

## 5. EXPENDITURE

- The 2019-20 Budget is delivering on the Government's election commitments.
- This Budget also includes additional investment across regional New South Wales to support drought-affected communities and deliver state-building infrastructure through the Snowy Hydro Legacy Fund.
- The 2019-20 Budget prioritises investment in frontline service areas, delivering an additional 8,300 frontline health staff, including nurses, midwives, doctors and allied health workers, 4,600 public school teachers, as well as 1,500 police.
- The Government is continuing to invest record levels in infrastructure, with \$93.0 billion committed over the budget and forward estimates (including \$71.7 billion within the general government sector). The infrastructure program will provide new and upgraded schools and hospitals, more TAFE campuses, more Service NSW service centres and improved roads and public transport infrastructure.
- As part of the Government's ongoing disciplined fiscal management, and to align with machinery of government changes, this Budget includes new savings and reform measures of \$3.2 billion over four years to 2022-23 to support streamlined service delivery and strengthen the State's fiscal position. As a result, expenses are forecast to grow at 2.7 per cent per annum on average over the budget and forward estimates. This is lower than the average annual revenue growth rate of 3.2 per cent.

### 5.1 General government recurrent expenses

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The 2019-20 Budget maintains the Government's commitment to fiscal discipline and responsible expenditure management. This fiscal discipline has enabled the Government to deliver on its election commitments, provide drought relief to regional New South Wales (see Box 5.1) and invest in a range of other priority areas.

The Government's election commitments provide high-quality services, reduce cost of living pressures and deliver transformative infrastructure across New South Wales. The Government is also undertaking a range of public sector reforms and reviews to drive more streamlined and effective service delivery and strengthen the fiscal position of the State.

General government sector (GGS) recurrent expenses in 2018-19 are expected to be \$80.3 billion<sup>1</sup>, which is \$0.7 billion higher than forecast at the 2018-19 Budget. This increase is due to expenditure on new policy proposals, including the Emergency Drought Relief Package and investment to better support and protect New South Wales firefighters following amendments to workers compensation legislation. Also contributing to the increase are higher expenses associated with actuarial revaluations of long service leave and insurance claim liabilities, and depreciation expenses related to asset revaluations and the transfer of transport assets into the GGS. These increases are partially offset by the reprofiling of grants to local councils for infrastructure projects, to align with the revised service delivery schedules as advised by councils.

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<sup>1</sup> GGS recurrent expenses include the costs of delivering services such as education, health, public transport and other frontline services. Recurrent expenses include salaries and wages, grants and subsidies, depreciation, and other operating expenses.

Expenses in 2019-20 are forecast to be \$83.3 billion, which is 3.7 per cent higher than 2018-19. The increase is primarily due to new investments, including the Government's election commitments, the implementation of accounting standards changes, and higher depreciation expenses associated with the record infrastructure program.

Annual expense growth in 2018-19 and over the budget and forward estimates is expected to remain below long-term average revenue growth of 5.6 per cent. This is consistent with the Government's commitments outlined in the *Fiscal Responsibility Act 2012* (FRA).

#### **Box 5.1: Providing drought relief to regional communities**

The Government is using its fiscal position to deliver to those communities in need. A budget in surplus allows the Government to respond to drought conditions. This Budget commits almost \$800 million for drought assistance, including a package of drought relief measures to reduce cost of living pressures. New initiatives in this package include:

- \$70.0 million to continue to rebate transport costs for fodder, stock and water, up to a cap of \$40,000 in 2019-20 per farming enterprise
- \$50.0 million to provide one-year relief from Local Land Services annual rates
- \$30.0 million to waive the fixed charge component for NSW Water License holders
- \$15.0 million for emergency water carting and work to secure town and household water supplies
- \$10.0 million to remove interest payments on Farm Innovation Fund loans in 2019-20.

In addition, this Budget continues existing drought programs, including:

- \$8.3 million to improve access to and delivery of mental health services
- \$7.0 million for exemptions from registration fees for agricultural vehicles
- \$5.2 million to support preschool children and their families facing hardship.

The Government is also providing infrastructure to drought affected communities, including establishing a reservation of \$170.0 million for the Drought Infrastructure Package and injecting an additional \$350.0 million into the Farm Innovation Fund, taking the total available in the Fund to \$1.0 billion. For further information on infrastructure initiatives aimed at supporting drought affected communities, see Box 2.9 in Budget Paper No. 2 *Infrastructure Statement*.

Table 5.1 provides a reconciliation of the variations in expenses between the 2018-19 and 2019-20 Budgets.

Table 5.1: Expense reconciliation since the 2018-19 Budget

	2018-19 Revised	2019-20 Budget	2020-21	2021-22	2022-23
	\$m	\$m	\$m	\$m	\$m
<b>Expenses – 2018-19 Budget</b>	<b>79,656</b>	<b>82,181</b>	<b>84,316</b>	<b>86,814</b>	<b>n.a.</b>
Policy measures	454	688	919	802	n.a.
Parameter and other budget variations	310	443	424	357	n.a.
<b>Expenses – 2019 Pre-election Budget Update</b>	<b>80,419</b>	<b>83,312</b>	<b>85,659</b>	<b>87,974</b>	<b>n.a.</b>
Election commitments <sup>(a)</sup>	(8)	301	496	490	523
Other policy measures	(3)	455	527	264	(151)
Parameter and other budget variations	(83)	(464)	538	244	n.a.
Reforms, savings and offsets	...	(304)	(816)	(956)	(1,109)
<b>Expenses – 2019-20 Budget</b>	<b>80,326</b>	<b>83,300</b>	<b>86,405</b>	<b>88,016</b>	<b>89,410</b>

(a) *Reducing Procurement Spending, Saving Taxpayer Dollars* election commitment is included under reforms, savings and offsets.

Expenses have increased by \$0.7 billion between the 2019 Pre-election Budget Update and the 2019-20 Budget from 2018-19 to 2021-22. Over the four years to 2022-23, changes to expenses are primarily due to:

- \$1.8 billion to deliver the Government's election commitments. These include investments to repair regional roads and bridges, reduce the cost of travel for seniors living in regional communities, and provide grants to local councils and non-government organisations across New South Wales to support local communities, tourism and sporting organisations
- \$1.1 billion in other new policy proposals, including providing drought relief to farmers and regional communities, and further expenditure on infrastructure as part of the More Trains, More Services Program<sup>2</sup>, to provide increased services to the Illawarra and the South Coast, as well as the Airport Line
- parameter and other budget variations associated with the implementation of new accounting standards, actuarial adjustments, and the reprofiling of expenditure to align with updated program delivery schedules
- \$3.2 billion in reform, savings and offset measures, which help manage expense growth and provide a buffer to revenue volatility (see Box 5.2).

