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## NSW Parliamentary Research Service

### **Trends in NSW State finances: 2003-04 to 2013-14**

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by Lenny Roth

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# Trends in NSW State finances: 2003-04 to 2013-14

by

Lenny Roth

## **NSW PARLIAMENTARY RESEARCH SERVICE**

Gareth Griffith (BSc (Econ) (Hons), LLB (Hons), PhD),  
Manager, Politics & Government/Law ..... (02) 9230 2356

Lenny Roth (BCom, LLB),  
Senior Research Officer, Law..... (02) 9230 2768

Lynsey Blayden (BA, LLB (Hons)),  
Research Officer, Law ..... (02) 9230 3085

Talina Drabsch (BA, LLB (Hons)),  
Research Officer, Social Issues/Law ..... (02) 9230 2484

Jack Finegan (BA (Hons), MSc),  
Research Officer, Environment/Planning ..... (02) 9230 2906

Daniel Montoya (BEnvSc (Hons), PhD),  
Research Officer, Environment/Planning ..... (02) 9230 2003

John Wilkinson (MA, PhD),  
Research Officer, Economics ..... (02) 9230 2006

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## SUMMARY

This paper reports on 11-year trends in NSW State finances between 2003-04 and 2013-14 (inclusive). For some of the key indicators, the paper also shows trends for the last two (53<sup>rd</sup> and 54<sup>th</sup>) Parliaments, and for the first three years of this (55<sup>th</sup>) Parliament. This paper sets out the key trends but only briefly discusses the reasons for the trends. A more detailed analysis of the trends up to 2010-11 appears in the [NSW Financial Audit 2011](#) (Ch 2-4). An important point to bear in mind is that Federal Government funding can have a significant impact on the trends outlined in this paper. This is particularly the case from 2009-10 to 2011-12 with the Federal Government's Economic Stimulus payments. This paper draws on a number of key sources including the *NSW Financial Audit 2011*, *NSW Budget Papers*, and figures supplied by NSW Treasury. Note that the 2013-14 (and 55<sup>th</sup> Parliament) figures below exclude the impact of an accounting change that increased superannuation expenses by \$1.56 billion in 2013-14.

### Budget result and net lending result (general government): 2003-04 to 2013-14 (\$m)

	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13 (R)	13-14 (B)
Budget Result	1,155	241	1,928	795	925	-870	935	1,339	660	-374	-329
Net lending Result	44	-660	431	-1,049	-1,024	-3,237	-2,692	-2,911	-2,043	-2,970	-2,966

### Key budget figures: annual growth by Parliament & 11yr growth (%)

Description	53rd	54th	55th	11yr
Revenue (general government)	5.5	6.3	3.1	66
Recurrent expenses (general government)	6.4	6.2	4.1	72
Capital expenditure (general government)	6.4	13.2	8.8	173
Capital expenditure (total state)	10.0	11.0	1.5	132
Net debt (general government)	0.0	21.6	25.5	429
Net debt (total state)	6.6	12.9	14.8	220
Net financial liabilities (general government)	0.3	17.9	10.7	169
Net financial liabilities (total state)	4.6	14.4	9.8	169

### Revenue (general government): annual growth by Parliament & 11yr growth (%)

Source	53rd	54th	55th	11yr
Own-source revenue	6.6	4.5	4.5	66
Total Federal grants	3.9	8.9	1.1	67
Federal grants – general purpose (GST)	2.4	6.2	3.9	57
Federal grants – specific purpose	6.5	12.9	-2.6	84
Total revenue	5.5	6.3	3.1	66

### Recurrent expenses (general government): annual growth by Parliament & 11yr growth (%)

Policy area	53rd	54th	55th	11yr
Health	7.2	6.9	5.4	85
Education	4.0	5.1	3.8	56
Transport and communications	7.5	2.7	6.9	61
Public order and safety	6.0	7.6	1.1	63
Social security and welfare	5.9	10.5	1.9	81
Housing and community amenities	8.0	12.5	0.0	102
Recreation and culture	3.6	4.0	12.7	94
Other	3.5	9.8	7.6	96
Total recurrent expenses*	5.6	6.9	4.7	75

\*Note that these total recurrent expenses figures are different from those shown in the key budget figures table above. The figures for the two tables were obtained from different sources.

### Capital expenditure (total State): annual growth by Parliament & 11yr growth (%)

Policy area	53rd	54th	55th	11yr
Transport and communications	8.5	11.5	13.4	234
Fuel and energy	16.2	10.6	0.0	145
Housing and community amenities	12.9	9.5	-6.1	97
Health	2.2	10.4	12.4	170
Education	8.8	34.6	-34.8	24
Public order and safety	9.5	-2.0	3.1	-4
Recreation and culture	4.0	-3.4	-13.4	-27
Environment and natural resources	-1.3	13.1	-36.5	-61
Social security and welfare	19.5	-0.7	17.4	260
Other	4.6	-4.4	-13.2	-28
Total capital expenditure	10.0	11.0	1.5	132

## 1. INTRODUCTION

### 1.1 Outline

This paper reports on 11-year trends in NSW State finances between 2003-04 and 2013-14 (inclusive). For some of the key indicators, the paper also shows trends for the last two (53<sup>rd</sup> and 54<sup>th</sup>) Parliaments, and for the first three years of this (55<sup>th</sup>) Parliament. This paper sets out the key trends but only briefly discusses the reasons for the trends. A full analysis of the trends up to 2010-11 appears in the [NSW Financial Audit 2011](#) (Ch 2-4). An important point to bear in mind is that Federal Government funding can have a significant impact on the trends outlined in this paper. This is particularly the case from 2009-10 to 2011-12 with the Federal Government's Economic Stimulus payments.

### 1.2 Key sources

This paper draws on the following sources:

- The [NSW Budget Papers](#) (primarily the 2013-14 budget papers)
- The [NSW Financial Audit 2011](#)
- The [Report on State Finances 2011-12](#)
- Figures provided by NSW Treasury on expenditure by policy area

### 1.3 Note about budget figures

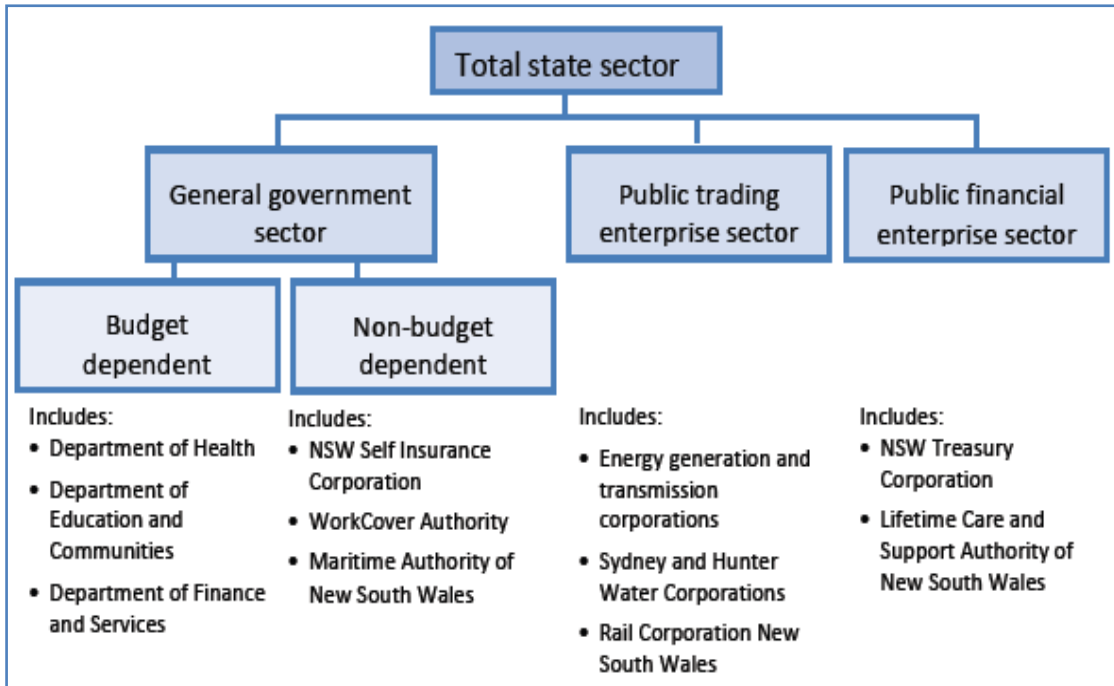
The figures presented for the years 2003-04 to 2011-12 are mostly actual figures for the relevant year (exceptions include the figures in section 4.4.3, which are revised budget estimates, as indicated by the notation "(R)"). The figures for 2012-13 are revised budget estimates. The figures for 2013-14 are budget estimates (indicated by the notation "(B)"). In some of the tables below, the notation (N/R) is used to indicate that the figure was not reported.

The 2013-14 budget has been prepared on the basis of an amended accounting standard (AASB 119) which affects the measurement of superannuation expenses (see NSW Budget Papers 2013-14, *Budget Statement*, p1-2). As a result, in 2013-14 superannuation expenses are \$1.561 billion greater than they would have been under the previous standard. Accordingly, in relation to some indicators, two sets of budget estimates for 2013-14 are presented in this paper: the first 2013-14 column shows the estimates under the previous AASB 119 (to allow for comparisons with previous years), and the second 2013-14 column shows the estimates under the amended AASB 119.

The following diagram shows the structure of the NSW public sector, which is made up of three sectors: the general government sector, the public trading enterprise sector, and the public financial enterprise sector. The *budget result* relates to the general government sector and the figures in Sections 2 to 4 of this paper (budget result, revenue and expenses) are therefore presented for the general government sector only. The indicators outlined in Sections 5 and 6 (capital expenditure and liability management) are presented for both the general government sector and the total state sector (i.e. all three sectors).



Chart 1.3: Structure of the NSW public sector



Source: NSW Financial Audit 2011, p1-2

#### 1.4 Note about growth rates

There are three types of growth rates reported in this paper:

**Annual growth rates:** Annual growth rates show the rate of change in a value from one year to the next year (e.g. 2003-04 to 2004-05).

**11-year growth rates:** The 11 year growth rates show the rate of change in a value from the first year (2003-04) to the last year (2013-14). Note that this is not the same as the sum of the annual growth rates in each year.

**Compound annual growth rates:** Trends by Parliament are (in part) shown by reporting the compound annual growth rate for each of the 53<sup>rd</sup>, 54<sup>th</sup> and current (55<sup>th</sup>) Parliaments. These rates were calculated as follows:

$$\text{CAGR} = \left( \frac{\text{Ending Value}}{\text{Beginning Value}} \right)^{\left( \frac{1}{\text{Number of Years}} \right)} - 1$$

The years used to calculate the CAGR for each Parliament are shown below.

Parliament	Beginning	Ending	Number of years
53 <sup>rd</sup> Parliament	2002-03*	2006-07	4
54 <sup>th</sup> Parliament	2006-07	2010-11	4
55 <sup>th</sup> Parliament	2010-11	2013-14	3

\*The 2002-03 figures used to calculate growth rates for the 53<sup>rd</sup> Parliament are not reported in this paper.

