

## 5. EXPENDITURE

- General government sector expenses are projected to be \$122.2 billion in 2024-25.
- Over the budget and forward estimates, expense growth is projected to average 1.7 per cent per annum, down from 9.7 per cent in the four years to 2022-23.
- Expenses as a per cent of gross state product (GSP) is trending back to pre-COVID levels, having peaked at 17 per cent in 2021-22. The projection for 2024-25 is 14 per cent, before falling further towards 12 per cent over the forward estimates.
- The new expense measures in the Budget focus on building a better New South Wales, including:
  - the Government’s commitment to abolish the wages cap for public sector workers across the State and deliver wages growth to address vacancies and rebuild essential services
  - support for people to help address housing affordability including first home buyers, renters, women leaving domestic and family violence and people accessing homelessness services.
- The Budget continues the Government’s focus on expense management. Many of the new expense measures are partially or completely offset by expense reductions or revenue.
- Of the \$13 billion in savings, reprioritisation and other budget improvement measures identified as part of the 2023-24 Budget, \$10 billion are on track for completion just one year into delivery.

### 5.1 Alleviating cost-of-living pressures and rebuilding essential services

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Government expenses are projected to be \$122.2 billion in 2024-25. This is an upward revision to the outlook in the 2023-24 Half-Yearly Review (\$117.3 billion). The material drivers of the 2024-25 uplift are:

- an increase in demand and costs for existing government programs
- timing adjustments to initiatives and the carrying forward of unspent expenses from 2023-24 to 2024-25
- disaster recovery measures
- targeted investments in essential services and areas of acute need including:
  - housing and community-building infrastructure
  - roads and public transport, public school and hospital expansions and maintenance
  - domestic and family violence responses.

The expense profile for the forward estimates is outlined in Tables 5.1 and 5.2.

Over the budget and forward estimates, expenses are projected to grow at an average rate of just 1.7 per cent per annum. While it is a higher rate than projected at the Half-Yearly Review, total expenses as a proportion of GSP is on a downward trajectory (see Chart 5.1). The projection is for expenses to trend down to 12 per cent of GSP, in line with pre-COVID levels.

The previous budget announced \$13 billion<sup>1</sup> in savings, reprioritisation and other budget improvement measures as part of a Comprehensive Expenditure Review. Over \$10 billion of these measures are complete or on track, with the remaining measures underway or in planning.