<sup>2</sup> This measure also has associated revenue impacts.

## Continuing fiscal discipline through budget reform

Delivering services as effectively as possible is at the core of the Government's agenda, as it ensures value for money in the use of NSW taxpayer dollars. This is demonstrated in the 2019-20 Budget through the inclusion of a range of savings, reform, and offset measures totalling \$3.2 billion over the budget and forward estimates. As a result, expenses are expected to grow by an average of 2.7 per cent per annum over the four years to 2022-23, which is lower than forecast average annual revenue growth and is in line with the Government's commitments under the FRA. Box 5.2 provides further details on these savings and reform measures.

### Box 5.2: Budget reform to drive more efficient spending

The savings and reform measures in this Budget address immediate fiscal pressures, enabling the Government to deliver its election promises while continuing to grow frontline services. This approach reflects the Government's commitment to manage expenditure growth sustainably in the face of economic volatility.

Savings and budget reform measures in the 2019-20 Budget include:

- whole-of-government administrative and procurement savings of \$731.4 million across the budget and forward estimates for the *Reducing Procurement Spending, Saving Taxpayer Dollars* election commitment. This election commitment targets back-office savings, including reducing expenditure on advertising, travel, consultants, procurement, IT, legal services, and public service senior executives
- \$2.5 billion other savings, reform, and offset measures, in line with machinery of government changes to streamline the public service. This includes a reduction in employee and contractor expenditure across the GGS, including reductions in back-office employee numbers, lower expenditure on the contingent workforce, and the abolition of public service senior executive discretionary pay
- consolidating the public service from 10 to 8 clusters and amalgamating agencies. These changes support the savings outlined above, by reducing duplication and realigning the public service so it can more effectively provide services to the people of New South Wales
- extended and long service leave policy reform, to reduce the rate of leave accrued for public sector employees who commence after 1 July 2019. After 10 years of service, new employees' accruals will be reduced from five to three months for each subsequent period of 10 years' service. This long-term reform, which applies to new employees only, will generate savings outside the budget and forward estimates and better aligns the entitlement with other jurisdictions, including the Victorian, Queensland and Commonwealth public service
- establishing the Digital Restart Fund, with seed funding of \$100.0 million over the next two years, to fund a whole-of-government digital transformation that will enhance customer experiences. This transformation will include promoting the adoption of common platforms across government to remove duplication and increase efficiency
- initiating targeted outcome and expenditure reviews across a range of clusters and developing cluster outcome and business plans. These reviews will promote evidence-informed decision making and improve outcomes for the people of New South Wales.

Table 5.2 outlines the reform, savings and offset measures implemented in this Budget. These measures reduce expenditure by \$3.2 billion over the budget and forward estimates and are pivotal to the Government's effective management of expense growth and delivering budget surpluses.

Table 5.2: Reform, savings and offset measures

	2018-19 Revised	2019-20 Budget	2020-21 Forward estimates	2021-22 Forward estimates	2022-23 Forward estimates	Total
	\$m	\$m	\$m	\$m	\$m	\$m
<i>Reducing Procurement Spending, Saving Taxpayer Dollars</i>	...	122	176	206	227	<b>731</b>
<i>Other reform, savings and offset measures</i>	...	183	639	750	882	<b>2,454</b>
<i>Long service leave reforms<sup>(a)</sup></i>	...	...	...	...	...	...
<b>Total reform, savings and offset measures</b>	...	<b>304</b>	<b>816</b>	<b>956</b>	<b>1,109</b>	<b>3,185</b>

(a) The long service leave savings reform measure will generate savings to the budget beyond the four years to 2022-23.

## New policy measures

The Government is delivering on its election commitments in the 2019-20 Budget, with additional expenditure of \$1.8 billion committed over the budget and forward estimates. This includes providing world-class hospitals, schools and public transport, as well as more and better services to regional New South Wales.

These new policy measures will improve outcomes for citizens across New South Wales, including:

- improving health care outcomes by providing more nurses, doctors and other frontline health workers, and delivering new and upgraded hospitals
- more teachers, additional education support services, and new and upgraded schools, to ensure children get the best start in life
- accessible, safe and reliable public transport
- investing in people by building skills across the workforce, including free courses for job-seekers taking on traineeships and free TAFE places for mature-aged workers
- continuing investment in regional communities (see Box 5.3)
- supporting drought affected communities in regional New South Wales (see Box 5.1)
- easing cost of living pressures on families and individuals
- protecting and supporting vulnerable members of the community
- preserving our environmental heritage
- providing more police to protect New South Wales communities.

Further information on election commitments is provided in the accompanying *Election Commitments* publication.

**Box 5.3: Investing in regional communities through the Snowy Hydro Legacy Fund**

The Snowy Hydro Legacy Fund was established in June 2018 to enable \$4.2 billion in proceeds from the State's share of the sale of Snowy Hydro to be spent on state-building infrastructure across regional New South Wales.

This Budget includes new funding to progress priority areas, including:

- \$400.0 million over four years for the Regional Digital Connectivity program<sup>3</sup>, which will provide mobile black spot towers and data centres to improve internet connectivity, speeds and reliability in the State's regions
- \$20.0 million in 2019-20 to investigate and plan for further Special Activation Precincts
- \$3.0 million in 2019-20 to progress sites identified in the International Air Freight Pre-Feasibility Study, which is investigating options for improved international air freight connectivity in regional New South Wales.

The 2018-19 Budget also provided \$40.0 million for scoping studies. These studies are investigating improved water security in priority catchments, and faster and better rail projects, and are progressing regional New South Wales' first Special Activation Precinct around the Parkes National Logistic Hub.

The Government has also committed \$32.0 million over three years to develop a business case to upgrade the Wyangala Dam.

**Parameter and other budget variations**

Parameter and other budget variations are the result of changes to the cost and timing of service delivery that are largely outside Government control. These include changes to economic conditions, growth in population or demand, variations to Commonwealth Government grants, accounting and technical adjustments (including accounting standard changes), and actuarial variations.

Major parameter and other budget variations that increase expenses across the budget and forward estimates, relative to the 2019 Pre-election Budget Update, include:

- \$359.8 million for the continued delivery of bus services in Newcastle and some areas of Sydney<sup>4</sup>
- \$286.5 million associated with the implementation of new accounting standards for AASB 16 *Leases*
- depreciation and amortisation expenses associated with the Government's infrastructure program, including \$222.3 million related to the delivery of schools and ICT works within the Education cluster, and \$52.0 million for the transfer of State Transit Authority assets into the GGS
- \$262.4 million increased expenditure for high cost drugs, which is offset by revenue from the Commonwealth Government
- \$168.1 million related to changes to long service leave actuarial assumptions
- additional expenses associated with the reprofiling of expenditure across the budget and forward estimates, to better align with planned service and project delivery schedules.

