

## 7. RECURRENT EXPENDITURE

- General government expenses are projected to be \$127.6 billion in 2025-26.
- Over the budget and forward estimates, expense growth is projected to average 2.4 per cent per annum, down from the 8 per cent average annual expense growth over four years to 2023-24.
- The new measures in this Budget extend the Government's previous investments to rebuild essential services, including to:
  - help address the housing crisis
  - provide better education and more schools
  - invest in the State's health system
  - deliver high quality public transport across the State.
- The Government is also investing in initiatives for vulnerable members of the community to access quality support and services, including to:
  - support children and young people through additional funding for the out-of-home care system
  - address domestic, family and sexual violence, building on the Government's significant investment in the 2024-25 Budget
  - support victims of acts of violence, modern slavery and road crime by increasing funding for the Victims Support Scheme to address the increase in demand.
- The Government's industrial relations framework is delivering real wages growth for the public sector workforce, while ensuring employee expense growth remains in check. Investing in essential workers is helping to attract and retain skilled workforces, reduce vacancies and deliver improved services to the community.
- The Government is also continuing the task of fiscal repair and reform, with a further \$2.0 billion in savings and offset measures identified in this Budget over four years to 2028-29. This is in addition to savings and reform measures announced in previous Budgets:
  - The 2023-24 Budget Comprehensive Expenditure Review identified \$13.0 billion in savings, reprioritisation and other budget improvement measures. More than \$11.0 billion of these measures are complete or on track for completion, with the remaining underway or in planning.
  - The Government is on track to deliver its election commitment savings for 2024-25 following delivery of \$450.0 million in savings on external consultants and individual contractors in 2023-24 alone.

## 7.1 Investing in essential services and a better New South Wales

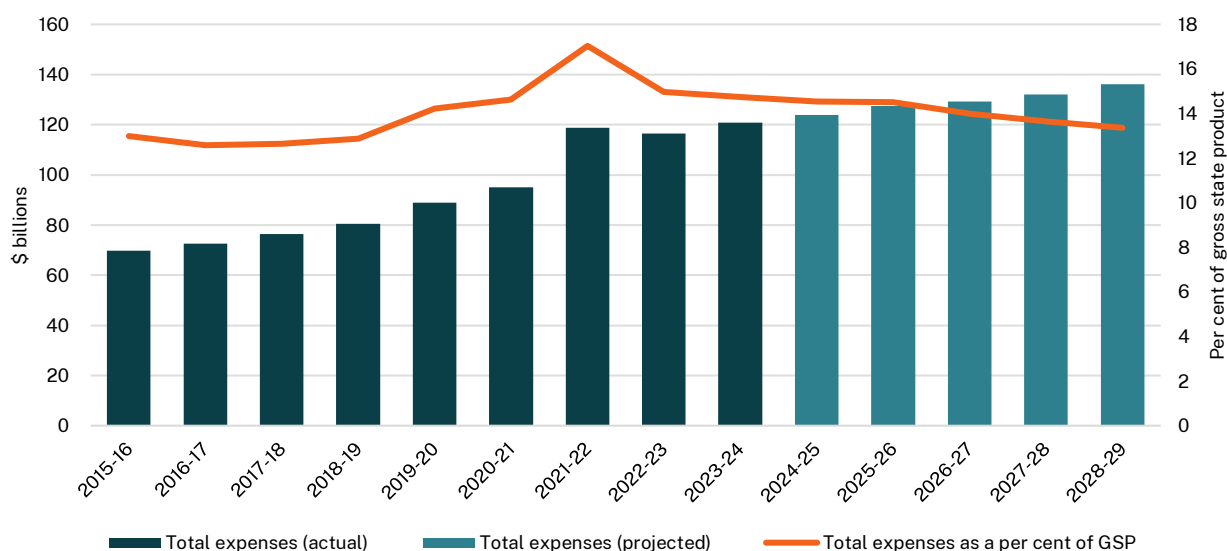
Government expenses are projected to be \$127.6 billion in 2025-26. Investments are targeted towards rebuilding essential services and securing our future economic growth, including to:

- rebuild and enhance the delivery of essential services to the community, including in areas such as health, education and transport
- improve access to quality housing and reduce pressure on housing affordability
- build stronger and safer communities, including better child protection
- lay the foundation for economic growth, including investments in skills, education, planning and regulatory reform, and innovation
- provide cost-of-living support, including the extension of the Australian Government's National Energy Bill Relief Fund
- support communities affected by natural disasters, including the May 2025 East Coast floods.