## 2. BUDGET RESULT AND NET LENDING RESULT

### 2.1 Budget result

The budget result (also referred to as the operating result) "represents the difference between expenses and revenues from transactions for the general government sector" (see Budget Papers 2013-14, *Budget Statement*, p G1). The budget result does not take account of capital expenditure.

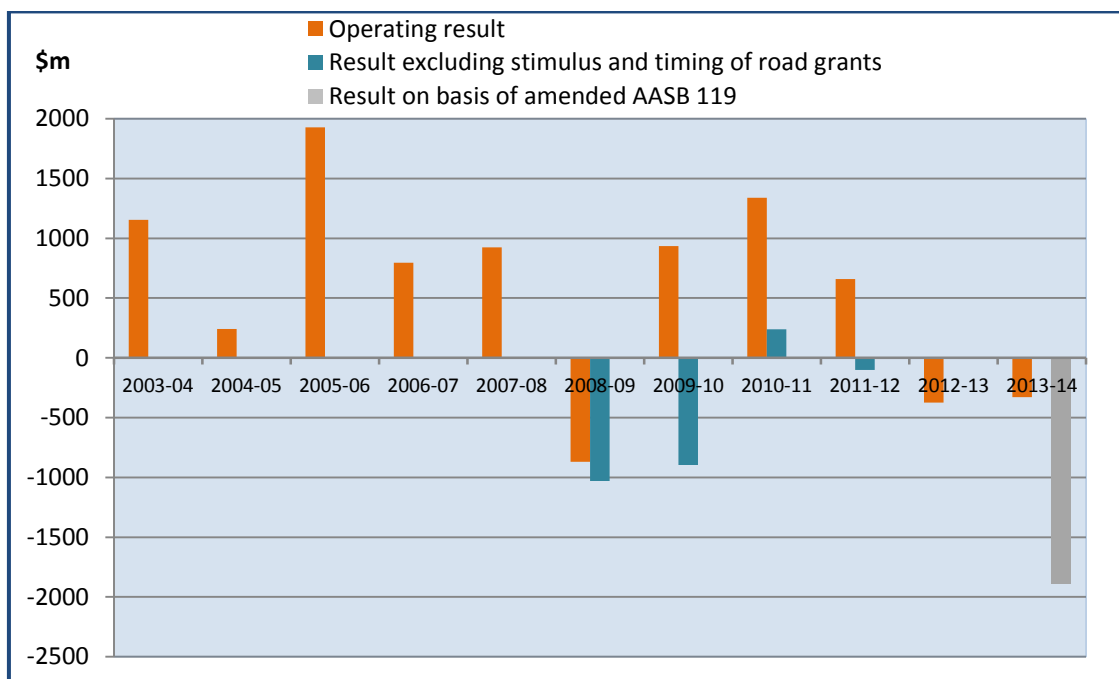
Table 2.1.1 shows the budget results for the past 11 years. It can be seen that the result was a surplus for eight of the last ten years but is predicted to be a deficit for the second year in a row in 2013-14 (a \$329 million deficit). The table also shows the adjusted budget result after excluding the Federal Government's economic stimulus payments to NSW (which began in 2008-09) and the timing of Federal road grants. On this adjusted basis, the budget was in deficit for three of four years from 2008-09 to 2011-12.

**Table 2.1.1 Budget result (\$m)**

	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13 (R)	13-14 (B)	13-14 (B)*
Revenue	37,657	39,085	42,634	44,705	47,449	49,684	56,344	57,168	59,054	59,599	62,573	62,573
Expenses	36,502	38,844	40,706	43,910	46,524	50,554	55,409	55,829	58,394	59,973	62,901	64,462
Result	1,155	241	1,928	795	925	-870	935	1,339	660	-374	-329	-1,890
Result excl. stimulus etc	N/A	N/A	N/A	N/A	N/A	-1,030	-897	240	-101	N/R	N/R	N/A

\*This last column shows estimates based on an amended accounting standard (see section 1.3 above).

**Chart 2.1.1 Budget result (\$m)**



**Sources:** The revenue, expense and result figures are from Budget Papers 2013-14, *Budget Statement*, p1-30 (table 1.7). The adjusted result for 2008-09 is from Budget Papers 2011-12, *Budget Statement*, p3-6 (chart 3.1); the adjusted result for 2009-10 and 2010-11 are from Budget Papers 2012-13, *Budget Statement*, p-3-6 (chart 3.2); and the adjusted result for 2011-12 was supplied by NSW Treasury.

## 2.2 Budget result variations

Table 2.2.1 shows the difference between the forecast and the actual budget result over the past ten years; and Table 2.2.2 provides a breakdown of the variations. The actual results have been better than the forecast result in all years except for 2004-05 and 2008-09. On five occasions, the variations were in excess of \$1 billion. The positive variations have ranged from \$129 million to \$1.978 billion. In most cases, these positive variations were the result of higher than expected revenues. However, the better than expected results in 2010-11, 2011-12, and 2012-13 (revised result) were due to expenses being under budget. The worse than expected result in 2008-09 (during the global financial crisis) was due to lower tax and GST revenue (offset by the Federal Government's stimulus package) and above-budget expenses.

**Table 2.2.1 Difference between forecast and actual results (\$m)**

	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13 (R)
Forecast result	1,026	836	303	-700	40	268	-990	773	-718	-824
Result	1,155	241	1,928	795	925	-870	935	1,339	660	-374
Difference	+129	-595	+1,625	+1,495	+885	-1,138	+1,925	+566	+1,378	+450

**Sources:** The forecast results are from *NSW Financial Audit 2011*, p2-64 (table 2.4.1) and budget papers for 2011-12 and 2012-13. The actual results are from NSW Budget Papers 2013-14, *Budget Statement*, p1-30 (table 1.7).

**Table 2.2.2 Difference between forecast and actual revenue/expenses (\$m: %)**

	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13 (R)
Revenue difference (\$)	+1,415	+775	+1,821	+2,544	+2,786	+1,753	+3,376	-501	+28	-128
Revenue difference (%)	3.9	2.0	4.5	6.0	6.2	3.7	6.4	-0.9	0.0	0.2
Expenses difference (\$)	+1,289	+1,372	+195	+1,049	+1,891	+2,882	+1,392	-1,067	-1,350	-579
Expenses difference (%)	3.7	3.7	0.5	2.4	4.2	6.0	2.6	-1.9	-2.3	-1.0

**Sources:** The figures for 2003-04 to 2009-10 are taken from *NSW Financial Audit*, p2-64 (table 2.4.1). The forecast figures for 2010-11 to 2012-13 are from NSW Budget Papers for those years and the actual figures for those years are from NSW Budget Papers 2013-14, *Budget Statement*, p1-30 (table 1.7).

## 2.3 Net lending result

The *NSW Financial Audit 2011* noted that there had been too much focus on the budget result in recent years and not enough focus on the net lending result (p22). As outlined in that report, the net lending result “is the sum of the net operating result before depreciation, and net capital expenditure (i.e. expenditure after asset sales)” (p2-2). A net lending deficit means that “funds generated from operations (the budget result before depreciation) plus asset sales are insufficient to fully fund the capital expenditure program, and the difference must be funded by borrowings”.

Table 2.3.1 shows the net lending results over the 11-year period for the general government sector; the figures are also presented in Chart 2.3.1. As can be seen, there have been net lending deficits for seven consecutive years and a deficit is forecast again for 2013-14. The deficits have exceeded \$2 billion

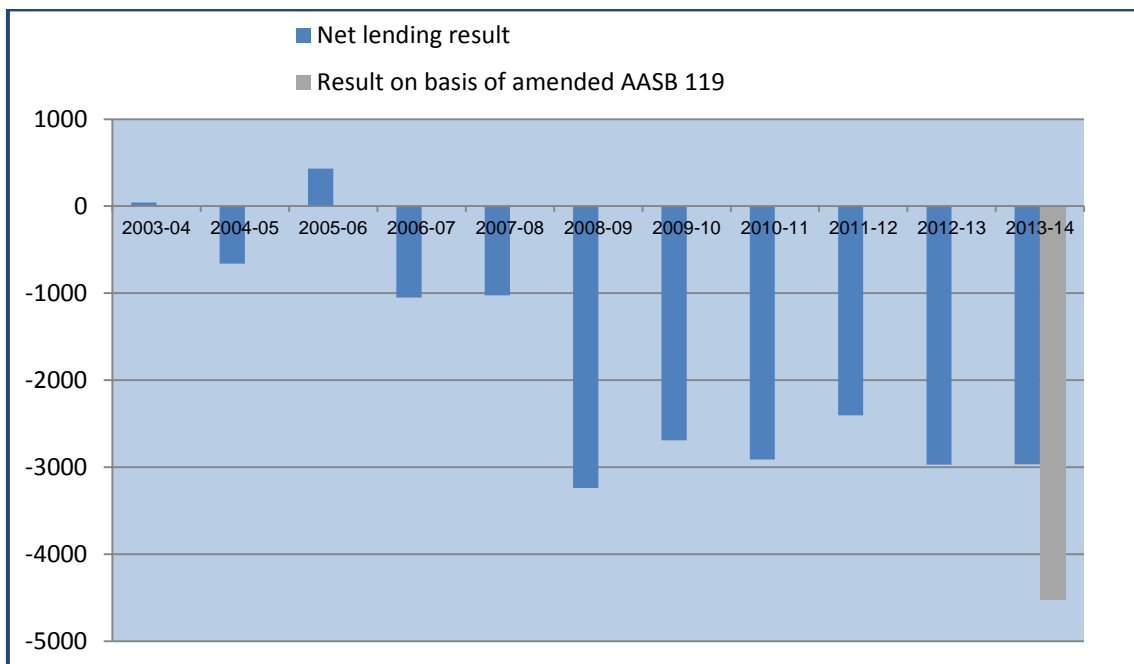
for six consecutive years (including 2013-14), and the deficits have been above \$2.9 billion in four of these years. The impact of these results on State debt is detailed further in Section 6 of this paper.

**Table 2.3.1 Net lending results (\$m)**

	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13 (R)	13-14 (B)	13-14 (B)*
Net lending	44	-660	431	-1,049	-1,024	-3,237	-2,692	-2,911	-2,043	-2,970	-2,966	-4,527

\*This last column shows estimates based on an amended accounting standard (see section 1.3 above).

**Chart 2.3.1 Net lending results (\$m)**



Source: NSW Budget Papers 2013-14, *Budget Statement*, p1-31 (table 1.7)

### 3. REVENUE

#### 3.1 Total revenue

Tables 3.1.1 and 3.1.2 show total government sector revenue, and the breakdown between own-source revenue and Federal Government grants to NSW. Table 3.1.3 shows the growth in total revenue from year to year and over the decade. Table 3.1.4 shows trends in total revenue over the last two Parliaments and the first two years of the current Parliament.