The above parameter and other budget variations are partially offset by a decrease in defined benefit superannuation costs of \$1.1 billion over the budget and forward estimates, largely due to lower interest rates used to calculate the interest expense on superannuation liabilities.

<sup>3</sup> This Budget includes an additional \$118.8 million in recurrent expenditure for this program, funded outside the Snowy Hydro Legacy Fund.

<sup>4</sup> The expenditure for this measure is offset by a corresponding increase in revenue.

## Trends and outlook – expenses

This section summarises GGS expenses by major operating statement category, as outlined in Table 5.3.

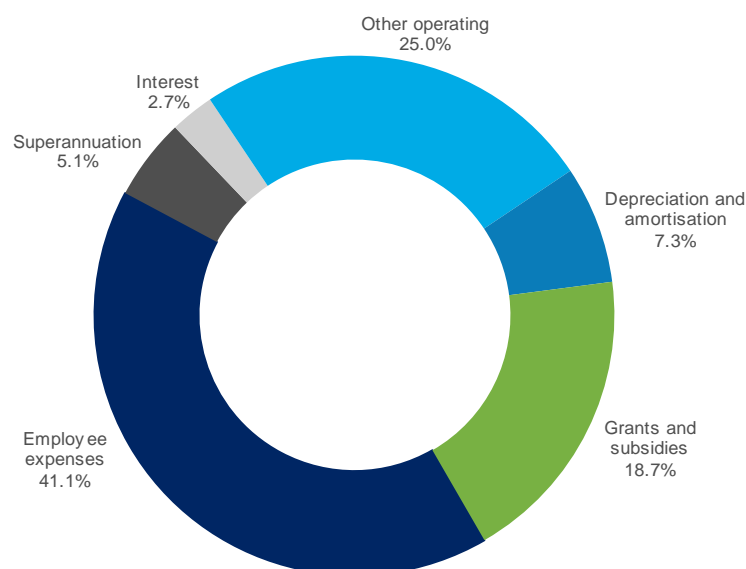
Table 5.3: General government sector expenses

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	% Four year average growth 2018-19 to 2022-23
	Actual	Revised	Budget	Forward Estimates			
	\$m	\$m	\$m	\$m	\$m	\$m	
Total Employee-Related Expenses	36,111	37,353	38,496	38,913	41,075	43,900	4.1
Employee Expenses	31,644	32,789	34,266	34,784	36,829	39,442	4.7
Superannuation	4,467	4,564	4,230	4,130	4,246	4,458	(0.6)
Other Operating	19,652	21,478	20,815	21,900	21,462	19,907	(1.9)
Depreciation and Amortisation	4,873	5,321	6,110	6,491	6,623	6,795	6.3
Grants and Subsidies	13,862	14,324	15,602	16,453	16,089	15,862	2.6
Interest	1,994	1,850	2,278	2,648	2,768	2,946	12.3
<b>Total Expenses</b>	<b>76,491</b>	<b>80,326</b>	<b>83,300</b>	<b>86,405</b>	<b>88,016</b>	<b>89,410</b>	<b>2.7</b>
Annual change	5.4%	5.0%	3.7%	3.7%	1.9%	1.6%	

Chart 5.1 shows the composition of expenses in 2019-20 by operating category.

Employee-related expenses (including superannuation) are the largest category and account for 46.2 per cent of total 2019-20 expenses. Other operating expenses are the second largest category (25.0 per cent), followed by grants and subsidies (18.7 per cent), depreciation and amortisation (7.3 per cent) and interest expenses (2.7 per cent).

Chart 5.1: Composition of 2019-20 expenses



## Employee expenses

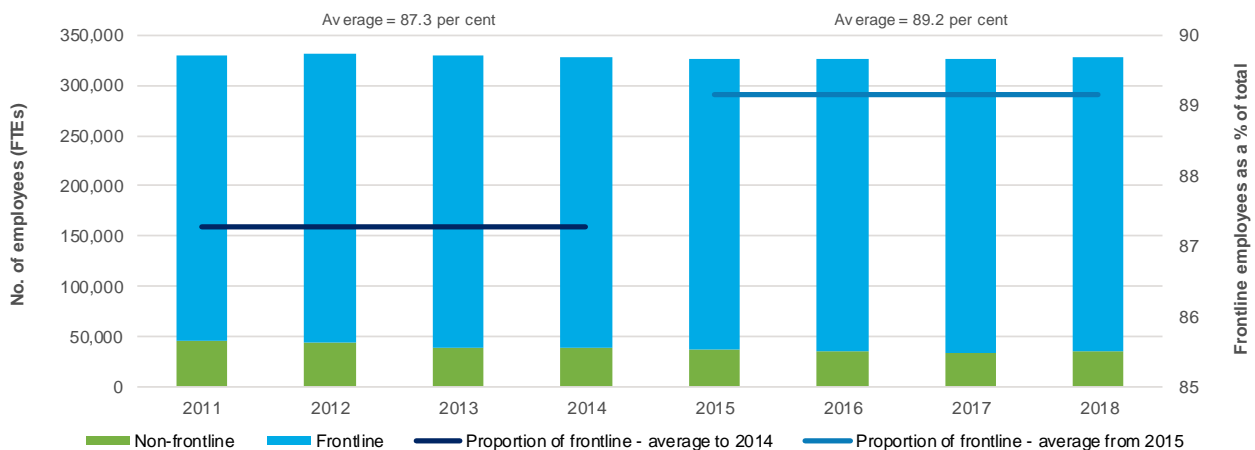
Employee expenses (excluding superannuation) are forecast to be \$34.3 billion in 2019-20 and comprise 41.1 per cent of total expenses. This represents the Government’s commitment to delivering essential services, including boosting frontline staff such as teachers, nurses and police.

Employee expenses are expected to increase by an average of 4.7 per cent per year over the budget and forward estimates. This increase is primarily driven by additional investment in education as part of the Government’s commitment to needs-based funding for public schools under the National Education Schools Reform (Gonski 2.0), higher employee numbers to deliver critical health and police services, and wages growth.

The NSW Public Sector Wages Policy, alongside the measures outlined in Box 5.2, has supported the Government in managing employee expense growth and enabled further investment in critical service areas and frontline staff.

The Government continues to invest in frontline staff to deliver high-quality services. Frontline numbers have increased as a proportion of the total New South Wales public sector from 2011 to 2018, comprising 89.2 per cent of the public sector on average over the four years to 2018 (see Chart 5.2).<sup>5</sup> From 2011 to 2018, frontline staff increased by 9,375 full-time equivalents (FTEs), while non-frontline staff numbers fell by 10,389 FTEs. Frontline staff continued to grow in 2018, despite the transition of workers to private providers under the National Disability Insurance Scheme (NDIS), with continued investments in more teachers, nurses, and police.