Chart 5.1: Expenses relative to gross state product

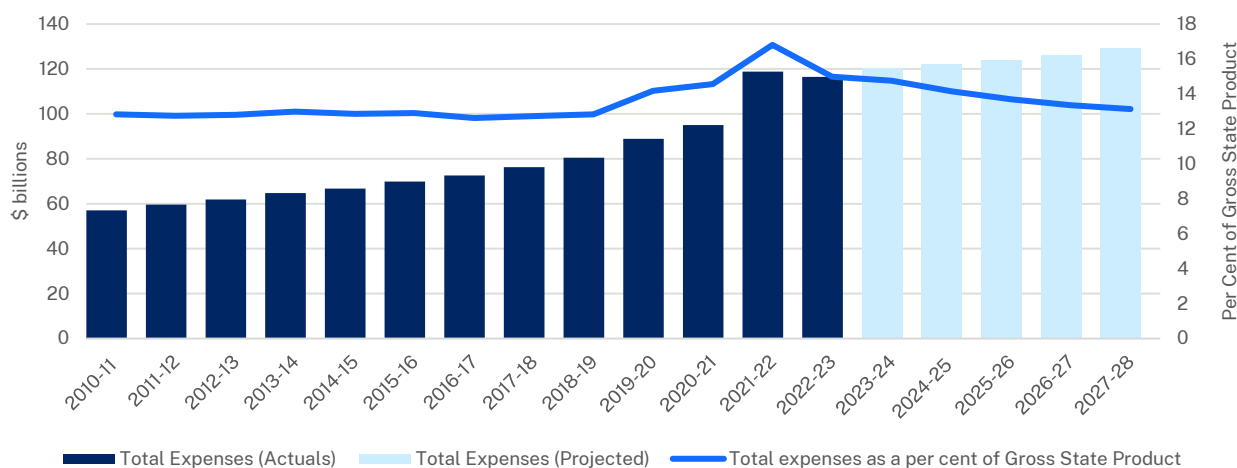


Table 5.1: Expense reconciliation since the 2023-24 Half-Yearly Review

	2023-24 Revised \$m	2024-25 Budget \$m	2025-26 \$m	2026-27 Forward Estimates \$m	2027-28 \$m
<b>Expenses – 2023-24 Half Yearly Review</b>	120,610	117,322	117,993	120,793	n.a.
Policy measures - new expenses <sup>(a)</sup>	206	5,449	5,228	4,789	4,458
Reforms, savings and offsets <sup>(b)</sup>	(795)	(2,353)	(2,102)	(1,732)	(1,620)
Parameter and other budget variations	497	1,745	2,629	2,164	n.a.
<b>Expenses – 2024-25 Budget</b>	<b>120,518</b>	<b>122,163</b>	<b>123,748</b>	<b>126,014</b>	<b>129,138</b>

- (a) This row should be read in conjunction with the reforms and offsets row. For many new policies, the impact in this row is offset in the below row (for example, the higher wages for public sector workers is offset by a reduction in the Essential Services Fund). Further information on new measures is provided in Appendix A5 Measures Statement.
- (b) This captures the expense impacts from (i) savings to programs and initiatives since the 2023-24 Half-Yearly Review, (ii) offsets for new expense measures, (iii) the offsetting impact where new expenses are being resourced from central reservations and (iv) adjustment to the profile of spending or Australian Government contributions.
- (c) 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 2024-25 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.
- (d) 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 2024-25 Budget, the allowance is set at the equivalent of 2.9 per cent in 2024-25. In setting the allowance it is assumed that 96 per cent of under expenditures are carried forward into future years.

<sup>1</sup> Over five years to 2026-27.

Significant new expense measures since the 2023-24 Half-Yearly Review include:

- a new three-year wage offer for public sector workers (\$4.5 billion over the four years to 2027-28, which is largely offset by the Essential Services Fund)<sup>2</sup>
- disaster relief measures to repair and rebuild local and State roads and other community infrastructure, support flood-impacted businesses and communities and continue voluntary buybacks, house raisings, repairs and retrofits through the Resilient Homes Program (\$4.0 billion over the four years to 2027-28, including Australian Government co-contributions and reprioritised expenses)
- establishing a portable long service leave entitlements scheme for the community services sector (\$864 million over four years to 2027-28, which is fully offset by revenue)
- additional support for out-of-home care services (\$224.1 million in 2024-25)
- expanding and improving homelessness support programs (\$527.6 million over the four years to 2027-28)
- supporting domestic, family and sexual violence victim-survivors and expanding programs that reduce violence against women and children (\$245.6 million over the four years to 2027-28)
- permanently funding 286 existing firefighter positions that were previously unfunded (\$189.5 million over the four years to 2027-28 for Fire and Rescue NSW)
- bolstering the State's planning system, including to assess more development applications and to deliver additional State-led rezonings (\$253.7 million over the four years to 2027-28).

#### **Box 5.1: Addressing housing access and affordability**

The housing crisis affects everyone including mortgage holders dealing with high interest rates, renters managing rising rents, women leaving domestic and family violence and those facing homelessness.

The 2024-25 Budget includes measures to increase supply. This includes more planners, plans for new and growing communities, grant incentives for councils that meet housing targets, key worker housing, renters rights and much more.

Women-led families leaving domestic and family violence are some of the most in need and they cannot wait. This Budget provides significant investment for the delivery of more social housing with at least half dedicated to these women and their young families.

This investment forms part of the NSW Government's "Building Homes for NSW" Program which will help tackle the State's housing crisis and unlock up to 30,000 new homes.

The Budget includes:

- \$5.1 billion in capital expenditure over four years for new social housing. This will fund the land purchase and construction of 8,400 new social homes
- \$810.0 million for critical maintenance and minor works that bring homes back online and prevent disrepair
- \$202.6 million<sup>3</sup> over four years to the Aboriginal Housing Office (AHO) to support critical capital maintenance of First Nations social housing
- further crisis support will be provided as part of a \$527.6 million support package for homelessness services.

<sup>2</sup> This figure is in addition to the \$2.5 billion expense over four years in the 2023-24 Budget, which provided a 4.5 per cent wage increase for public sector workers (including superannuation) in 2023-24.