Higher projected expenses for NSW Self Insurance Corporation insurance and compensation scheme valuations are materially contributing to increased general government expenses. This is driven by increased psychological injury and child abuse claims, and more claims reaching whole person impairment thresholds.

Despite these pressures, expenses are projected to grow at an average rate of 2.4 per cent per annum over the budget and forward estimates, down from the 8 per cent average annual expense growth over the four years to 2023-24. Total expenses as a proportion of gross state product (GSP) continue to be on a downward trajectory (see Chart 7.1).

Chart 7.1: Expenses relative to gross state product



**Table 7.1: Expense reconciliation since the 2024-25 Half-Yearly Review**

	2024-25 Revised \$m	2025-26 Budget \$m	2026-27 \$m	2027-28 Forward Estimates \$m	2028-29 \$m
<b>Expenses – 2024-25 Half-Yearly Review</b>	123,603	125,566	128,404	129,721	n.a.
Policy measures - new expenses <sup>(a)</sup>	585	5,059	3,116	2,345	2,341
Reforms, savings and offsets <sup>(b)</sup>	(386)	(499)	(608)	(374)	(487)
Central provision unwind <sup>(c)</sup>	-	(1,432)	(3,019)	(1,294)	(999)
Other budget variations	3	(1,114)	1,294	1,703	n.a.
<b>Expenses – 2025-26 Budget<sup>(d)(e)</sup></b>	123,805	127,581	129,186	132,101	136,078

(a) Further information on new measures is provided in Appendix B Measures Statement.

(b) This captures the expense impacts from (i) savings to programs and initiatives since the 2024-25 Half-Yearly Review, (ii) offsets for new expense measures.

(c) A central provision was established in prior periods for anticipated risks and cost pressures, which has been unwound to offset new expense measures.

(d) 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, cost of statutory services, or accounting adjustments. In the 2025-26 Budget, the allowance is set at a level equivalent to 0.4 per cent of total expenses, increasing total estimated expenses across the budget and forward years. This allowance is for estimate purposes only. It is not a provision for future new policy spending.

(e) 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. In the 2025-26 Budget, the allowance is set at the equivalent of 2.8 per cent in 2025-26. In setting the allowance it is assumed that 95.5 per cent of under expenditures are carried forward into future years.

New expense measures since the 2024-25 Half-Yearly Review include:

- additional expenditure for NSW public schools following the NSW Government and Australian Government signing the Better and Fairer Schools Agreement (\$4.8 billion from the Australian Government plus additional New South Wales funded expenditure over ten years to 2034-35)
- a \$1.2 billion<sup>1</sup> package to reform the out-of-home care (OOHC) system, including the following expense measures:
  - continuing to support children and young people in OOHC while reforms are designed and implemented, and setting aside investment for a reformed OOHC program (\$797.6 million over four years to 2028-29)
  - to recruit and retain more than 200 new and 2,126 existing caseworkers with higher pay and more specialised training, including 100 new leading caseworker roles (\$191.5 million over four years to 2028-29)
  - a major increase of 20 per cent to the foster care allowance to recognise the critical role of foster carers to keep children safe (\$143.9 million over four years to 2028-29)
  - supporting the Office of the Children's Guardian to continue to oversee organisations and uphold children's rights to be safe (\$10.0 million over four years to 2028-29)
- an Essential Health Services package, to support core health services across the State (\$836.4 million in 2025-26)
- an investment of over \$650.0 million<sup>1</sup> to support victim-survivors and provide better access to justice across New South Wales, including the following expense measures:
  - additional funding for domestic, family and sexual violence services to continue work on reducing violence against women and children (\$272.7 million over four years to 2028-29)
  - responding to increases in demand for the Victims Support Scheme (\$269.1 million over four years to 2028-29, offset by \$42.3 million revenue into the Victims Support Fund)

<sup>1</sup> This package includes both recurrent and capital expenditure.