Chart 5.2: Proportion of frontline and non-frontline staff from 2011 to 2018



<sup>5</sup> This data is sourced from the annual workforce profile census conducted by the Public Service Commission and identifies frontline roles as those that primarily deliver established services to external customers, where external customers can be other State Government agencies as well as members of the general public. Figures for 2017 and 2018 incorporate estimates for the NSW Police Force, which are based on a three-year average ratio of frontline to non-frontline staff from 2014 to 2016.



Over the next four years, the Government will continue to prioritise investment in frontline services, including providing funding for:

- 8,300 frontline health staff, with 45 per cent located in regional New South Wales
- an extra 221 paramedics and call centre staff in 2019-20 to improve response times and reduce paramedic fatigue
- 4,600 additional teachers in government schools across New South Wales, delivering the highest number of teachers in government schools in the State's history
- 100 additional school counsellors or psychologists and an additional 350 student support officers, as well as dedicated services for rural and remote students
- 1,500 new police to continue to keep the community safe
- five additional District Court judges and support staff, as well as additional funding to the Office of the Director of Public Prosecutions and Legal Aid NSW
- 45 Child Protection Helpline workers and 66 case support workers
- an additional 300 School Crossing Supervisors across New South Wales primary schools to help children get to and from school safely each day.

### Superannuation expenses

Superannuation expenses are \$4.2 billion in 2019-20 and comprise 5.1 per cent of total expenses. These expenses are associated with defined benefit and defined contribution plans, and are forecast to remain relatively stable, falling by 0.6 per cent over the budget and forward estimates.

The decrease over the budget and forward estimates is largely due to lower interest rates used to calculate the interest expense on superannuation liabilities, and a decline in defined benefit superannuation liabilities across the forward estimates as a result of lower numbers of contributors. Defined benefit superannuation liabilities are expected to be fully funded by 2030, consistent with the Government's FRA commitment.<sup>6</sup>

Lower defined benefit superannuation expenses are partially offset by increased defined contribution superannuation expenses across the budget and forward estimates, primarily associated with additional frontline education and health employee costs.

### Other operating expenses

Other operating expenses mainly represent the day-to-day running costs incurred in the delivery of government services and programs and comprise 25.0 per cent of total expenses in 2019-20.

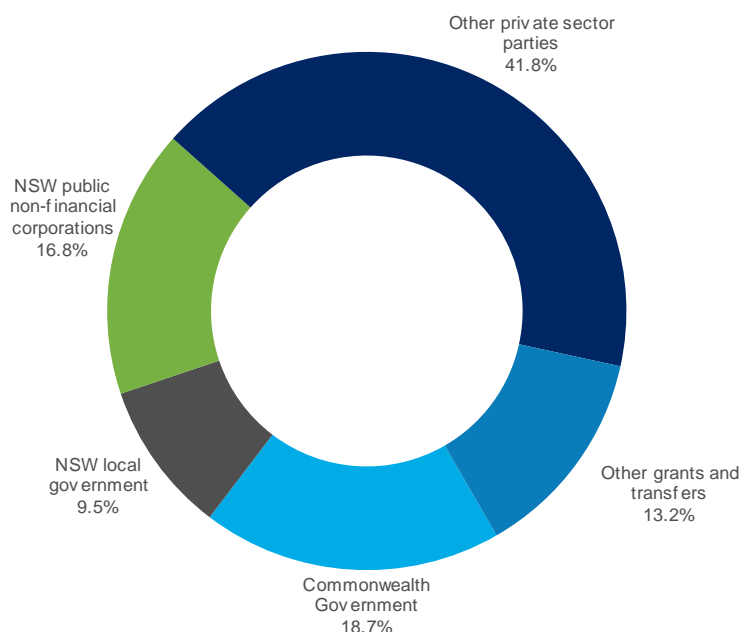
In 2019-20, other operating expenses are forecast to decrease by 3.1 per cent from 2018-19 to \$20.8 billion and by 1.9 per cent over the budget and forward estimates. This decrease is primarily driven by a reduction in operating lease expenses related to the implementation of AASB 16 *Leases*, and lower expenses associated with the application of back-office savings, including lower contractor, consultant, legal, advertising and other procurement savings. Lower costs across the forward estimates are also due to the completion of major transport infrastructure projects being delivered in the public non-financial corporations sector.

<sup>6</sup> For reporting purposes, superannuation liabilities are calculated in accordance with AASB 119 *Employee Benefits*. For funding purposes, AASB 1056 *Superannuation Entities* is used. Further information is provided in Chapter 6 of this *Budget Statement*.

## Grants, subsidies and other transfer expenses

Grants and subsidies include payments to other government sectors, local government, community groups and non-profit organisations for the delivery of services and infrastructure projects. Grants and subsidies are forecast to be \$15.6 billion in 2019-20 and comprise 18.7 per cent of total expenses. Chart 5.3 below outlines the composition of grants and subsidies in 2019-20 by recipient.

Chart 5.3: Composition of grants and subsidies in 2019-20 by recipient



Grants and subsidies are expected to increase by an average of 2.6 per cent annually over the budget and forward estimates, largely driven by higher grants and transfers to other private sector parties and the Commonwealth Government. These increases reflect the roll-out of the National Disability Insurance Scheme (NDIS) and additional grants to support non-government schools.

Grants to local governments and councils increase to \$1.5 billion in 2019-20, and comprise 9.5 per cent of grants and subsidies. These payments include Restart NSW grants and support local councils to deliver infrastructure and services that provide targeted benefits to local communities, including repairing and upgrading local roads and airports, and providing sporting facilities and parks.

## Depreciation and amortisation

Depreciation and amortisation expenses are projected to be \$6.1 billion in 2019-20, comprising 7.3 per cent of total expenses. These expenses are forecast to grow by 14.8 per cent in 2019-20 and 6.3 per cent over the budget and forward estimates. This increase is partially due to the implementation of AASB 16 *Leases*, which brings lease arrangements previously classified as operating leases onto the balance sheet. The assets now recognised under these leases are subsequently depreciated over the life of the lease. Operating lease rental expenses have been replaced by depreciation expenses associated with the recognition of the asset and interest expenses for the lease obligation.

The Government's record infrastructure program is also contributing to the increase, with higher depreciation expenses associated with the delivery of more schools, hospitals, transport projects and ICT works.

## Interest

Interest expenses in 2019-20 are forecast to be \$2.3 billion (2.7 per cent of total expenses) and increase by an average of 12.3 per cent annually over the budget and forward estimates. This increase is largely related to funding the State's unprecedented infrastructure investment and the impact of accounting standards changes associated with the recognition of new lease liabilities. This is partially offset by lower borrowing costs associated with a reduction in interest rates, including the 0.25 percentage point reduction announced by the Reserve Bank of Australia on 4 June 2019.