<sup>3</sup> In capital expenditure and recurrent expenses.

**Box 5.2: Delivering higher wages for public sector workers**

This Budget continues to rebuild public services through supporting essential workers, addressing critical staff vacancies, collaborating with the State's workforce and delivering long-term wage growth and improved services.

The 2024-25 Budget provides for a 10.5 per cent increase to remuneration over three years (inclusive of superannuation) for NSW public sector workers. The offer provides three years of real wage growth that will help attract, reward and retain essential workers.

This wage offer is in addition to the 2023-24 Budget's \$2.5 billion investment in essential workers which provided a 4.5 per cent wage increase for public sector workers.

The measures follow this Government's industrial relations reforms, which included scrapping the former Government's wages cap and introducing a bargaining approach across the public sector that allows for genuine negotiation. This new framework will be supported by an independent Industrial Relations Commission and an Industrial Court.

The wage freeze for Members of Parliament and Public Service Senior Executives continues to apply in 2024-25.

In a constrained fiscal environment, supporting essential workers continues to be this Government's priority.

**Box 5.3: Health**

Caring for our communities and ensuring that health care in this State is accessible and high quality is a priority for the NSW Government. The health initiatives in this Budget will ease pressure on emergency departments and support our front-line health care workers. This will improve timely access to treatment for patients.

New policies in the 2024-25 Budget include:

- \$480.7 million over four years for an Emergency Department Relief Package<sup>4</sup>. The package will ease pressure on emergency departments, reduce wait times and improve patient outcomes. This includes funding for urgent care services, an expanded capacity for ambulance paramedics to receive live data guiding them to the best available health facility and enhanced discharge services
- \$111.8 million over four years for initiatives to support community mental health and wellbeing
- \$200.1 million in capital expenditure over four years to increase health worker accommodations across rural and regional areas
- \$130.9 million over four years for early intervention programs to boost lifelong maternal and child health. The Family Start Package includes:
  - support services for new parents and babies provided by Tresillian and Karitane
  - enhanced allied health care services and juvenile arthritis services
  - support to the Waminda Birth Centre and Community Hub for First Nations women and families on the South Coast to give birth in line with traditional cultural practice.

<sup>4</sup> The Mental Health Single Front Door \$39 million is part of both the Emergency Department and Mental Health total.

### **Box 5.4: Improving First Nations Outcomes and Closing the Gap**

First Nations people should have the most say in decisions that affect them. As a signatory to the National Agreement on Closing the Gap, the NSW Government is committed to working in a genuine partnership to support the self-determination of First Nations communities. The 2024-25 Budget continues the NSW's Government's support for shared decision-making, including:

- \$4.9 million additional funding to invest in Local Decision Making with First Nations community bodies
- \$3.5 million additional support for the continued implementation of Closing the Gap initiatives
- \$5.0 million to deliver the Government's commitment to consult with First Nations communities about a treaty process.

Connection to Country and culture is a key pillar in improving outcomes for First Nations Australians. The NSW Government acknowledges the importance of harnessing and preserving these connections. The 2024-25 Budget includes over the four years:

- \$118.0 million to support critical capital maintenance of social housing for First Nations communities across New South Wales
- \$45.4 million of additional funding (as part of a \$73.4 million package) to support the continued implementation of the Keeping Places program, establishing places of reconciliation with Stolen Generation Survivors
- \$37.8 million to deliver on the Government's obligations under Indigenous Land Use Agreements entered into with Native Title holders
- \$21.3 million for the Waminda Gudjaga Gunyahlamai Birth Centre and Community Hub in Nowra (Waminda)
- \$16.3 million to deliver Aboriginal Cultural Heritage reforms, including standalone legislation
- \$9.2 million to conduct on-site assessments of the infrastructure needs in 61 discrete Aboriginal Communities across the State
- \$4.0 million to deliver the Digital Songlines project, to capture stories of Stolen Generations survivors for future generations
- \$1.5 million to strategically investigate the settlement of Aboriginal Land claims.

New South Wales continues to regularly report on First Nations expenditure and have this embedded as part of our core business. This information improves transparency and accountability around government investment decisions and empowers First Nations communities to participate in shared decision making from an informed position. Detailed expenditure information can be found in the *2023-24 NSW Indigenous Expenditure Report*.