- for the Office of the Director of Public Prosecutions to keep pace with the growing volume and complexity of cases and maintain an efficient, fair and just prosecution service (\$48.3 million over four years to 2028-29)
- long lasting biodiversity protections and environmental management through improving the Biodiversity Offset Scheme, nature protection, visitor infrastructure in national parks, biodiversity conservation and environmental water management (\$400.0 million over four years to 2028-29)<sup>2</sup>
- an investment of \$1.2 billion<sup>3</sup> in TAFE NSW to bring forward thousands of new construction trades and train the workforce for the growing care economy, including the following expense measures:
  - providing greater job security and converting TAFE NSW teachers and staff to permanent roles (\$324.7 million over four years to 2028-29)
  - targeted repairs and maintenance of TAFE NSW facilities to allow students and staff to enjoy a seamless experience for work and learning (\$55.9 million over four years to 2028-29)
- urgent and targeted recovery measures to support communities on the east coast of New South Wales affected by the May 2025 floods (\$358.3 million over four years to 2027-28, including Australian Government contributions)
- continuing Screen NSW's Made in NSW and Post, Digital and Visual Effects rebate programs (\$280.6 million over four years to 2028-29)
- significant further investment in Closing the Gap (\$202.4 million over four years to 2028-29) (see Box 7.2 for further details)
- providing priority bus service improvements, including improved connections, increased school services and new bus networks, in priority areas across the State (\$150.0 million over four years to 2028-29, as part of a \$369.9 million total additional investment in bus services).

This Budget also includes the extension of the National Energy Bill Relief Fund, which provides bill relief of \$150 to the electricity bills of all households and eligible small businesses. This measure is fully funded by the Australian Government and increases recurrent expenses by \$579.0 million in 2025-26.

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<sup>2</sup> This Budget includes a further \$72.9 million capital expenditure for this measure over four years to 2028-29.

<sup>3</sup> This investment includes both recurrent and capital expenditure.

This Budget also includes additional investment to increase housing supply and improve housing affordability, which builds on the Building Homes for NSW Program announced in the 2024-25 Budget. These investments are detailed in Box 7.1.

#### **Box 7.1: Addressing housing access and affordability**

The NSW Government is committed to reducing pressure on housing affordability by improving planning assessment times and increasing housing supply in well-located areas.

To achieve this, the 2025-26 Budget includes \$83.4 million in additional planning resources to speed up planning approvals, including for the Housing Delivery Authority. Since the Housing Delivery Authority commenced operations in January 2025, 136 projects have been progressed through the new streamlined State Significant Development pathway with the potential to unlock 53,500 new homes. Other investments in the Budget over four years to 2028-29 include:

- \$1.2 billion to accelerate the training of thousands of new trades people to address skills shortages, including through expanded Fee Free Apprenticeships and Traineeships
- \$145.1 million to support the ongoing work of the Building Commission NSW to reform the building and construction industry and improve consumer outcomes
- extending the land tax concession, of a 50 per cent reduction in assessed land value, for eligible new build-to-rent developments
- offsets on housing and productivity contributions for eligible developers who build approved infrastructure to enable housing.

As part of the 2025-26 Budget, the Government is also establishing the Pre-Sale Finance Guarantee. This program is an innovative supply side response to the housing crisis, designed to accelerate delivery of up to \$1.0 billion of approved housing projects on a rolling basis.

The measures in the 2025-26 Budget build on the Government's implementation of the Transport Orientated Development (TOD) program, Low and Mid-Rise Housing Policy and the Building Homes for NSW Program, announced in the 2024-25 Budget.

The Government is continuing implementation of the landmark record investment in social housing as part of the Building Homes for NSW program. This package included over the four years to 2027-28:

- \$5.1 billion capital expenditure for new social housing, which will fund the land purchase and construction of an estimated 8,400 new social homes
- further crisis support as part of a \$527.6 million support package for homelessness services.

This Budget continues to support First Nations communities across New South Wales. This includes additional investment in Closing the Gap (CTG) initiatives, as detailed in Box 7.2.