Interest revenues are shown in section 4.6 of this *Budget Statement*.

## 5.2 General government capital expenditure

Table 5.4 below provides a reconciliation of the changes in GGS capital expenditure from the 2018-19 Budget to the 2019-20 Budget.

Table 5.4: Capital expenditure reconciliation

	2018-19 Revised	2019-20 Budget	2020-21	2021-22	2022-23
	\$m	\$m	Forward Estimates		
	\$m	\$m	\$m	\$m	\$m
<b>Capital - 2018-19 Budget</b>	<b>17,329</b>	<b>17,329</b>	<b>16,585</b>	<b>14,463</b>	<b>n.a.</b>
Policy measures	777	1,330	655	317	n.a.
Parameter and other variations	75	407	25	(70)	n.a.
<b>Capital - 2019 Pre-election Budget Update</b>	<b>18,182</b>	<b>19,065</b>	<b>17,265</b>	<b>14,710</b>	<b>n.a.</b>
Policy measures	19	898	1,287	2,711	2,388
Parameter and other variations	(336)	2,382	(802)	(174)	n.a.
<b>Capital - 2019-20 Budget</b>	<b>17,864</b>	<b>22,345</b>	<b>17,750</b>	<b>17,247</b>	<b>14,349</b>

GGS capital expenditure includes the capital investment program of general government agencies and excludes public non-financial corporations such as Railcorp/Transport Asset Holding Entity, Sydney Opera House Trust and the Sydney Olympic Park Authority.

GGS capital expenditure is forecast to be \$22.3 billion for 2019-20, an increase of 25.1 per cent from 2018-19. The variation in capital expenditure from 2018-19 to 2019-20 largely reflects the recognition of the soon to be completed Public Private Partnership for the CBD and South East Light Rail and a record infrastructure spend in health and education.

GGs capital expenditure is expected to be \$71.7 billion over the four years to 2022-23. The increase in capital expenditure between the 2019 Pre-election Budget Update and the 2019-20 Budget, over the four years to 2022-23, is driven by election commitments and new investments in public transport and roads. These election commitments include:

- Sydney Metro West – a new underground metro railway connecting the Greater Parramatta and Eastern Sydney Central Business Districts (\$6.4 billion over four years)
- 40 new and upgraded schools, including those in Bangalow, Epping, Milton, and Milperra (\$917.4 million over four years)
- the redevelopment of the Children’s Hospital at Westmead (estimated total cost \$619.0 million)
- the Regional Digital Connectivity program, providing mobile black spot towers and data centres to improve internet connectivity, speeds and reliability in regional areas (\$400.0 million over four years).<sup>7</sup>

Total non-financial public sector capital expenditure is expected to be \$93.0 billion over the four years to 2022-23. Further details on the infrastructure program is provided at Box 5.4.

#### **Box 5.4: Continuing record levels of infrastructure investment**

The 2019-20 Budget allocates \$93.0 billion over four years to 2022-23 for the capital program, including \$71.7 billion in the GGS, to meet the needs of a growing population and support economic growth.

The Government’s record infrastructure program provides funding over four years to 2022-23 across a wide range of areas, including:

- record investment in health infrastructure of \$10.1 billion<sup>8</sup>, including for the planning and development of over 40 new and upgraded hospital builds
- record investment in education and skills infrastructure of \$7.3 billion, including to support the planning or delivery of over 190 new and upgraded schools as well as TAFE connected learning centres
- record investment in public transport and roads of \$55.6 billion, including funding to accelerate Sydney Metro West and to restore bridges and roads across New South Wales
- \$3.2 billion to build stronger communities by renewing our criminal justice and emergency services infrastructure.

A number of major infrastructure projects are now complete or nearing completion, including North West Metro, which commenced services in May 2019 as Australia’s first fully-automated metro rail system, and the Western Sydney Stadium, which opened in April 2019.

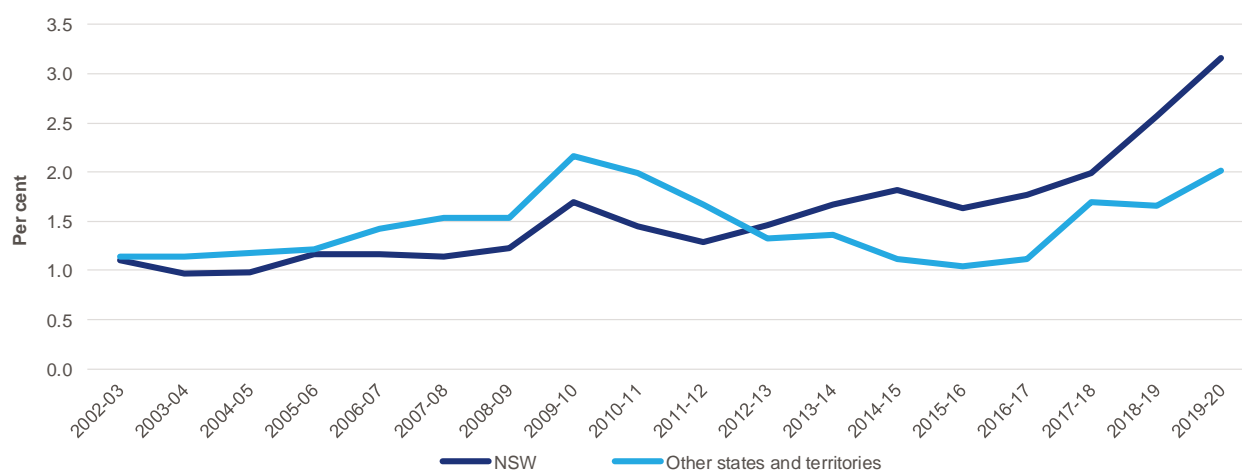
For further information on capital expenditure, refer to Budget Paper No. 2 *Infrastructure Statement*.

<sup>7</sup> The Regional Digital Connectivity program includes both recurrent and capital expenditure. The \$400.0 million is the capital expenditure component.

<sup>8</sup> Health capital expenditure includes capital expensing amounts and leases following a change in accounting standards.

General government capital expenditure as a share of GSP increased from 1.3 per cent in 2011-12 to 3.2 per cent<sup>9</sup> in 2019-20 (Chart 5.4), reflecting the Government's continued commitment to infrastructure investment.

Chart 5.4: General government sector capital spending relative to GSP<sup>(a)</sup>



(a) General government sector – purchases of non-financial assets per the cash flow statement, 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 2002-03 to 2017-18. State Budget papers and NSW Treasury calculations for 2018-19 and 2019-20.