The split between own-source revenue and Federal grants in 2013-14 is the same as it was in 2003-04 (59 percent; 41 percent). Federal grants made up a larger proportion of State revenue from 2008-09 to 2011/12 (44 to 47 percent), which is largely explained by the Federal Government's economic stimulus payments (outlined further below). Over the 11 year period (including 2013-14), total revenue growth was 66 percent. Compound annual revenue growth for the past two Parliaments was 5.5 percent and 6.3 percent respectively, compared to only 3.1 percent during the current Parliament (including 2013-14)).

**Table 3.1.1 Total revenue by source (\$m)**

	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13 (R)	13-14 (B)
Own source	22,160	22,891	24,594	26,947	27,905	27,978	30,023	32,169	33,012	35,427	36,743
Federal grants	15,493	16,191	18,040	17,751	19,528	21,692	26,319	24,975	26,042	24,172	25,830
Total revenue	37,653	39,084	42,634	44,697	47,434	49,669	56,342	57,144	59,054	59,599	62,573

**Table 3.1.2 Total revenue by source (%)**

	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13 (R)	13-14 (B)
Own source	58.9	58.6	57.7	60.3	58.8	56.3	53.3	56.3	55.9	59.4	58.7
Federal grants	41.1	41.4	42.3	39.7	41.2	43.7	46.7	43.7	44.1	40.6	41.3
Total revenue	100	100	100	100	100	100	100	100	100	100	100

**Table 3.1.3 Growth in total revenue by source (%)**

	03-04 to 04-05	04-05 to 05-06	05-06 to 06-07	06-07 to 07-08	07-08 to 08-09	08-09 to 09-10	09-10 to 10-11	10-11 to 11-12	11-12 to 12-13 (R)	12-13 To 13-14 (B)	11 yrs
Own-source	3.3	7.4	9.6	3.6	0.3	7.3	7.1	2.6	7.3	3.7	65.8
Federal grants	4.5	11.4	-1.6	10.0	11.1	21.3	-5.1	4.3	-7.2	6.9	66.7
Total revenue	3.8	9.1	4.9	6.1	4.7	13.4	1.4	3.3	0.9	5.0	66.2

**Table 3.1.4 Trends in total revenue by Parliament (%)**

	Average share of total (%)			Compound annual growth (%)		
	53rd	54th	55th	53rd	54th	55th
Own source	58.8	56.2	58.0	6.6	4.5	4.5
Federal grants	41.2	43.8	42.0	3.9	8.9	1.1
Total revenue	100	100	100	5.5	6.3	3.1

**Sources:** The figures for 2003-04 to 2009-10 are from *NSW Financial Audit 2011*, p2-11 (table 2.2.1). The figures for 2010-11 are from NSW Budget Papers 2012-13, *Budget Statement*, p5-7 (table 5.3). The figures for 2011-12 to 2013/14 are from NSW Budget Papers 2013-14, *Budget Statement*, p6-10 (table 6.4).

### 3.2 Own-source revenue

Tables 3.2.1 and 3.2.2 show general government own-source revenue over the 11-year period, by type of revenue. Table 3.2.3 shows the growth in own-source revenue over this period.

State taxes have been by far the largest source of own-source revenue. State tax revenue grew by 56 percent over the 11 years (including 2013-14) but, as a proportion of total own-source revenue, tax revenue declined from 68 percent in 2003-04 to an estimated 64 percent in 2013-14. State tax revenue is expected to make up 37 percent of total State revenue in 2013-14 (39 percent in 2003-04). The second largest category of own-source revenue has been the sale of goods and services (e.g. revenue from rent of State-owned property, and tolls from government-operated roads). This category doubled over the 11 years (including 2013-14) and increased its share of own-source revenue from 12.2 to 14.9 percent. Mining royalties grew at the fastest rate over the 11 years and increased its share of own-source revenue from 1.1 to 4.1 percent.

**Table 3.2.1 Own-source revenue by type (\$m)**

	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13 (R)	13-14 (B)
State taxes	15,018	15,300	15,902	17,697	18,554	17,885	19,124	20,395	20,660	21,783	23,455
Sale of goods & services	2,714	2,804	3,037	3,306	3,663	4,024	4,357	4,658	4,961	5,519	5,460
Interest income	862	1,050	1,298	1,314	454	416	313	468	550	429	483
Dividends & income tax equivalents	1,614	1,508	1,837	1,951	2,320	2,029	2,322	2,412	2,548	3,163	2,622
Royalties	233	396	504	489	574	1,279	985	1,240	1,464	1,305	1,513
Fines, fees, licences	475	549	570	510	578	644	736	791	744	854	843
Grants & contributions	371	506	456	450	557	602	669	642	700	876	949
Other revenue	873	778	990	1,230	1,205	1,099	1,517	1,563	1,382	1,497	1,418
Total	22,160	22,891	24,594	26,947	27,905	27,978	30,023	32,169	33,009	35,426	36,743

**Table 3.2.2 Own-source revenue by type (%)**

	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13 (R)	13-14 (B)
State taxes	67.8	66.8	64.7	65.7	66.5	63.9	63.7	63.4	62.6	61.5	63.8
Sale of goods & services	12.2	12.2	12.3	12.3	13.1	14.4	14.5	14.5	15.0	15.6	14.9
Interest income	3.9	4.6	5.3	4.9	1.6	1.5	1.0	1.5	1.7	1.2	1.3
Dividends & income tax equivalents	7.3	6.6	7.5	7.2	8.3	7.3	7.7	7.5	7.7	8.9	7.1
Royalties	1.1	1.7	2.0	1.8	2.1	4.6	3.3	3.9	4.4	3.7	4.1
Fines, fees, licences	2.1	2.4	2.3	1.9	2.1	2.3	2.5	2.5	2.3	2.4	2.3
Grants & contributions	1.7	2.2	1.9	1.7	2.0	2.2	2.2	2.0	2.1	2.5	2.6
Other revenue	3.9	3.4	4.0	4.6	4.3	3.9	5.1	4.9	4.2	4.2	3.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

**Table 3.2.3 Growth in own-source revenue by type (%)**

	03-04 to 04-05	04-05 to 05-06	05-06 to 06-07	06-07 to 07-08	07-08 to 08-09	08-09 to 09-10	09-10 to 10-11	10-11 to 11-12	11-12 to 12-13 (R)	12-13 to 13-14 (B)	11yrs
State taxes	1.9	3.9	11.3	4.8	-3.6	6.9	6.6	1.3	5.4	7.7	56.2
Sale of goods & services	3.3	8.3	8.9	10.8	9.9	8.3	6.9	6.5	11.2	-1.1	101.2
Interest income	21.8	23.6	1.2	-65.4	-8.4	-24.8	49.5	17.5	-22.0	12.6	-44.0
Dividends & income tax equivalents	-6.6	21.8	6.2	18.9	-12.5	14.4	3.9	5.6	24.1	-17.1	62.5
Royalties	70.0	27.3	-3.0	17.4	122.8	-23.0	25.9	18.1	-10.9	15.9	549.4
Fines, fees, licences	15.6	3.8	-10.5	13.3	11.4	14.3	7.5	-5.9	14.8	-1.3	77.5
Grants & contributions	36.4	-9.9	-1.3	23.8	8.1	11.1	-4.0	9.0	25.1	8.3	155.8
Other revenue	-10.9	27.2	24.2	-2.0	-8.8	38.0	3.0	-11.6	8.3	-5.3	62.4
<b>Total</b>	<b>3.3</b>	<b>7.4</b>	<b>9.6</b>	<b>3.6</b>	<b>0.3</b>	<b>7.3</b>	<b>7.1</b>	<b>2.6</b>	<b>7.3</b>	<b>3.7</b>	<b>65.8</b>

**Sources:** Figures for 2003-04 to 2008-09 are from *NSW Financial Audit 2011*, p2-11 (table 2.2.1). Figures for 2010-11 are from the *Report on State Finances 2011-12*, p5-6. Figures for 2011-12 to 2013-14 are from NSW Budget Papers 2013-14, *Budget Statement*, p6-10 (table 6.4) and p6-23 (table 6.12). **Note** that the category "grants and contributions" includes contributions by electricity and water providers to the Climate Change Fund, contributions to schools by parents and citizens associations, and payments from the Australian Government to the Home Care Service of NSW.

The following tables show **State tax revenue** by type, and the growth of State tax revenue by type. In 2003-04, stamp duties accounted for the largest share of State tax revenue (37 percent). Stamp duties grew by 22 percent over the 11-year period (including 2013-14) but it now comprises a much smaller share (29 percent) of State tax revenue. Payroll tax rose by 68 percent over the 11-year period, and is now the largest category of State tax revenue (31 percent in 2013-14, compared to 29 percent in 2003-04). The category "other taxes" grew by the most in percentage terms over the 11-year period (95 percent), followed by land tax (86 percent) and vehicle taxes (79 percent).

**Table 3.2.4 State tax revenue by type (\$m)**

	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13 (R)	13-14 (B)
Payroll tax	4,356	4,835	5,184	5,661	6,205	6,356	6,138	6,382	6,721	6,960	7,330
Stamp duties	5,502	4,806	4,826	5,950	5,535	4,106	5,176	5,337	5,338	6,068	6,714
Land tax	1,355	1,646	1,717	2,036	1,937	2,252	2,296	2,289	2,350	2,398	2,525
Vehicle taxes	1,203	1,272	1,341	874	1,498	1,547	1,654	1,831	1,932	2,052	2,147
Gambling	1,310	1,429	1,519	1,652	1,569	1,624	1,706	1,757	1,815	1,870	1,941
Other	1,291	1,314	1,315	1,524	1,810	1,999	2,155	2,799	2,504	2,436	2,797
<b>Total</b>	<b>15,018</b>	<b>15,301</b>	<b>15,902</b>	<b>17,697</b>	<b>18,554</b>	<b>17,885</b>	<b>19,124</b>	<b>20,395</b>	<b>20,660</b>	<b>21,784</b>	<b>23,454</b>

**Table 3.2.5 State tax revenue by type (%)**

	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13 (R)	13-14 (B)
Payroll tax	29.0	31.6	32.6	32.0	33.4	35.5	32.1	31.3	32.5	32.0	31.3
Stamp duties	36.6	31.4	30.3	33.6	29.8	23.0	27.1	26.2	25.8	27.9	28.6
Land tax	9.0	10.8	10.8	11.5	10.4	12.6	12.0	11.2	11.4	11.0	10.8
Vehicle taxes	8.0	8.3	8.4	4.9	8.1	8.6	8.6	9.0	9.4	9.4	9.2
Gambling	8.7	9.3	9.6	9.3	8.5	9.1	8.9	8.6	8.8	8.6	8.3
Other	8.6	8.6	8.3	8.6	9.8	11.2	11.3	13.7	12.1	11.2	11.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