### **Box 7.2: Closing the Gap**

This Budget includes \$731.8 million to improve outcomes for First Nations people in New South Wales.

The 2025-26 Budget includes \$202.4 million of new funding to deliver 14 initiatives that have been co-designed with NSW Coalition of Aboriginal Peak Organisations (NSW CAPO) and the NSW CTG Joint Council. This approach reflects a shift towards funding initiatives codesigned to support First Nation-led approaches that aligns with the needs, aspirations and priorities of First Nations communities in New South Wales. Key investments over four years to 2028-29 include:

- \$33.4 million for community-led justice initiatives to reduce recidivism and contact with the justice system, including developing Therapeutic Pathways for Children and an Aboriginal Throughcare Strategy
- \$31.5 million to improve shared access to data and empower First Nations communities to use data to drive decision-making
- \$23.8 million to revitalise First Nations languages through investment in community-led language programs across New South Wales
- \$23.1 million for culturally responsive community-led suicide prevention initiatives
- \$21.9 million for the Aboriginal Families First 2,000 Days measure to provide culturally responsive care during pregnancy and the first five years of life
- \$18.4 million for NSW CAPO to support existing partnerships and participate in Closing the Gap governance
- \$12.1 million for the Aboriginal Employment and Outcomes Program to enable First Nations people in regional communities to work on country and practice sustainable natural resource management
- \$11.8 million to continue the Community Connectors programs and expand Aboriginal Language and Culture Nests to improve education outcomes for First Nations students.

In addition to the CTG package, this Budget includes \$484.9 million over four years to 2028-29 of additional specific investments for First Nations people, including:

- \$200.9 million to improve access to culturally safe, high quality early childhood education, including through a refreshed First Steps Strategy and \$6.9 million for culturally responsive support in public preschools
- \$61.9 million to support and improve whole-of-government native title claims management, policy and governance, supporting land justice and cultural and economic aspirations for native title groups
- \$5.2 million to finalise the State's first Aboriginal Water Strategy
- \$1.8 million to improve access to identity cards for First Nations people exiting a correctional facility.

These investments reflect the Government's ongoing commitment to improving outcomes for First Nations communities through shared decision-making, culturally responsive services, and sustained funding for community-led initiatives.

The NSW Government has also introduced First Nations impact assessments this Budget for proposals that are First Nations specific or have a significant or disproportionate impact on First Nations people or communities. This delivers part of the Government's Closing the Gap commitment to better capture the perspectives of First Nations people on where funding should be directed, to support better, more effective investment decisions.

## Budget variations

Budget variations are changes to the cost and timing of existing projects and services, including changes in demand, the timing of project delivery (for example, construction delays due to weather events), input costings, variations in Australian Government grants, technical accounting and actuarial adjustments.

Major variations since the 2024-25 Half-Yearly Review include:

- higher projected expenses for NSW Self Insurance Corporation insurance and compensation scheme valuations (\$1.7 billion over four years to 2028-29). This is driven by increased psychological injury and child abuse claims, and more claims reaching whole-person-impairment thresholds
- higher depreciation and amortisation expenses across the general government sector, which are mostly driven by asset revaluations (\$1.0 billion over four years to 2028-29)
- higher expenses for NSW Government schools, including changes in the projected enrolment and loadings as part of the Schooling Resource Standard (SRS) (approximately \$700.0 million over four years to 2028-29)
- higher expenditure for the recognition of the service concession accounting impacts following the Government entering into a Project Deed with an external network operator for the delivery and operation of the Central-West Orana Renewable Energy Zone Transmission Project (\$430.6 million over four years to 2028-29)
- higher expenses related to the reprofiling of non-cash asset transfers from Transport for NSW to third parties, due to revised project delivery schedules (\$253.7 million over four years to 2028-29).

For further detail on movements to interest, workers compensation and depreciation expenses, please refer to section 7.2 below.