### 5.3 Expenses by functional categorisation (COFOG-A)

The Classification of the Functions of Government – Australia (COFOG-A) allows for a comparison of expenses by functional classification across jurisdictions and countries. COFOG-A is an international standard that classifies government expenditure into standardised functional/activity categories that align to the purpose of the expenditure. The following section provides information on the GGS total expenditure by the COFOG-A expenditure data.

The COFOG-A classification is a separate reporting approach to the New South Wales State Outcomes budgeting framework for the entire budget spend in Budget Paper No. 3 *Budget Estimates*. The State Outcomes framework requires agencies to align and allocate their resources and service delivery toward achievement of the suite of State Outcomes (see Budget Paper No. 3 *Budget Estimates* for further details on State Outcomes).

Due to differences in reporting classifications and consolidation, the COFOG-A expenditure data discussed in this section will differ from the data presented on a cluster and State Outcome basis in Budget Paper No. 3 *Budget Estimates*.

Chart 5.5 shows the largest recurrent expenditure COFOG-A groups for 2019-20 are health, education, transport and public order and safety, which together account for 73.6 per cent of total expenses. Recurrent expenditure has grown from \$80.3 billion in 2018-19 to \$83.3 billion in 2019-20, an increase of 3.7 per cent. This increase is largely driven by additional investments in frontline services, primarily within health, police, and education. Additionally, transport expenses have increased in line with further expenditure on infrastructure as part of the More Trains, More Services Program.<sup>10</sup>

<sup>9</sup> Calculated as purchases of non-financial assets per the cash flow statement. For consistency with other states, assets acquired through finance leases are excluded.

<sup>10</sup> This expenditure has offsetting revenue impacts.

Chart 5.5: Composition of total 2019-20 recurrent COFOG-A expenditure

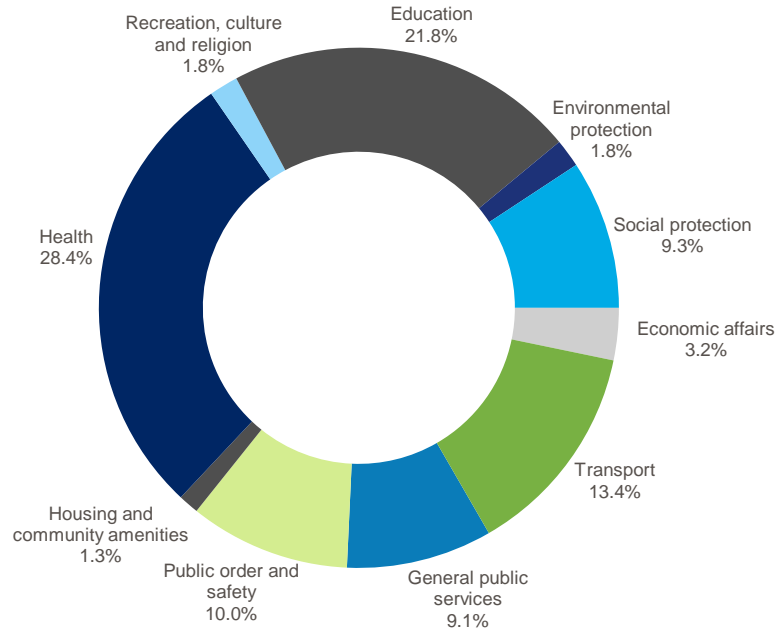
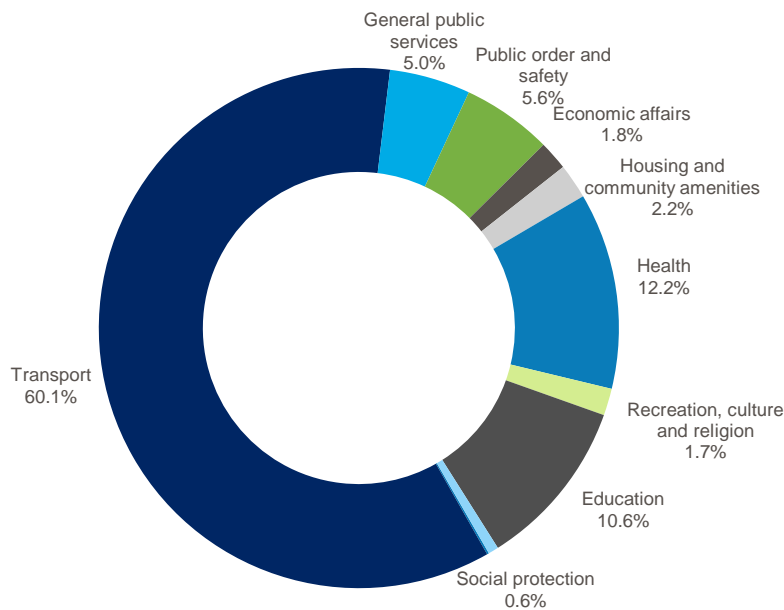


Chart 5.6 shows the 2019-20 split of capital expenditure by functional area. Transport, health and education represent 82.9 per cent of total capital expenditure. Capital expenditure has grown from \$17.9 billion in 2018-19 to \$22.3 billion in 2019-20, an increase of 25.1 per cent. This increase is largely driven by additional capital investment in transport infrastructure relative to 2018-19, largely associated with the delivery of Sydney Metro City and Southwest, Pacific Highway Woolgoolga to Ballina, CBD and South East Light Rail, and WestConnex, including the Rozelle Interchange.

For further information on the Government’s infrastructure program, refer to Budget Paper No. 2 *Infrastructure Statement*.

Chart 5.6: Composition of total 2019-20 capital COFOG-A expenditure



## Key areas under Classification of the Functions of Government - Australia

### Health

Recurrent health function expenses for 2019-20 are expected to be \$23.6 billion, comprising 28.4 per cent of total recurrent expenses. Health sector expenditure is designed to get the best health outcomes for the people of New South Wales by delivering improvements in service levels in hospitals, ambulance and emergency health services, as well as enhanced patient services. The 2019-20 projection represents a \$993.7 million increase from 2018-19, which is attributable to the 4.5 per cent expense growth rate for core health services.

Capital expenditure for health in 2019-20 is \$2.7 billion, or 12.2 per cent of total 2019-20 GGS capital expenditure. This is an increase of \$504.8 million since 2018-19, which is largely attributable to the continued delivery and commencement of works to upgrade and build hospital and health facility projects.

### Education

Budgeted expenses for education COFOG-A functions in 2019-20 are expected to be \$18.2 billion, or 21.8 per cent of total recurrent expenses. This covers investments in pre-primary, primary, secondary, technical and tertiary education and teacher training.