Progress is also being made on the design and development of a First Nations budget model, which will provide a holistic, First Nations-led approach to the process, assessment, evidence and reporting for funding and investment decisions impacting First Nations communities. As a first step, First Nations Impact Assessments were piloted as part of the 2024-25 Budget process. Findings from the pilot will be used to inform the final design of the model.

## Parameter and other budget variations

Parameter and other budget variations are changes to the cost and timing of existing projects and services that are largely outside of the Government's control. They include 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.

The estimates in Table 5.1 take into account central allowances and adjustments. As in previous budgets, these include adjustments to reflect the historical tendency for agency programs to underspend and carry funding forward into future years. It includes an allowance to recognise the likelihood of future parameter and technical adjustments for existing programs across government.

Major variations since the 2023-24 Half-Yearly Review include:

- the reprofiling of budgets where there were timing delays in 2023-24 and expenses have been reallocated into the budget and forward estimate years
- higher depreciation and amortisation expenses across the general government sector, these are largely flow on expenses driven by recent asset revaluations
- higher public transport fuel prices, bus contract escalations and rail cost pressures<sup>5</sup> (\$300.2 million over four years to 2027-28)
- higher projected licensing costs associated with GovConnect and higher projected costs for the Public Safety Network, due to an increase in the number of sites coming onto the network (\$190.2 million over four years to 2027-28).

## 5.2 Expense trends and further analysis

Table 5.2: General government sector expenses

	2023-24 Estimate \$m	2024-25 Budget \$m	2025-26 \$m	2026-27 Forward Estimates \$m	2027-28 \$m	% Average growth p.a. 2023-24 to 2027-28
Employee	46,135	47,781	48,915	50,718	52,368	3.2
Superannuation	6,126	6,185	6,335	6,445	6,442	1.3
Depreciation & Amortisation	8,517	9,278	9,842	10,521	10,777	6.1
Interest	6,087	6,887	7,373	7,959	8,629	9.1
Other Operating Expense	28,120	27,013	26,615	26,451	27,838	-0.3
Grants, Subsidies, and Other Transfers	25,533	25,019	24,668	23,920	23,084	-2.5
<b>Total Expenses</b>	<b>120,518</b>	<b>122,163</b>	<b>123,748</b>	<b>126,014</b>	<b>129,138</b>	1.7
Annual change	3.5%	1.4%	1.3%	1.8%	2.5%	n.a

<sup>5</sup> Largely due to higher electricity, steel and maintenance costs of the Waratah fleet.

## Employee expenses

Employee expenses are the largest component of the Budget. They are projected to be \$47.8 billion in 2024-25, which is an upward revision since the 2023-24 Half-Yearly Review (\$46.0 billion).

This is driven primarily by higher projected insurance expenses, new policy decisions that increase the number of essential workers and other variations.

The upwards revision in employee expenses in 2024-25 is not driven by the Government's higher wage offer. That is because the 2024-25 impact of the Government's wages offer is offset by the previously budgeted Essential Services Fund. From 2025-26 onwards, only a portion of higher projected employee expenses is associated with the wages offer as the Essential Services Fund continues to provide a partial offset.

Over the budget and forward estimates, employee expenses are projected to grow by an average of 3.2 per cent per annum.

## 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 \$6.2 billion in 2024-25, or 5.1 per cent of total expenses. This is a minor upward revision on the outlook at the 2023-24 Half-Yearly Review (\$6.0 billion) and mainly due to superannuation revaluations and the increase in compulsory superannuation to 11.5 per cent in 2024-25.