**Table 3.2.6 Growth in State tax revenue by type (%)**

	03-04 to 04-05	04-05 to 05-06	05-06 to 06-07	06-07 to 07-08	07-08 to 08-09	08-09 to 09-10	09-10 to 10-11	10-11 to 11-12	11-12 to 12-13 (R)	12-13 To 13-14 (B)	11yrs
Payroll tax	11.0	7.2	9.2	9.6	2.4	-3.4	4.0	5.3	3.6	5.3	68.3
Stamp duties	-12.6	0.4	23.3	-7.0	-25.8	26.1	3.1	0.0	13.7	10.6	22.0
Land tax	21.5	4.3	18.6	-4.9	16.3	2.0	-0.3	2.7	2.0	5.3	86.3
Vehicle taxes	5.7	5.4	-34.8	71.4	3.3	6.9	10.7	5.5	6.2	4.6	78.5
Gambling	9.1	6.3	8.8	-5.0	3.5	5.0	3.0	3.3	3.0	3.8	48.2
Other	1.8	0.1	15.9	18.8	10.4	7.8	29.9	-10.5	-2.7	14.8	116.7
<b>Total</b>	<b>1.9</b>	<b>3.9</b>	<b>11.3</b>	<b>4.8</b>	<b>-3.6</b>	<b>6.9</b>	<b>6.6</b>	<b>1.3</b>	<b>5.4</b>	<b>7.7</b>	<b>56.2</b>

**Sources:** Figures for 2003-04 to 2009-10 are from *NSW Financial Audit 2011*, p2-11 (table 2.2.1). Figures for 2010-11 are from the *Report on State Finances 2011-12*, p5-35 (note that the report does not separate out vehicle taxes and other tax revenue: the figures for vehicle taxes for this year is from NSW Budget Papers 2012-13, p5-10). The figures for 2011-12 to 2013-14 are from NSW Budget Papers 2013-14, *Budget Statement*, p6-12 (table 6.5).



### 3.3 Federal Government grants

The following three tables show Federal Government grants to NSW by type, and growth in these grants. General purpose grants make up the majority of federal grants but their share of federal grants declined over the 11-year period (from 64 percent in 2003-04 to an estimated 60 percent in 2013-14). Up until 2005-06, general purpose grants included National Competition Policy payments of between \$200m and \$300m but general purpose grants are now comprised almost entirely of GST payments (99.8 percent in 2013-14). Over the past 11 years (including 2013-14), general purpose grants increased by 56 percent, specific purpose grants by 84 percent, and total grants by 67 percent.

**Table 3.3.1 Federal Government grants by type (\$m)**

	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13 (R)	13-14 (B)
General purpose	9,939	10,181	10,720	10,938	11,942	11,974	13,419	13,900	14,289	14,777	15,588
Specific purpose	5,554	6,010	7,320	6,813	7,586	9,718	12,900	11,075	11,754	9,396	10,242
Total	15,493	16,192	18,040	17,750	19,529	21,691	26,320	24,975	26,042	24,172	25,830

**Table 3.3.2 Federal Government grants by type (%)**

	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13 (R)	13-14 (B)
General purpose	64.2	62.9	59.4	61.6	61.2	55.2	51.0	55.7	54.9	61.1	60.3
Specific purpose	35.8	37.1	40.6	38.4	38.8	44.8	49.0	44.3	45.1	38.9	39.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

**Table 3.3.3 Growth in Federal Government grants by type (%)**

	03-04 to 04-05	04-05 to 05-06	05-06 to 06-07	06-07 to 07-08	07-08 to 08-09	08-09 to 09-10	09-10 to 10-11	10-11 to 11-12	11-12 to 12-13 (R)	12-13 To 13-14 (B)	11yrs
General purpose	2.4	5.3	2.0	9.2	0.3	12.1	3.6	2.8	3.4	5.5	56.8
Specific purpose	8.2	21.8	-6.9	11.3	28.1	32.7	-14.1	6.1	-20.1	9.0	84.4
Total	4.5	11.4	-1.6	10.0	11.1	21.3	-5.1	4.3	-7.2	6.9	66.7

**Table 3.3.4 Growth in Federal Government grants by Parliament (%)**

	Compound annual growth (%)		
	53rd	54th	55th
General purpose	2.4	6.2	3.9
Specific purpose	6.5	12.9	-2.6
Total	3.9	8.9	1.1

**Sources:** Figures for 2003-04 to 2009-10 are from *NSW Financial Audit 2011*, p2-11 (table 2.2.1). Figures for 2010-11 are from the *Report on State Finances 2011-12*, p5-6. The figures for 2011-12 to 2013-14 are from NSW Budget Papers 2013-14, *Budget Statement*, p7-2 (table 7.1). **Note:** From 2008/09, specific purpose payments include National Specific Purpose Payments and National Partnership Payments.

Historically, the Federal Government has provided a range of **specific purpose grants** to NSW, with the funds to be spent in particular areas. In 2008, the Federal Government and State Governments agreed to consolidate most of these payments in two broad streams:

- National Specific Purpose Payments (NSPPs), supporting National Agreements in six policy areas; and
- National Partnership Payments (NPPs), which support specified projects, facilitate reforms or reward jurisdictions that deliver on nationally significant reforms (See *NSW Financial Audit*, p2-41; and Budget Papers 2012-13, *Budget Statement*, p6-14).

Table 3.3.5 shows specific purpose by type since 2008-09. NSPPs currently make up over 70 percent of all specific purpose payments. There was a more even split in previous years due to the economic stimulus payments (NPPs).

**Table 3.3.5 Specific purpose payments by type (\$m)**

	08-09	09-10	10-11	11-12	12-13 (R)	13-14 (B)
National Specific Purpose Payments	6,573	6,555	6,860	6,806	6,983	7,339
National Partnership Payments	3,145	6,345	4,215	4,948	2,413	2,903
Total	9,718	12,900	11,075	11,754	9,396	10,242

Tables 3.3.6 and 3.3.7 show National Specific Purpose payments (NSPPs) by policy area and other specific purpose payments (under service level agreements between the Federal government and NSW government agencies). Health has been the largest category of NSPPs (61 percent of total payments in 2013-14), followed by education (19 percent in 2013-14). However, over the past six years, education NSPPs have grown at a faster rate than health NSPPs (40 percent compared to 16 percent). Note that the areas of health, education and housing have also received National Partnership Payments (see Table 3.3.8 below).

**Table 3.3.6 National Specific Purpose Payments and other payments (\$m)**

	08-09	09-10	10-11	11-12	12-13 (R)	13-14 (B)
Health	3,871	3,714	3,935	4,138	4,250	4,485
Education	1,020	1,106	1,186	1,245	1,292	1,427
Disability*	613	654	724	397	414	427
Skills	430	439	443	448	452	454
Housing	370	384	388	396	403	409
Other	268	259	183	182	172	137
Total	6,573	6,555	6,860	6,806	6,983	7,339

**Table 3.3.7 Growth in National Specific Purpose Payments and other (%)**

	08-09 to 09-10	09-10 to 10-11	10-11 to 11-12	11-12 to 12-13 (R)	12-13 to 13-14 (B)	6yrs
Health	-4.1	6.0	5.2	2.7	5.5	15.9
Education	8.4	7.2	5.0	3.8	10.4	39.9
Disability*	6.7	10.7	-45.2	4.3	3.1	-30.3
Skills	2.1	0.9	1.1	0.9	0.4	5.6
Housing	3.8	1.0	2.1	1.8	1.5	10.5
Other	-3.4	-29.3	-0.5	-5.5	-20.3	-48.9
Total	-0.3	4.7	-0.8	2.6	5.1	11.7

**Sources:** Figures for 2003-04 to 2009-10 are from *NSW Financial Audit 2011*, p2-41 (table 2.2.10). Figures for 2010-11 are from NSW Budget Papers 2012-13, *Budget Statement*, p6-15 (table 6.7). Figures for 2011-12 to 2013-14 are from NSW Budget Papers 2013-14, *Budget Statement*, p7-15 (table 7.7). **Note:** Until 2011-12, disability payments included payments for Home and Community Care. Since 2011-12, these have been made as a National Partnership Payment ("other" category).

Table 3.3.8 shows National Partnership Payments (NPPs) by policy area from 2008-09 to 2013-14. Economic stimulus and nation building payments dominated NPPs in 2009-10 and 2010-11, and were also substantial in 2011-12. Of the policy areas, transport received the largest proportion of NPPs in each of the six years. Of the four other policy areas, health and education have taken turns in receiving the second largest share of payments. In the case of health, education, environment, and "other", NPPs are expected to be higher in 2013-14 than in 2008-09. In transport and housing, the NPPs are expected to be lower.

**Table 3.3.8 National Partnership Payments (\$m)**

	08-09	09-10	10-11	11-12	12-13 (R)	13-14 (B)	6 yrs
Health	429	250	452	551	422	447	4.2
Education	294	437	427	710	477	498	69.4
Transport	922	1,277	783	1,312	690	777	-15.7
Stimulus/nation building	666	3,428	2,086	1,351	425	154	-76.9
Housing	88	257	58	71	60	74	-15.9
Environment	49	65	50	83	91	146	198.0
Other	697	631	360	870	247	805	15.5
Total	3,145	6,345	4,215	4,948	2,412	2,903	-7.7

**Sources:** Figures for 2003-04 to 2009-10 are from *NSW Financial Audit 2011*, p2-41 (table 2.2.10). Figures for 2010-11 are from NSW Budget Papers 2012-13, *Budget Statement*, p6-16 (table 6.8). Figures for 2011-12 to 2013-14 are from NSW Budget Papers 2013-14, *Budget Statement*, p7-17 (table 7.8).

## 4. RECURRENT EXPENSES

### 4.1 Total expenses

This section deals with recurrent expenses, which are expenses incurred in the provision of goods and services. Recurrent expenses are distinct from capital expenditure, which is expenditure incurred in the acquisition of assets (covered in Section 5). In the general government sector, total recurrent expenses grew by 72 percent over the 11-year period (including the forecast for 2013-14). This compares to total revenue growth of 66 percent over the same period. Expenses growth was significantly higher in the past two Parliaments (6.4 percent and 6.2 percent), compared to the current Parliament (4.1 percent).

**Table 4.1.1 Total recurrent expenses (\$m)**

03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13 (R)	13-14 (B)	13-14 (B)*
36,502	38,844	40,706	43,910	46,524	50,554	55,409	55,829	58,394	59,973	62,901	64,462

\*This last column shows estimates based on amended accounting standard (see section 1.3 above). To allow for comparisons, this figure was not used to calculate the figures in the tables below.

**Table 4.1.2 Total recurrent expenses growth by year (%)**

03-04 to 04-05	04-05 to 05-06	05-06 to 06-07	06-07 to 07-08	07-08 to 08-09	08-09 to 09-10	09-10 to 10-11	10-11 to 11-12	11-12 to 12-13 (R)	12-13 To 13-14 (B)	11yrs
6.4	4.8	7.9	6.0	8.7	9.6	0.8	4.6	2.7	4.9	72.3

**Table 4.1.3 Total recurrent expenses growth by Parliament (%)**

Compound annual growth (%)		
53rd	54th	55th
6.4	6.2	4.1

Sources: NSW Budget Papers 2013-14, *Budget Statement*, p1-31 (table 1.7).