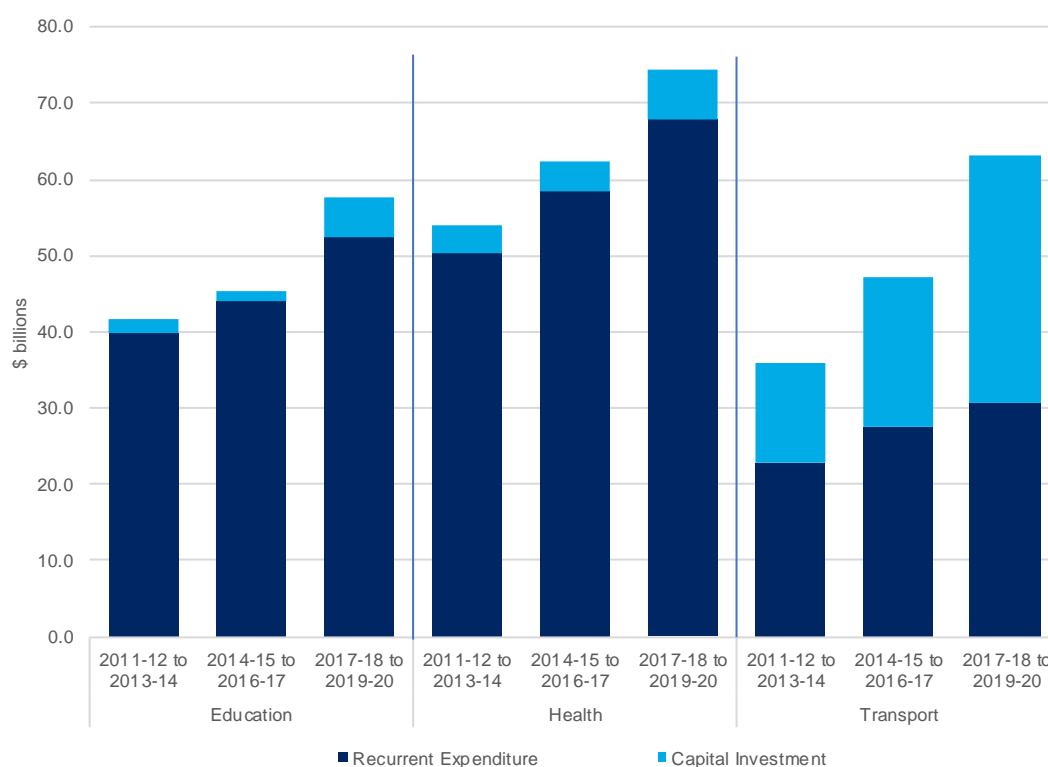
Education capital expenditure for 2019-20 is expected to be \$2.4 billion, representing 10.6 per cent of total GGS capital expenditure. This significant investment continues the Government's record schools infrastructure program, which includes the planning and delivery of 40 new and upgraded schools to begin in 2019-20.

### Transport

Recurrent expenditure on transport COFOG-A functions is expected to make up 13.4 per cent of total expenditure in 2019-20 at \$11.2 billion. This is an increase of \$928.3 million over 2018-19. This investment focuses on providing efficient public transport services for commuters and safe, decongested and efficient roads across the State.

Capital expenditure on transport in 2019-20 is forecast to be \$13.4 billion, or 60.1 per cent of total capital expenditure. This expenditure will ensure the continued delivery of major capital transport projects including the final stages of WestConnex (the M4-M5 link tunnels and Rozelle Interchange), Sydney Metro City and Southwest linking Chatswood and Bankstown, the Pacific Highway upgrade program (continuing construction between Woolgoolga and Ballina and planning and preconstruction activities for the Coffs Harbour bypass), upgrades to support the new Western Sydney Airport at Badgerys Creek (including The Northern Road between Narellan and Penrith and the M12 Motorway), continuation of the Princes Highway upgrades and completion of the CBD and South East Light Rail.

Chart 5.7: Three-year aggregate of general government recurrent expenditure and capital investment by function<sup>(a)(b)</sup>



- (a) The COFOG-A framework has replaced the former Government Purpose Classification framework under the new ABS GFS Manual. This was implemented for the first time in the 2017-18 Budget. Appendix A1 of this Budget Paper provides further information on the Uniform Presentation Framework and COFOG-A functions.
- (b) 2017-18 actuals, 2018-19 revised and 2019-20 Budget forecast.

Chart 5.7 illustrates the Government's focus on core service delivery areas within the education, health and transport policy areas, with an additional \$389.4 billion invested in recurrent services and infrastructure since 2011-12. From 2011-12 to 2014-15, the Government spent an average of \$45.2 billion per annum on the key areas of education, health and transport. This increased to an average of \$57.2 billion per annum from 2015-16 to 2018-19 and is forecast to increase in 2019-20 to \$71.5 billion.

## General public services

The Government will spend an estimated \$7.6 billion in 2019-20 on recurrent services within general public services, representing a decrease of \$804.2 million from 2018-19.

Capital investment in general public services is \$1.1 billion in 2019-20 and has increased by \$789.7 million. This increase is largely attributable to the transfer of assets across COFOG-A classifications and reservations under Restart NSW that are yet to be allocated to clusters. Further information on Restart NSW is provided in Budget Paper No. 2 *Infrastructure Statement*.



## Public order and safety

Police, civil and fire protection services, prisons and law courts all work together to support safer communities for the people of New South Wales and ensure the effective functioning of our justice system.

In 2019-20, recurrent expenditure on the public order and safety government function is expected to be \$8.3 billion, making up 10.0 per cent of total recurrent expenditure. This is an increase of \$275.1 million from 2018-19. The increase in expenditure is largely attributable to the first phase of the Government's commitment to invest in an additional 1,500 new police.

Capital spending on public order and safety is forecast to be \$1.3 billion, or 5.6 per cent of total 2019-20 capital expenditure. This is largely attributable to the continuation of the Prison Bed Capacity Program and the delivery of further new and upgraded police stations across the State.

## Social protection

The Government is committed to protecting the vulnerable, breaking the cycles of disadvantage and supporting people with disabilities. The 2019-20 Budget includes a total investment of \$7.7 billion in recurrent expenses on COFOG-A social protection services, representing 9.3 per cent of total GGS expenditure, an increase of \$67.6 million from 2018-19.

Capital expenditure in 2019-20 is \$143.2 million.

## Economic affairs

The Government will spend an estimated \$2.7 billion in recurrent expenses in 2019-20 on economic affairs and a further \$405.0 million in capital. This functional classification includes expenditure in the following areas:

- commercial and labour affairs
- agriculture, forestry, fishing and hunting
- fuel and energy
- mining, manufacturing and construction
- communication
- other industries
- research and development.