## 7.2 Expense trends and further analysis

**Table 7.2:** General government sector expenses

	2024-25 Estimate \$m	2025-26 Budget \$m	2026-27 \$m	2027-28 Forward Estimates \$m	2028-29 \$m	% Average growth p.a. 2024-25 to 2028-29
Employee	48,514	50,307	51,913	53,129	56,206	3.7
Superannuation	6,459	6,706	6,825	6,790	6,976	1.9
Depreciation and amortisation	9,658	10,112	10,470	11,039	11,682	4.9
Interest	7,144	7,746	8,387	9,026	9,518	7.4
Other operating expense	27,192	27,776	26,154	27,806	27,497	0.3
Grants, subsidies, and other transfers	24,837	24,934	25,437	24,310	24,198	(0.6)
<b>Total expenses</b>	<b>123,805</b>	<b>127,581</b>	<b>129,186</b>	<b>132,101</b>	<b>136,078</b>	<b>2.4</b>
Annual change	2.4%	3.0%	1.3%	2.3%	3.0%	n/a

## Employee expenses

The NSW public sector is the largest single employer within New South Wales, equating to around 10.4 per cent of employed persons as at June 2024.

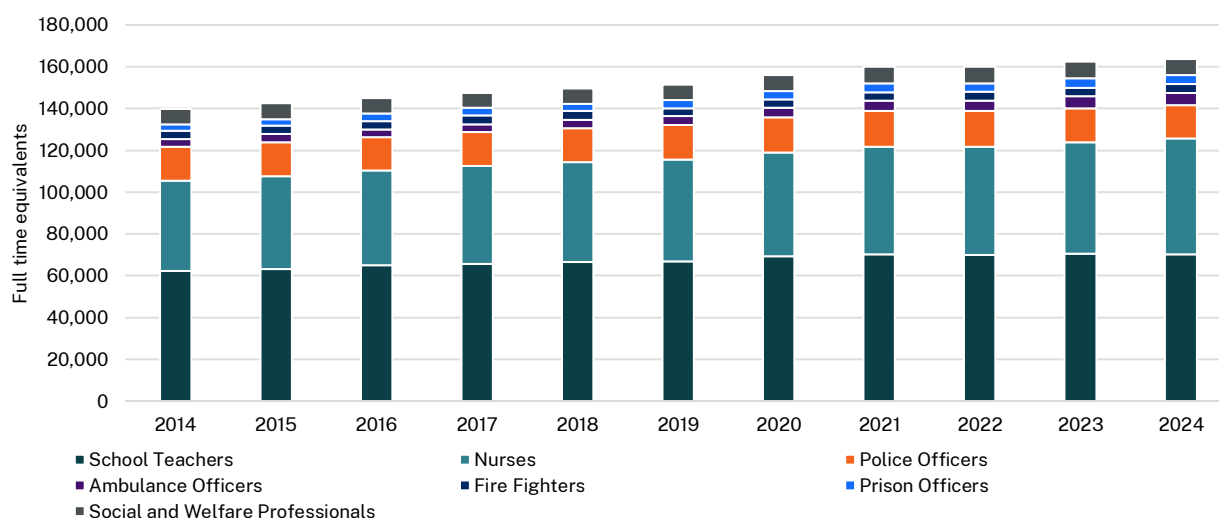
Employee expenses are the largest component of recurrent expenses and include wages and salaries, long service leave and workers' compensation. Employee expenses are projected to be \$50.3 billion in 2025-26.

The change in employee expenses since the 2024-25 Half-Yearly Review is driven by new investments in essential workers, including to deliver health and education services, and higher expenses for NSW Self Insurance Corporation insurance and compensation scheme valuations. Over the budget and forward estimates, these insurance expenses account for more than 40 per cent of the increase in projected employee expenses since the 2024-25 Half-Yearly Review.

Over the budget and forward estimates, employee expenses are projected to grow by an average of 3.7 per cent per annum. This growth is broadly consistent with the 2024-25 Half-Yearly Review, which forecast that employee expenses would increase by 3.4 per cent per annum on average over four years to 2027-28. This growth has stabilised from an average of 6.7 per cent per annum over the four years to 2023-24.

A significant portion of employee costs are for the essential workforces that deliver frontline services across New South Wales. Around 84 per cent of the public sector delivers services directly to the community. Chart 7.2 shows the growth in key essential workforces since 2014.

Chart 7.2: Essential workforce full time equivalents (FTE) since 2014



Source: Workforce Profile Reports 2014-2024

## Superannuation expenses

Superannuation expenses include defined contribution plans (such as compulsory superannuation), as well as defined benefit plans and their associated interest costs.