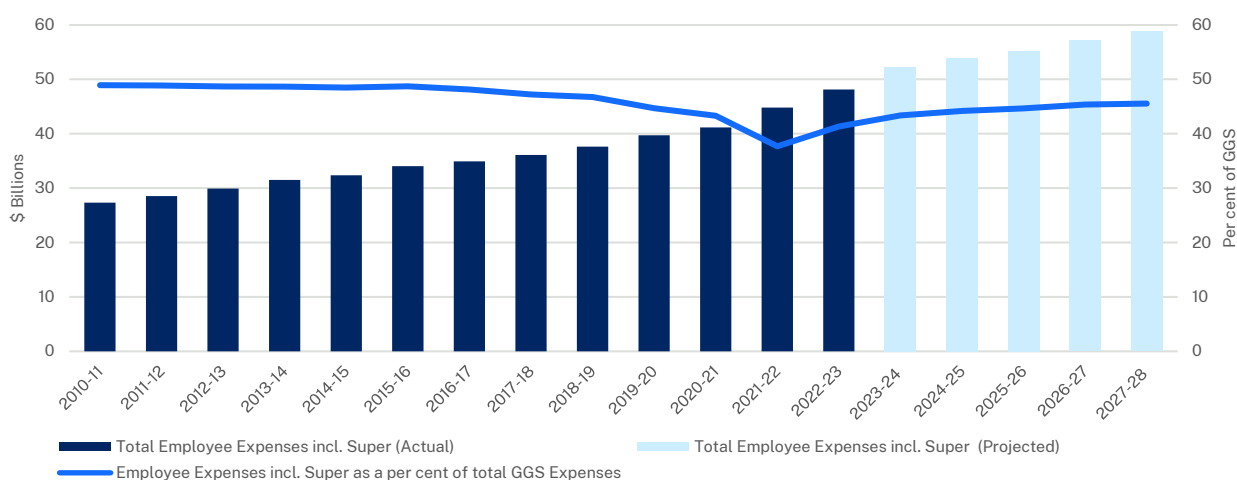
Over the budget and forward estimates, superannuation expenses are projected to increase at an average rate of 1.3 per cent per annum.

Given the State's role as a major service provider, employee-related expenses<sup>6</sup> have historically comprised almost half of total expenses (49 per cent).

From 2019-20 the State responded to COVID-19 and a series of natural disasters. This led to a larger share of expenses being allocated to grants, subsidies and other operating expenses. In 2021-22, employee-related expenses comprised just 37.7 per cent of total expenses.

The projection over the forward estimates is for employee-related expenses to trend back towards historical levels, at around 45 per cent.

Chart 5.2: *Employee expenses including superannuation (LHS) and percentage of total expenses (RHS) since 2010-11*



<sup>6</sup> Employee expenses and superannuation.

## Other operating expenses

Other operating expenses mainly represent the day-to-day running costs incurred in the delivery of government services and programs. It is the second largest category of expenses, projected to be \$27.0 billion in 2024-25, or 22.1 per cent of total expenses.

Other operating expenses have been revised up for 2024-25, relative to the projection in the 2023-24 Half-Yearly Review (\$26.1 billion). This is largely driven by the National Energy Bill Relief package, which the NSW Government is delivering for the Australian Government. For this measure, New South Wales expenses are offset by Australian Government revenue<sup>7</sup>.

Over the budget and forward estimates, other operating expenses are projected to fall marginally (0.3 per cent per annum).

## Grants, subsidies and other transfer expenses

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

Grants and subsidies are projected to be \$25.0 billion in 2024-25, or 20.5 per cent of total expenses. This is an upward revision relative to the 2023-24 Half-Yearly Review (\$23.8 billion). The upwards revision is driven by new policy measures that support the most vulnerable, including homelessness support, out-of-home care and disaster relief measures.

Over the budget and forward estimates, grants, subsidies and other transfer expenses are projected to reduce by an average of 2.5 per cent per annum.

## Depreciation and amortisation

Depreciation and amortisation expenses are forecast to be \$9.3 billion in 2024-25, or 7.6 per cent of total expenses. This is an upward revision relative to the 2023-24 Half-Yearly Review (\$8.8 billion), largely as a result of recent asset revaluations. The increase includes:

- \$206.3 million for the Department of Education, primarily relating to asset value increases across buildings, room fit-outs and soft landscaping
- \$116.9 million for the Ministry of Health, largely as a result of revaluations under its rolling revaluation program.

Over the budget and forward estimates, depreciation and amortisation expenses are forecast to grow by an average rate of 6.1 per cent per annum.

## Interest

Interest expenses are projected to be \$6.9 billion in 2024-25 (5.6 per cent of total expenses). This is a small upwards revision relative to projections in the 2023-24 Half-Yearly Review (\$6.6 billion).

Over the budget and forward estimates, interest expenses are projected to increase at an average rate of 9.1 per cent per annum.

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<sup>7</sup> The expense of this program is categorised under “other operating expenses”, rather than “grants” because it is primarily a concession program.



**Chart 5.3:** Change in interest expense forecasts (borrowings and superannuation interest expense) since the 2023-24 Half-Yearly Review