### 4.2 Expenses by type

The following tables show general government recurrent expenses by type over the 11 years; and growth in expenses over the same period. Employee-related expenditure is by far the largest category: in each year it has accounted for half or almost half of total expenditure (46 percent in 2013-14). Over the 11 years (including the forecast for 2013-14), employee-related expenditure grew by 64 percent. A number of other categories of expenses have grown at a faster rate: e.g. finance expenses (the smallest category) increased by 185 percent; and capital grants (the second smallest category) increased by 162 percent.

**Table 4.2.1 Recurrent expenses by type (\$m)**

	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13 (R)	13-14 (B)	13-14 (B)*
Employee-related	17,687	19,505	20,732	21,344	22,896	24,740	26,167	27,323	28,540	28,565	29,052	30,613
Current grants and subsidies	5,879	6,035	6,797	7,426	7,347	7,703	8,036	8,878	9,240	9,060	9,496	9,496
Capital grants	1,222	1,368	1,621	2,839	2,269	3,044	5,211	2,493	2,143	2,357	3,207	3,207
Depreciation	1,927	1,994	2,127	2,308	2,467	2,614	2,777	2,817	2,978	3,586	3,855	3,855
Finance	788	1,061	1,184	1,257	1,300	1,469	1,675	1,878	2,082	2,249	2,246	2,246
Other	9,014	8,530	8,240	8,726	10,220	10,959	11,543	12,440	13,409	14,157	15,044	15,044
<b>Total</b>	<b>36,517</b>	<b>38,493</b>	<b>40,701</b>	<b>43,900</b>	<b>46,499</b>	<b>50,530</b>	<b>55,409</b>	<b>55,829</b>	<b>58,394</b>	<b>59,973</b>	<b>62,901</b>	<b>64,462</b>

\*This last column shows estimates based on an amended accounting standard (see section 1.3 above). To allow for comparisons, this figure was not used to calculate the figures in the tables below.

**Table 4.2.2 Recurrent expenses by type (%)**

	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13 (R)	13-14 (B)
Employee-related	48.4	50.7	50.9	48.6	49.2	49.0	47.2	48.9	48.9	47.6	46.2
Current grants and subsidies	16.1	15.7	16.7	16.9	15.8	15.2	14.5	15.9	15.8	15.1	15.1
Capital grants	3.3	3.6	4.0	6.5	4.9	6.0	9.4	4.5	3.7	3.9	5.1
Depreciation	5.3	5.2	5.2	5.3	5.3	5.2	5.0	5.0	5.1	6.0	6.1
Finance	2.2	2.8	2.9	2.9	2.8	2.9	3.0	3.4	3.6	3.8	3.6
Other	24.7	22.2	20.2	19.9	22.0	21.7	20.8	22.3	23.0	23.6	23.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

**Table 4.2.3 Growth in recurrent expenses by type (%)**

	03-04 to 04-05	04-05 to 05-06	05-06 to 06-07	06-07 to 07-08	07-08 to 08-09	08-09 to 09-10	09-10 to 10-11	10-11 to 11-12	11-12 to 12-13 (R)	12-13 To 13-14 (B)	11yrs
Employee-related	10.3	6.3	3.0	7.3	8.1	5.8	4.4	4.5	0.1	1.7	64.3
Current grants and subsidies	2.7	12.6	9.3	-1.1	4.8	4.3	10.5	4.1	-1.9	4.8	61.5
Capital grants	11.9	18.5	75.1	-20.1	34.2	71.2	-52.2	-14.0	10.0	36.1	162.4
Depreciation	3.5	6.7	8.5	6.9	6.0	6.2	1.4	5.7	20.4	7.5	100.1
Finance	34.6	11.6	6.2	3.4	13.0	14.0	12.1	10.9	8.0	-0.1	185.0
Other	-5.4	-3.4	5.9	17.1	7.2	5.3	7.8	7.8	5.6	6.3	66.9
<b>Total</b>	<b>5.4</b>	<b>5.7</b>	<b>7.9</b>	<b>5.9</b>	<b>8.7</b>	<b>9.7</b>	<b>0.8</b>	<b>4.6</b>	<b>2.7</b>	<b>4.9</b>	<b>72.3</b>

**Sources:** The figures for 2003-04 are from NSW Budget Papers 2005-06, *Budget Statement*, p1-29; the figures from 2004-05 to 2006-07 are from NSW Budget Papers 2008-09, *Budget Statement*, p3-5; the figures for 2007-08 are from NSW Budget Papers 2011-12, *Budget Statement*, p4-11; the figures for 2008-09 are from Budget Papers 2012-13, *Budget Statement*, p4-11 (table 4.2); and the figures for 2009-10 to 2013-14 are from Budget Papers 2013-14, *Budget Statement*, p5-10 (table 5.4).

### 4.3 Expenses by policy area

The following tables show total recurrent expenses by policy areas for the past 11 years; and growth in these expenses over the same period. Table 4.3.4 also shows trends in expenses by policy area over the Parliaments. The policy areas are Government Finance Statistics (GFS) which “align with a government function rather than a specific agency”.

Health and education have dominated the budget, together accounting for around half of total expenses. The proportion of the budget allocated to health has increased over the past 11 years (29.1 percent forecast in 2013-14 compared to 27.5 percent in 2003-04), while the proportion allocated to education has declined (22.2 percent forecast in 2013-14 compared to 24.9 percent in 2003-04). Health expenditure grew by 85 percent over the 11 years, whereas education expenditure increased by 56 percent over the same period (making it the slowest growing policy area for expenses).

The next largest areas of expenses are public order and safety (10.2 percent in 2013-14), transport and communications (9.6 percent in 2013-14), and social security and welfare (8.4 percent in 2013-14). All of these three areas grew by over 60 percent over the 11 years but social security and welfare was the only one of these to increase its share of the budget (8.4 percent in 2013-14 compared to 8.1 percent in 2003-04). Housing and community amenities was the fastest growing policy area for expenses and increased its budget share from 2.2 percent in 2003-04 to 2.6 percent in 2013-14. The *NSW Financial Audit* provides an analysis of expenses growth by policy area (p2-53).

The trends by Parliament are shown in Table 4.3.4. During the present Parliament, the share of the budget allocated to most policy areas is very similar to the previous (54<sup>th</sup>) Parliament: the most notable changes are a decrease in the allocations to education (from 23.4 percent to 22.4 percent) and to public order and safety (11.1 percent to 10.6 percent) and an increase in the allocation to transport and communications (9.4 percent to 10.6 percent). In three policy areas, the annual compound growth rate in expenses was higher in the current Parliament than in one or both of the 54<sup>th</sup> and 53<sup>rd</sup> Parliaments (recreation and culture, transport and communications, and “other”). In all other policy areas, the annual compound growth rate in expenses during the current Parliament has been lower than in both of the previous two Parliaments.

**Table 4.3.1 Recurrent expenses by policy area (\$m)**

Policy area	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13 (R)	13-14 (B)
Health	9,636	10,400	10,988	11,673	12,806	13,611	14,241	15,216	15,853	16,161	17,800
Education	8,731	9,398	9,660	9,968	10,525	11,001	11,967	12,183	12,799	12,741	13,624
Transport & communication	3,660	3,851	4,157	4,332	4,361	4,566	4,590	4,813	5,156	7,484	5,886
Public order & safety	3,846	4,194	4,294	4,521	4,857	5,146	5,609	6,063	6,238	6,071	6,265
Social security & welfare	2,836	2,877	2,957	3,262	3,641	4,033	4,611	4,864	5,147	4,929	5,143
Housing & community amenities	789	725	781	994	1,093	1,347	1,341	1,593	1,807	1,507	1,593
Recreation and culture	848	826	932	983	1,125	1,187	1,228	1,148	1,066	1,765	1,642
Other	4,742	4,998	5,129	5,136	5,641	6,620	6,612	7,462	8,202	6,884	9,302
<b>Total</b>	<b>35,088</b>	<b>37,269</b>	<b>38,898</b>	<b>40,869</b>	<b>44,049</b>	<b>47,510</b>	<b>50,198</b>	<b>53,341</b>	<b>56,269</b>	<b>57,542</b>	<b>61,255</b>

**Table 4.3.2 Recurrent expenses by policy area (%)**

Policy area	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13 (R)	13-14 (B)
Health	27.5	27.9	28.2	28.6	29.1	28.6	28.4	28.5	28.2	28.1	29.1
Education	24.9	25.2	24.8	24.4	23.9	23.2	23.8	22.8	22.7	22.1	22.2
Transport & communication	10.4	10.3	10.7	10.6	9.9	9.6	9.1	9.0	9.2	13.0	9.6
Public order & safety	11.0	11.3	11.0	11.1	11.0	10.8	11.2	11.4	11.1	10.5	10.2
Social security & welfare	8.1	7.7	7.6	8.0	8.3	8.5	9.2	9.1	9.1	8.6	8.4
Housing & community amenities	2.2	1.9	2.0	2.4	2.5	2.8	2.7	3.0	3.2	2.6	2.6
Recreation and culture	2.4	2.2	2.4	2.4	2.6	2.5	2.4	2.2	1.9	3.1	2.7
Other	13.5	13.4	13.2	12.6	12.8	13.9	13.2	14.0	14.6	12.0	15.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

**Table 4.3.3 Growth in recurrent expenses by policy area (%)**

Policy area	03-04 to 04-05	04-05 to 05-06	05-06 to 06-07	06-07 to 07-08	07-08 to 08-09	08-09 to 09-10	09-10 to 10-11	10-11 to 11-12	11-12 to 12-13 (R)	12-13 To 13-14 (B)	11yrs
Health	7.9	5.7	6.2	9.7	6.3	4.6	6.8	4.2	1.9	10.1	84.7
Education	7.6	2.8	3.2	5.6	4.5	8.8	1.8	5.1	-0.5	6.9	56.0
Transport & communication	5.2	7.9	4.2	0.7	4.7	0.5	4.9	7.1	45.2	-21.3	60.8
Public order & safety	9.0	2.4	5.3	7.4	5.9	9.0	8.1	2.9	-2.7	3.2	62.9
Social security & welfare	1.4	2.8	10.3	11.6	10.8	14.3	5.5	5.8	-4.2	4.4	81.4
Housing & community amenities	-8.1	7.7	27.3	10.0	23.3	-0.5	18.8	13.5	-16.6	5.7	102.0
Recreation & culture	-2.6	12.8	5.5	14.4	5.5	3.5	-6.5	-7.1	65.6	-7.0	93.6
Other	5.4	2.6	0.1	9.8	17.3	-0.1	12.9	9.9	-16.1	35.1	96.2
<b>Total</b>	<b>6.2</b>	<b>4.4</b>	<b>5.1</b>	<b>7.8</b>	<b>7.9</b>	<b>5.7</b>	<b>6.3</b>	<b>5.5</b>	<b>2.3</b>	<b>6.5</b>	<b>74.6</b>

**Table 4.3.4 Trends in these expenses by Parliament (%)**

	Average share of total (%)			Compound annual growth (%)		
	53rd	54th	55th	53rd	54th	55th
Health	28.0	28.7	28.4	7.2	6.9	5.4
Education	24.8	23.4	22.4	4.0	5.1	3.8
Transport & communications	10.5	9.4	10.6	7.5	2.7	6.9
Public order & safety	11.1	11.1	10.6	6.0	7.6	1.1
Social security & welfare	7.8	8.8	8.7	5.9	10.5	1.9
Housing & community amenities	2.2	2.7	2.8	8.0	12.5	0.0
Recreation & culture	2.4	2.4	2.5	3.6	4.0	12.7
Other	13.2	13.5	13.9	3.5	9.8	7.6
Total	100.0	100.0	100.0	5.6	6.9	4.7

**Sources:** The figures in Table 4.3.1 were supplied by NSW Treasury. Note that the total expenses figures in the above tables differ from those shown in Table 4.1.1 (which are from the budget papers).