Superannuation expenses are projected to be \$6.7 billion in 2025-26, or 5.3 per cent of total expenses. This is a slight upward revision on the outlook at the 2024-25 Half-Yearly Review (\$6.5 billion) reflecting increased investments in services for the community, including in health and education.



Over the budget and forward estimates, superannuation expenses are projected to grow at an average annual rate of 1.9 per cent. This represents a slowdown compared to the high growth rate of 10.8 per cent per annum over four years to 2023-24. The earlier rapid growth was due to a number of factors, including increases in workforce size, wage increases, changes in bond rates, and the annual 0.5 percentage point increases to the compulsory Superannuation Guarantee, which began in 2021 and will culminate in the Guarantee reaching its final legislated rate of 12 per cent on 1 July 2025.

## Other operating expenses

Other operating expenses are mainly the day-to-day running costs incurred in the delivery of government services and programs.

This is the second largest category of expenses and is projected to be \$27.8 billion in 2025-26, or 21.8 per cent of total expenses. This is an upward revision on the outlook at the 2024-25 Half-Yearly Review (\$26.5 billion). Key drivers of this increase include the delivery of the Australian Government's Energy Bill Relief Fund, and investments to maintain essential services.

Over the budget and forward estimates, other operating expenses are projected to grow at an average rate of 0.3 per cent per annum.

## Grants, subsidies and other transfer expenses

Grants, subsidies and transfer expenses include payments to other government sectors (for example State Owned Corporations), the Australian Government, local government, individuals, households, community groups and non-government organisations. They also support the delivery of services and infrastructure projects.

Grants, subsidies and transfers are projected to be \$24.9 billion in 2025-26, or 19.5 per cent of total expenses. This is a downward revision since the 2024-25 Half-Yearly Review (\$25.8 billion). A key driver of this reduction is the reprofiling of grants into the forward estimates to match changes in the timing of delivery of projects.

Over the budget and forward estimates, grants, subsidies and other transfer expenses are projected to decrease by an average of 0.6 per cent per annum.

## Depreciation and amortisation

Depreciation and amortisation are accounting methods used to systematically allocate the cost of assets over their useful life.

Depreciation and amortisation expenses are projected to be \$10.1 billion in 2025-26, or 7.9 per cent of total expenses. This is a slight upward revision relative to the 2024-25 Half-Yearly Review (\$9.8 billion). Relative to that outlook, key drivers of increased depreciation and amortisation expenses over the budget and forward estimates include asset revaluations, as well as changes in the expected timing to deliver capital projects.

Over the budget and forward estimates, depreciation and amortisation expenses are projected to grow by an average rate of 4.9 per cent per annum. This growth has stabilised from an average of 7.7 per cent per annum over the four years to 2023-24.

## Interest

Interest expenses are the costs incurred by the State for borrowing funds to support public spending, including investment in infrastructure.

Interest expenses are projected to be \$7.7 billion in 2025-26 (6.1 per cent of total expenses). This is in line with projections in the 2024-25 Half-Yearly Review (\$7.7 billion), as bond yields have been stable and the change in borrowings has been constrained.

Over the budget and forward estimates, interest expenses (excluding superannuation interest) are projected to increase by an average rate of 7.4 per cent per annum.

The growth in interest expenses in recent years peaked in 2022-23 at 67.5 per cent. This reflected additional borrowings and increases in interest rates following the COVID-19 pandemic. The projected average annual growth rate of 7.4 per cent over the budget and forward estimates sees a return towards pre-COVID-19 growth rates.

Stabilising the State's gross debt trajectory has helped constrain the growth in interest expenses, with the Government on track to achieve its commitment to keep gross debt below the 2023 Pre-election Budget Update of \$188.2 billion by June 2026. Currently, gross debt is projected to be \$9.4 billion below the Pre-election Budget Update projection, which has saved the Government approximately \$0.4 billion in interest expenses in 2025-26. See Chart 7.3 for the actual and projected growth in interest expenses since 2017-18.

**Chart 7.3:** Actual and projected growth in interest expenses since 2017-18