This represents a \$260.4 million increase in recurrent expenses from 2018-19 or 10.7 per cent, and a \$217.2 million increase in capital expenses from 2018-19.

## 5.4 Recurrent expense measures statement

The Government is continuing to deliver on its promises and investing in initiatives aimed at improving the lives of New South Wales residents across the regions as well as metropolitan areas. It is also reviewing and reforming service delivery in the State, aimed at delivering value for taxpayer dollars.

Table 5.5 shows the impact of new policy measures (including election commitments) by cluster. The table displays the expense impact of these measures and does not include associated revenue or capital expenditure.

Further detail on the Government's election commitments is provided within the accompanying *Election Commitments* publication.

Table 5.5: *New recurrent policy measures since the 2019 Pre-election Budget Update<sup>(a)(b)(c)</sup>*

	2019-20	2020-21	2021-22	2022-23	Four year	Description of key initiatives
	Budget	Forward estimates			Total	
	\$m	\$m	\$m	\$m	\$m	
<b>Customer Service</b>	54.6	9.2	13.7	30.2	<b>107.6</b>	<ul style="list-style-type: none"> <li>Expanding service delivery with the roll out of 10 new Service NSW service centres.</li> <li>Equipping Service NSW for continued growth across the State.</li> <li>Increasing the number of services available through Service NSW on behalf of other agencies including the IVF Rebate.</li> </ul>
<b>Education</b>	165.0	28.0	33.9	114.6	<b>341.5</b>	<ul style="list-style-type: none"> <li>Vocational education initiatives including: <ul style="list-style-type: none"> <li>70,000 fee-free courses for job-seekers taking on traineeships</li> <li>30,000 free TAFE places for mature-aged workers seeking to retrain or re-enter the workforce</li> <li>staffing and other recurrent expenses associated with two new vocational high schools, two new Productivity Bootcamps, the Western Sydney Construction Hub and eight new TAFE campuses in rural and regional locations</li> <li>assisting women to start their own business.</li> </ul> </li> <li>Grants to non-government schools for essential infrastructure.</li> </ul>
<b>Health</b>	...	...	...	...	...	<ul style="list-style-type: none"> <li>Prioritising growth funding to deliver key election commitments including: <ul style="list-style-type: none"> <li>delivering an additional 5,000 nurses and midwives</li> <li>providing free dental checks for primary school children</li> <li>improving access to IVF</li> <li>enhancing the regional health services workforce.</li> </ul> </li> </ul>
<b>Planning, Industry and Environment</b>	229.5	118.7	140.3	148.6	<b>637.1</b>	<ul style="list-style-type: none"> <li>Further drought assistance programs including transport rebates for fodder, stock and water, waiving fixed charges for water licence holders and providing emergency water carting to secure town water supplies.</li> <li>Reducing the digital divide with the Regional Digital Connectivity program.</li> <li>Strengthening regional communities through grants supporting local tourism and economies.</li> <li>Roads to Home program delivering local road upgrades in collaboration with Local Aboriginal Land Councils in remote communities to improve access and increase economic opportunities.</li> </ul>
<b>Premier &amp; Cabinet</b>	27.2	27.4	25.2	25.5	<b>105.3</b>	<ul style="list-style-type: none"> <li>Boosting screen production in NSW through the Made in NSW program.</li> </ul>

	2019-20 Budget	2020-21	2021-22 Forward estimates	2022-23	Four year Total	Description of key initiatives
	\$m	\$m	\$m	\$m	\$m	
<b>Stronger Communities</b>	140.5	65.9	55.8	32.3	<b>294.5</b>	<ul style="list-style-type: none"> <li>• Faster resolution of legal matters through the District Court Backlog Program, which includes five additional District Court judges and support staff as well as additional support for the Office of the Director of Public Prosecutions and Legal Aid NSW.</li> <li>• Strengthening community safety through enhanced electronic monitoring of sex offenders.</li> <li>• Invigorating communities with grants for various sports centres and clubs in NSW.</li> <li>• Providing support for multicultural aged care facilities across the State.</li> <li>• Increasing grants to the NSW Volunteer Rescue Association to enable acquisition of 30 new rescue vehicles.</li> </ul>
<b>The Legislature</b>	0.2	0.1	0.2	0.2	<b>0.7</b>	<ul style="list-style-type: none"> <li>• Expenses associated with capital upgrades including ceiling replacement, disability access and roof membrane replacement.</li> </ul>
<b>Transport</b>	160.5	780.3	511.5	62.7	<b>1,515.0<sup>(d)</sup></b>	<ul style="list-style-type: none"> <li>• Progressing the More Trains, More Services Program designed to overhaul the rail network to provide increased services to the Illawarra and the South Coast, as well as the Airport Line.</li> <li>• Investing in the Fast Rail Network.</li> <li>• Fixing local roads in regional NSW to improve travel times and freight productivity.</li> <li>• Over 14,000 extra weekly bus services from 2019-20 throughout Sydney, Illawarra, Central Coast and the Lower Hunter, as well as funding to improve bus services across 15 regional towns.</li> <li>• Reduction in the Opal Weekly Travel cap by approximately 20 per cent to \$50 a week from 1 July 2019 for all train, bus, ferry and light rail customers.</li> <li>• Providing a \$250 regional Seniors Transport Card for aged pensioners living in regional NSW to put towards fuel, taxi travel or NSW TrainLink tickets.</li> </ul>
<b>Treasury</b>	5.5	...	3.5	...	<b>9.0</b>	<ul style="list-style-type: none"> <li>• Restart NSW grants to local governments, community organisations and other sectors.</li> </ul>
<b>Other</b>	(26.7)	(6.6)	(29.9)	(42.4)	<b>(105.6)</b>	<ul style="list-style-type: none"> <li>• Establishing the Digital Restart Fund, offset by matching cluster expense reductions, to ensure the Government is equipped to keep pace with the digital age.</li> <li>• Other movements reflect whole-of-government measures that cannot be attributed to individual clusters, as well as the transfer of Restart NSW commitments into agency budgets.</li> </ul>
<b>Reform, Savings and Offsets</b>	(304.4)	(815.8)	(955.9)	(1,109.3)	<b>(3,185.5)</b>	<ul style="list-style-type: none"> <li>• Saving taxpayer dollars through reductions in procurement and employee expenses, plus other reform, savings and offset measures.</li> </ul>

(a) A positive figure increases expenses, a negative figure decreases expenses.

(b) These figures represent the net expense impact for new policy measures.

(c) A number of election commitment measures are not reflected in this table as the recurrent expenses have been met from within existing budget estimates. Refer to the accompanying *Election Commitments* publication for further information on election commitments.

(d) Offset by an increase of \$1,206.8 million in revenue as part of the More Trains, More Services Program.