#### 4.4 Expenses for selected departments

This section outlines expenses for a number of selected departments over the 11 year period. A full breakdown of expenses is provided for the Department of Health and for the Department of Education and Training. For a selected group of other departments, only the total expenses are shown.

**4.4.1 Department of Health expenses:** Table 4.4.1.1 provides a breakdown of expenses of the former Department of Health and current Ministry of Health (which was established in October 2011). Table 4.4.1.2 shows the growth in these expenses over the 11-year period; and Table 4.4.1.3 shows the compound annual growth in these expenses during each Parliament.

Expenses for the Department/Ministry of Health have grown by 86 percent over the 11-year period. Inpatient services account for by far the largest proportion of total expenses (45 percent in 2013-14), followed by outpatient services and emergency services (both 13 percent in 2013-14). Inpatient services grew by 73 percent over the 11-year period. Higher growth rates were experienced in outpatient services (154 percent), emergency services (137 percent), and a number of other service groups.

The annual growth rate for the Department of Health's expenses was highest in the 53<sup>rd</sup> Parliament (7.2 percent), followed by the 54th Parliament (6.9 percent), with the first three years of the current Parliament having the lowest annual growth rate (5.5 percent). During the current Parliament, the annual growth rate for expenses in most service groups was lower than in the previous Parliament with the exceptions being outpatient services (7.1 percent higher growth in the current Parliament), emergency services (3.7 percent higher), and rehabilitation and extended care (5.5 percent higher).



**Table 4.4.1.1 Department of Health expenses (\$m)**

	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13 (R)	13-14 (B)
Population health	269	285	712	332	477	466	486	478	505	550	555
Primary & community	825	847	976	1,022	1,100	953	1,076	1,144	1,167	863	908
Aboriginal health	44	46	43	47	53	37	47	80	77	83	86
Outpatient	923	1,023	1,097	1,255	1,244	1,365	1,398	1,603	1,628	2,279	2,340
Emergency	982	1,035	1,064	1,197	1,368	1,492	1,504	1,652	1,700	2,185	2,330
Inpatient	4,624	5,003	4,870	5,315	6,105	6,619	6,824	7,128	7,688	7,506	8,017
Mental health	700	800	838	882	993	1,010	1,118	1,232	1,258	1,389	1,445
Rehabilitation & extended care	834	903	912	980	909	1,026	1,119	1,205	1,105	1,579	1,641
Teaching & research	435	458	476	643	557	625	653	694	723	535	528
Cluster grants	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	8	18	22
<b>Total</b>	<b>9,636</b>	<b>10,400</b>	<b>10,988</b>	<b>11,673</b>	<b>12,806</b>	<b>13,593</b>	<b>14,225</b>	<b>15,216</b>	<b>15,859</b>	<b>16,987</b>	<b>17,871</b>

**Table 4.4.1.2 Growth in Department of Health expenses (%)**

	03-04 to 04-05	04-05 to 05-06	05-06 to 06-07	06-07 to 07-08	07-08 to 08-09	08-09 to 09-10	09-10 to 10-11	10-11 to 11-12	11-12 to 12-13 (R)	12-13 To 13-14 (B)	11yrs
Population health	5.9	149.8	-53.4	43.7	-2.3	4.3	-1.6	5.6	8.9	0.9	106.3
Primary & community	2.7	15.2	4.7	7.6	-13.4	12.9	6.3	2.0	-26.0	5.2	10.1
Aboriginal health	4.5	-6.5	9.3	12.8	-30.2	27.0	70.2	-3.8	7.8	3.6	95.5
Outpatient	10.8	7.2	14.4	-0.9	9.7	2.4	14.7	1.6	40.0	2.7	153.5
Emergency	5.4	2.8	12.5	14.3	9.1	0.8	9.8	2.9	28.5	6.6	137.3
Inpatient	8.2	-2.7	9.1	14.9	8.4	3.1	4.5	7.9	-2.4	6.8	73.4
Mental health	14.3	4.8	5.3	12.6	1.7	10.7	10.2	2.1	10.4	4.0	106.4
Rehabilitation & extended care	8.3	1.0	7.5	-7.2	12.9	9.1	7.7	-8.3	42.9	3.9	96.8
Teaching & research	5.3	3.9	35.1	-13.4	12.2	4.5	6.3	4.2	-26.0	-1.3	21.4
Cluster grants	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	125.0	22.2	N/A
<b>Total</b>	<b>7.9</b>	<b>5.7</b>	<b>6.2</b>	<b>9.7</b>	<b>6.1</b>	<b>4.6</b>	<b>7.0</b>	<b>4.2</b>	<b>7.1</b>	<b>5.2</b>	<b>85.5</b>

**Table 4.4.1.3 Growth in these expenses by Parliament (%)**

	Compound annual growth (%)		
	53rd	54th	55th
Population health	7.2	9.5	5.1
Primary & community	6.8	2.9	-7.4
Aboriginal health	7.6	14.2	2.4
Outpatient	9.7	6.3	13.4
Emergency	5.3	8.4	12.1
Inpatient	6.3	7.6	4.0
Mental health	9.1	8.7	5.5
Rehabilitation & extended care	6.4	5.3	10.8
Teaching & research	15.7	1.9	-8.7
Cluster grants	N/R	N/R	N/R
<b>Total</b>	<b>7.2</b>	<b>6.9</b>	<b>5.5</b>

**Sources:** The figures in Table 4.4.1.1 from 2003-04 to 2011-12 were supplied by NSW Treasury. The figures for 2012-13 and 2013-14 are from NSW Budget Papers 2013-14, *Budget Estimates*, p7-1.

**4.4.2 Department of Education and Training expenses:** Table 4.4.2.1 provides a breakdown of expenses of the former Department of Education and Training and the current Department of Education and Communities (in relation to education expenses only), which was established in April 2011. Tables 4.4.2.2 and 4.4.2.3 show the growth in these expenses over 11 years, and during each of the last two Parliaments and the current Parliament.

Expenses for the Department of Education and Training have grown by 60 percent over the 11 years. Expenditure on government primary schools is the largest category of expenditure (39 percent in 2013-14), followed by expenditure on government secondary schools (35 percent in 2013-14), and then expenditure on TAFE NSW (13 percent). Expenditure on government primary schools grew by 61 percent over the 11 year period, while expenditure on government secondary schools grew by 50 percent over the same period. Expenditure on non-government schools had a higher growth rate than both of these service groups (expenditure grew by 65 percent over the 11 years).

So far during the current Parliament, the annual growth in expenses for the Department (4.6 percent) is lower than in the 54<sup>th</sup> Parliament (5.1 percent) but higher than in the 53<sup>rd</sup> Parliament (4.0 percent). During the current Parliament, the annual growth in expenses relating to schools has been lower than in the (54<sup>th</sup>) Parliament, while growth in TAFE NSW and VET has been higher.

**Table 4.4.2.1 Department of Education and Training expenses (\$m)**

	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13 (R)	13-14 (B)
Preschool/ early childhood*	16	19	19	21	21	25	25	43	220	230	301
Govt primary schools	3,354	3,639	3,679	3,791	4,091	4,469	4,758	4,776	5,087	5,235	5,412
Govt secondary schools	3,232	3,418	3,554	3,664	3,753	3,993	4,299	4,576	4,617	4,747	4,833
Non-government schools	605	666	694	735	774	796	813	875	896	977	995
TAFE NSW	1,312	1,397	1,483	1,548	1,682	1,519	1,799	1,637	1,653	1,853	1,843
VET	212	259	231	209	204	187	265	274	314	270	447
Cluster grants	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	100	106
<b>Total</b>	<b>8,731</b>	<b>9,398</b>	<b>9,660</b>	<b>9,968</b>	<b>10,525</b>	<b>10,989</b>	<b>11,959</b>	<b>12,181</b>	<b>12,787</b>	<b>13,412</b>	<b>13,937</b>

**Table 4.4.2.2 Growth in Department of Education and Training expenses (%)**

	03-04 to 04-05	04-05 to 05-06	05-06 to 06-07	06-07 to 07-08	07-08 to 08-09	08-09 to 09-10	09-10 to 10-11	10-11 to 11-12	11-12 to 12-13 (R)	12-13 To 13-14 (B)	11 yrs
Preschool/ early childhood*	18.8	0.0	10.5	0.0	19.0	0.0	72.0	411.6	4.5	30.9	1,781
Govt primary schools	8.5	1.1	3.0	7.9	9.2	6.5	0.4	6.5	2.9	3.4	61.4
Govt secondary schools	5.8	4.0	3.1	2.4	6.4	7.7	6.4	0.9	2.8	1.8	49.5
Non-government schools	10.1	4.2	5.9	5.3	2.8	2.1	7.6	2.4	9.0	1.8	64.5
TAFE NSW	6.5	6.2	4.4	8.7	-9.7	18.4	-9.0	1.0	12.1	-0.5	40.5
VET	22.2	-10.8	-9.5	-2.4	-8.3	41.7	3.4	14.6	-14.0	65.6	110.8
Cluster grants	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	6.0	N/A
<b>Total</b>	<b>7.6</b>	<b>2.8</b>	<b>3.2</b>	<b>5.6</b>	<b>4.4</b>	<b>8.8</b>	<b>1.9</b>	<b>5.0</b>	<b>4.9</b>	<b>3.9</b>	<b>59.6</b>

**Table 4.4.2.3 Growth in these expenses by Parliament (%)**

	Compound annual growth (%)		
	53rd	54th	55th
Preschool/early childhood*	7.0	19.6	91.3
Govt primary schools	3.7	5.9	4.3
Govt secondary schools	4.1	5.7	1.8
Non-government schools	3.7	4.5	4.4
TAFE NSW	5.7	1.4	4.0
VET	-1.4	7.0	17.7
Cluster grants	N/R	N/R	N/R
<b>Total</b>	<b>4.0</b>	<b>5.1</b>	<b>4.6</b>

**Sources:** The figures in Table 4.4.2.1 from 2003-04 to 2011-12 were supplied by NSW Treasury. The figures for 2012-13 and 2013-14 are from NSW Budget Papers 2013-14, *Budget Estimates*, p3-1 and p3-16 (cluster grant funding). **Note:** Prior to 2010-11, the first category in the tables only included pre-school education services in government schools. In 2010-11, the new Department of Education and Communities took over from the Department of Human Services responsibility for early childhood licensing services (and this explains the large increase in expenses in this category from 2009/10 to 2010/11).

