cash payments by keeping expense growth low across the forward estimates and projecting stronger cash receipts (including GST).

By maintaining a strong cash operating surplus, the Government can use the $42.8 billion to invest in infrastructure over the four years to 2028-29 (see Chart 4.7). This allows for a record essential infrastructure program without privatisation. Debt will now be used to fund just 53.1 per cent in this Budget, down from a peak of 83.4 per cent in the 2020-21 Budget.

Chart 4.7: General government sector cash deficit



Source: NSW Treasury

4.4 Delivering the Government's essential infrastructure plan

The 2025-26 Budget provides $118.3 billion in capital expenditure over four years to 2028-29, towards the State's essential infrastructure, with investment prioritised in schools, hospitals, housing, and critical services like water and energy.

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 53.1 per cent of the infrastructure program from 2024-25 to 2028-29 projected to be funded by borrowings.

Box 4.4 provides more information on the Government's approach to a sustainable infrastructure program.

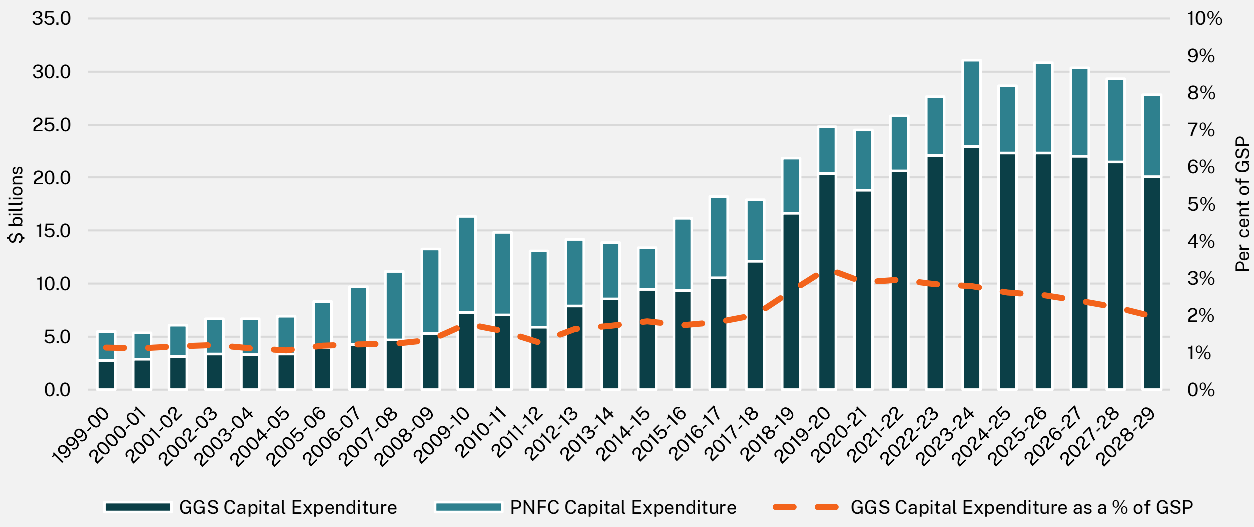
Box 4.4: Fiscally responsible approach to the State's infrastructure program

The State's infrastructure program has expanded in recent years and is projected to reach $30.8 billion in 2025-26, one of the largest years on record for New South Wales.

While the Government has been able to lower debt funding for the State's infrastructure program from its peak of 83.4 per cent of debt in the 2020-21 Budget to 53.1 per cent in this Budget, high inflation and market capacity constraints are still putting pressure on both cost and delivery of infrastructure projects.

The Government is focused on resetting the State's infrastructure program to more sustainable levels of around 2 per cent of GSP over the forward estimates through targeting the delivery of essential infrastructure for the State, while also ensuring that existing infrastructure is maintained.

Chart 4.8: Infrastructure program as a percentage of GSP



Source: NSW Treasury

Infrastructure investment in the 2025-26 Budget

The general government capital expenditure is projected to be $22.3 billion for 2025-26, broadly in line with 2024-25. General government investment excludes the investment program of State-Owned Corporations, such as Sydney Water.

Since the 2024-25 Half-Yearly Review, new funding for infrastructure includes additional funding of $700.0 million for the New Bankstown Hospital to integrate inpatient services, bringing total investment to $2.0 billion – the largest ever investment in a new hospital in New South Wales. This Budget also includes a record $9.0 billion school infrastructure investment pipeline over four years.

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

Table 4.2 outlines the profile over the four years to 2028-29 as well as changes since the 2024-25 Half-Yearly Review.

Table 4.2: Capital expenditure reconciliation[3]

	2024-25	2025-26	2026-27	2027-28	2028-29
	Revised	Budget	Forward Estimates		
	$m	$m	$m	$m	$m
Capital – 2024-25 Half-Yearly Review	**23,220**	**22,073**	**21,175**	**19,591**	**n.a.**
Capital measures	(64)	1,022	2,585	1,954	2,620
Parameter and other variations	(840)	(751)	(1,717)	(64)	n.a.
Capital – 2025-26 Budget	**22,315**	**22,343**	**22,043**	**21,480**	**20,111**

n.a = not available

[3] 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 2025-26 Budget, this allowance for capital slippage is set at $2.5 billion in 2025-26 reducing to $1.5 billion in 2028-29.