**4.4.3 Expenses for selected other agencies:** The following tables show expenses, and expenses growth, for a selected group of former and current key service delivery agencies (the former agencies are now components of a larger agency, as shown in Table 4.4.3.3). Note that in this case the figures are revised estimates rather than actual figures (the figures for 2013-14 are budget estimates). Due to restructuring and changes in responsibilities, the figures for transport, roads, disability ageing and home care, and housing are not entirely comparable over the 11-year period (see notes following the tables).

**Table 4.4.3.1 Expenses for selected other agencies (\$m)**

Agency	03-04 (R)	04-05 (R)	05-06 (R)	06-07 (R)	07-08 (R)	08-09 (R)	09-10 (R)	10-11 (R)	11-12 (R)	12-13 (R)	13-14 (B)
Transport	2,595	2,832	3,343	3,484	3,355	4,306	4,528	8,648	9,446	10,389	11,328
Roads	2,010	2,236	2,260	2,359	2,591	2,688	3,615	3,047	3,244	4,139	3,552
Police	1,860	1,959	2,103	2,217	2,370	2,510	2,684	2,958	3,236	3,221	3,392
Corrective Services	659	729	776	843	900	980	1,024	1,089	1,120	1,089	1,057
Juvenile Justice	124	129	139	146	159	194	177	191	206	195	198
Disability, Ageing and Home Care	1,323	1,424	1,550	1,758	1,890	2,122	2,288	2,451	2,768	2,566	2,681
Community Services	839	940	1,012	1,125	1,300	1,449	1,570	1,512	1,612	1,462	1,490
Housing	492	446	535	534	527	896	2,159	1,226	725	819	1,008

**Table 4.4.3.2 Growth in expenses for selected other agencies (%)**

Agency	03-04 to 04-05 (R)	04-05 to 05-06 (R)	05-06 to 06-07 (R)	06-07 to 07-08 (R)	07-08 to 08-09 (R)	08-09 to 09-10 (R)	09-10 to 10-11 (R)	10-11 to 11-12 (R)	11-12 to 12-13 (R)	12-13 to 13-14 (B)	11 yrs
Transport	9.1	18.0	4.2	-3.7	28.3	5.2	91.0	9.2	10.0	9.0	336.5
Roads	11.2	1.1	4.4	9.8	3.7	34.5	-15.7	6.5	27.6	-14.2	76.7
NSW Police	5.3	7.4	5.4	6.9	5.9	6.9	10.2	9.4	-0.5	5.3	82.4
Corrective Services	10.6	6.4	8.6	6.8	8.9	4.5	6.3	2.8	-2.8	-2.9	60.4
Juvenile Justice	4.0	7.8	5.0	8.9	22.0	-8.8	7.9	7.9	-5.3	1.5	59.7
Disability, Ageing & Home Care	7.6	8.8	13.4	7.5	12.3	7.8	7.1	12.9	-7.3	4.5	102.6
Community Services	12.0	7.7	11.2	15.6	11.5	8.4	-3.7	6.6	-9.3	1.9	77.6
Housing	-9.3	20.0	-0.2	-1.3	70.0	141.0	-43.2	-40.9	13.0	23.1	104.9

**Table 4.4.3.3 Growth in these expenses by Parliament (%)**

	Compound annual growth (%)		
	53rd	54th	55th
Transport	8.8	5.6	9.4
Roads	6.6	6.6	5.2
NSW Police	6.8	7.5	4.7
Corrective Services	7.9	6.6	-1.0
Juvenile Justice	5.5	6.9	1.2
Disability, Ageing & Home Care	9.7	8.7	3.0
Community Services	11.6	7.7	-0.5
Housing	2.4	23.1	-6.3

**Sources:** Budget Estimates in NSW Budget Papers from 2003-04 to 2013-14.

**Notes on Tables:** The following Table shows the agencies (in black) and service groups (in blue) that relate to the categories of expenses shown in the above Tables. Note that:

- **Transport:** The figures from 2003-04 to 2009-10 do not include grants to the RTA from the Department whereas the figures from 2010-11 to 2013-14 do include these grants (these grants were \$4.3 billion in 2010-11 but the amount of grants in 2012-13 and 2013-14 was not reported).
- **Roads:** the maritime component of Roads and Maritime Services (in 2012-13 and 2013-14) could not be separated out to make the figures entirely comparable with the figures for previous years.
- **Disability, ageing and home care:** the decrease in expenses from 2011-12 to 2012-13 was due to "the change in funding responsibility for basic community care between the Commonwealth and NSW Governments" (Budget Estimates 2012-13, p4-5).
- **Community Services / Housing:** between 2011-12 and 2012-13, specialist homelessness services were reallocated from Community Services to Housing.

Table 4.4.3.4 Coverage of the Tables 4.6.1 to 4.6.3

2003-04 to 2008-09	2009-10 to 2010-11	2011-12	2012-13 to 2013-14
Ministry of Transport	Transport and Infrastructure	Transport	Transport for NSW
Roads and Traffic Authority	Roads and Traffic Authority	Roads and Traffic Authority	Roads & Maritime Services
NSW Police	NSW Police	NSW Police	NSW Police
Corrective Services Custody management Supervision of offenders in the community Offenders program	Justice & Attorney-General Custody management Supervision of offenders in the community Offenders program	Attorney General & Justice Custody management Supervision of offenders in the community Offenders program	Attorney General & Justice Custody management Supervision of offenders in the community Offenders program
Juvenile Justice Youth Justice conferencing Community based services Custodial services	Human Services Non-custodial services Custodial services	Attorney General & Justice Community-based services Juvenile custodial services	Attorney General & Justice Community-based services Juvenile custodial services
Disability, Ageing & Home Care Ongoing community support Short-term interventions Supported accommodation	Human Services Ongoing community support Short-term interventions Supported accommodation	Family & Community Services Community support... Short-term interventions... Supported accommodation...	Family & Community Services Community support... Short-term interventions... Supported accommodation...
Community Services Community services Prevention/early intervention Statutory child protection Out of home-care	Human Services Community services Prevention/early intervention Statutory child protection Out of home-care	Family & Community Services Community development & support Prevention/early intervention Statutory child protection Out of home-care	Family & Community Services Targeted earlier intervention... Statutory child protection Out of home-care
Ministry of Housing Housing policy & assistance	Human Services Housing policy & assistance	Family & Community Services Housing policy & assistance	Family & Community Services Social housing assistance and tenancy support Homelessness services

## 5. CAPITAL EXPENDITURE

### 5.1 Total capital expenditure

Table 5.1.1 shows total capital expenditure for the general government and total state sectors (which, as noted earlier, also includes the public trading enterprise and public financial enterprise sectors). General government capital expenditure increased by 173 percent over the 11-year period (including the forecast for 2013-14), whereas total state capital expenditure increased by 132 percent. General government capital expenditure is forecast to be 1.8 percent of Gross State Product (GSP) in 2013-14 (compared to 1.1 percent in 2003-04). Total state capital expenditure is forecast to be 3.1 percent of GSP in 2013-14 (compared to 2.3 percent in 2003-04). Note that federal economic stimulus payments contributed to the higher levels of capital expenditure in 2009-10 and 2010-11 (see NSW Budget papers 2013-14, *Infrastructure Statement*, p1-3).

**Table 5.1.1 Total capital expenditure (\$m) and growth (%)**

	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13 (R)	13-14 (B)
General government (\$)	3,332	3,343	3,949	4,295	4,689	5,264	7,286	7,046	5,880	8,009	9,085
% of GSP	1.1	1.1	1.2	1.2	1.3	1.3	1.8	1.6	1.3	1.7	1.8
Annual change (%)		0.3	18.1	8.8	9.2	12.3	38.4	-3.3	-16.5	36.2	13.4
11yr change (%)											173
Total state (\$)	6,708	6,986	8,378	9,805	11,216	13,276	16,347	14,869	13,076	14,492	15,536
% of GSP	2.3	2.2	2.5	2.8	3	3.4	4	3.4	2.9	3.1	3.1
Annual change (%)		4.1	19.9	17.0	14.4	18.4	23.1	-9.0	-12.1	10.8	7.2
11yr change (%)											132

**Chart 5.1.1 Total capital expenditure (\$m)**

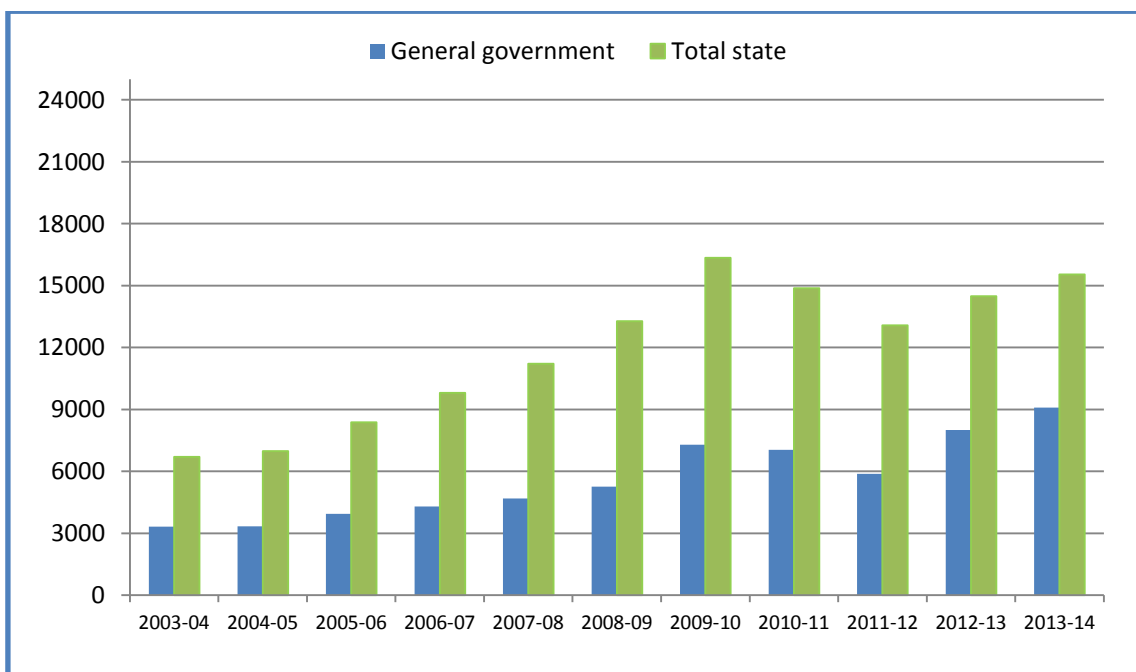


Table 5.1.2 shows the annual growth in capital expenditure for the past two Parliaments and the first two years of the current Parliament. In the general government sector, the annual growth in capital expenditure for the 53<sup>rd</sup> and 54<sup>th</sup> Parliaments was 6.4 percent and 13.2 percent respectively, compared to 8.8 percent growth during the first three years of the 55<sup>th</sup> Parliament (including 2013-14). In the total state sector, the annual growth for the 53<sup>rd</sup> and 54<sup>th</sup> Parliaments was 10 percent and 11 percent respectively, compared to 1.5 percent during the current Parliament.

**Table 5.1.2 Total capital expenditure growth by Parliament (%)**

	Compound annual growth (%)		
	53rd	54th	55th
General government	6.4	13.2	8.8
Total State	10.0	11.0	1.5

**Sources:** NSW Budget Papers 2013-14, *Budget Statement*, p1-30 (table 1.6) and p1-31 (table 1.7).

## 5.2 Capital expenditure by policy area

The following tables show capital expenditure by policy area, growth by policy area over the 11-year period, and trends by Parliament. The *NSW Financial Audit* provides an analysis of capital expenditure growth by policy area in the ten years up to 2010-11 (p3-3, p3-11).

Transport and communications has had the largest share of the total State capital program over the past 11 years, and it increased its share from 33 percent in 2003-04 to an estimated 47 percent in 2013-14. The second largest policy area for capital expenditure has been electricity (which changed to "fuel and energy" in 2012-13), which accounts for 22 percent of total capital expenditure. Together, these two policy areas (transport and communications, and fuel and energy) now comprise almost 70 percent of the capital program, compared to 53 percent in 2003-04. Housing and community amenities is the third largest sector of the capital program but its share has decreased over the years (from 14.6 percent in 2003-04 to 12.5 percent in 2013-14). Other policy areas that have seen their share of capital expenditure decrease are education, public order and safety, and recreation and culture.

Table 5.2.4 shows the trends in capital expenditure over the past two Parliaments and the current Parliament. It can be seen that during the current Parliament, transport and communications has a significantly higher share of the capital program than in the two previous Parliaments. On the other hand, housing and community amenities has received a significantly smaller allocation than in the previous two Parliaments. During the current parliament, compound annual growth in transport and communications capital expenditure has been higher than in the previous two Parliaments while annual growth in capital expenditure on fuel and energy, and housing and community amenities, has been lower in the current Parliament than in the past two Parliaments.





**Table 5.2.3 Growth in total state capital expenditure by policy area (%)**

Policy area	03-04 to 04-05	04-05 to 05-06	05-06 to 06-07	06-07 to 07-08	07-08 to 08-09	08-09 to 09-10	09-10 to 10-11	10-11 to 11-12	11-12 to 12-13 (R)	12-13 to 13/14 (B)	11yr
Transport and communications	0.6	23.5	19.3	8.4	15.2	22.6	1.0	8.6	16.0	15.6	233.9
Fuel and Energy	8.3	21.1	24.6	15.9	38.2	-10.9	4.8	6.1	-7.8	2.4	144.6
Housing and community amenities	9.5	28.0	18.4	41.0	18.8	21.8	-29.7	-38.9	11.5	21.5	96.9
Health	9.7	24.8	-6.7	11.6	13.5	-3.0	21.1	-7.9	115.7	-28.5	169.7
Education	2.6	8.7	22.1	-0.7	21.5	288.7	-30.0	-64.6	-19.4	-2.8	24.1
Public order and safety	-27.5	17.4	11.1	-19.4	15.8	-6.3	5.5	-4.3	2.1	12.3	-4.2
Recreation and culture	-6.2	23.2	12.3	85.3	-31.4	-38.3	10.9	0.0	-42.5	13.0	-26.7
Environment and natural resources	-8.5	-13.0	17.0	-34.5	27.8	26.1	55.2	-72.2	8.0	-14.8	-61.0
Social security and welfare	22.9	88.1	-0.9	-1.8	48.1	17.5	-43.1	-3.7	31.1	28.1	260.4
Other	33.9	-9.9	9.1	-14.1	-13.5	17.0	-3.9	-10.4	-27.3	0.6	-28.0
<b>Total</b>	<b>4.1</b>	<b>19.9</b>	<b>17.0</b>	<b>14.4</b>	<b>18.4</b>	<b>23.1</b>	<b>-9.0</b>	<b>-11.5</b>	<b>10.1</b>	<b>7.2</b>	<b>131.5</b>

**Table 5.2.4 Trends in capital expenditure by Parliament (%)**

Policy area	Average share of total (%)			Compound annual growth (%)		
	53rd	54th	55th	53rd	54th	55th
Transport and communications	32.6	31.7	44.3	8.5	11.5	13.4
Fuel and Energy	21.6	23.2	23.9	16.2	10.6	0.0
Housing and community amenities	15.8	19.3	11.4	12.9	9.5	-6.1
Health	6.5	5.1	8.2	2.2	10.4	12.4
Education	6.1	10.0	4.1	8.8	34.6	-34.8
Public order and safety	5.7	3.1	3.1	9.5	-2.0	3.1
Recreation and culture	3.1	2.7	1.3	4.0	-3.4	-13.4
Environment and natural resources	0.7	0.4	0.2	-1.3	13.1	-36.5
Social security and welfare	1.0	1.0	0.9	19.5	-0.7	17.4
Other	6.9	3.5	2.5	4.6	-4.4	-13.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>10.0</b>	<b>11.0</b>	<b>1.5</b>

**Sources:** The figures in Table 5.2.1 were supplied by NSW Treasury.

### 5.3 Capital expenditure by funding sources

Table 5.3.1 shows general government and total state capital expenditure by funding sources for the four years up to June 2008 and the four years up to June 2012 (the latest figures that have been reported). It can be seen that in the four years up to June 2008, budget surpluses (positive net operating balances) funded the vast majority of general government and total state capital expenditure. In contrast, in the four years to June 2012, budget surpluses

funded less than half of general government and total state capital expenditure. In the second period, an increase in net debt and accruals/provisions/other funded a much greater share of the capital program.

**Table 5.3.1 Capital expenditure by funding sources (\$m, %)**

Funding sources	4yrs to June 2008		4yrs to Jun 2012	
	\$m	%	\$m	%
<b>General government</b>				
Net operating balance (net of depreciation)	13,086	80	12,398	49
Sale of non-financial assets	1,913	12	1,867	7
Increase in net debt	2,402	15	8,229	32
Accruals/ provisions/ other	-984	-6	3,064	12
<b>Total sources of funding</b>	<b>16,417</b>	<b>100</b>	<b>25,558</b>	<b>100</b>
<b>Total state</b>				
Net operating balance (net of depreciation)	25,049	69	28,637	49
Sale of non-financial assets	3,288	9	3,230	6
Increase in net debt	9,023	25	17,661	31
Accruals/ provisions/ other	-864	-2	8,353	14
<b>Total sources of funding</b>	<b>36,496</b>	<b>100</b>	<b>57,881</b>	<b>100</b>

**Sources:** NSW Budget Papers 2012-13, *Budget Statement*, p7-3 (table 7.2) and p7-9 (table 7.5); and Budget Papers 2008-09, *Budget Statement*, p6-4 (table 6.2) and p6-6 (table 6.4). The total State figures have been calculated by combining the general government and public trading enterprise sectors.

## 6. LIABILITY MANAGEMENT

### 6.1 Net debt and net financial liabilities

The following tables examine trends in net debt and net financial liabilities for the general government and total state sectors. The difference between these measures is explained in the *NSW Financial Audit* (p4-2):

Net debt comprises borrowings, advances received and deposits held, less cash and cash equivalent assets, financial assets and advances paid (loans for policy purposes such as housing, transport or rural assistance). Prior to the introduction of full accrual accounting, [this] was the most widely used indicator of the strength of state finances...

Net financial liabilities comprise net debt, unfunded superannuation and other employee provisions, insurance obligations and other liabilities, net of receivables and other financial assets. Credit rating agencies and other financial analysts increasingly focus on net financial liabilities as a comprehensive measure of the State's financial position...

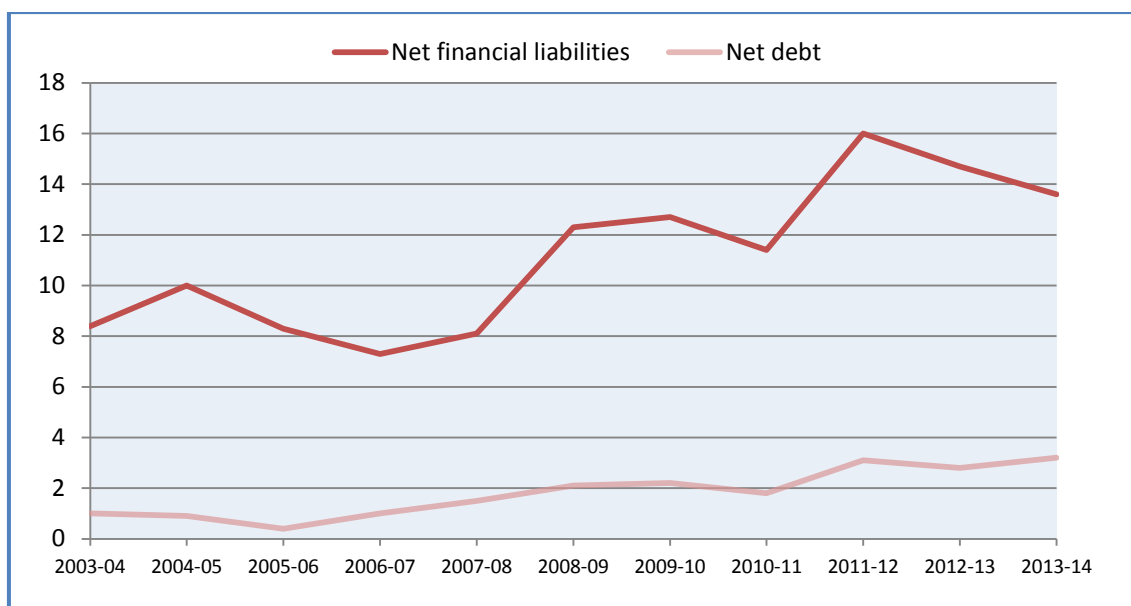
Under the *Fiscal Responsibility Act 2005*, there were a number of fiscal targets including the long term targets of: (1) reducing the level of general government net financial liabilities to 6 percent of GSP by 30 June 2015; (2) maintaining underlying general government net debt as a proportion of gross state product at or below its level as at 30 June 2005; and (3) eliminating total state sector unfunded superannuation liabilities by 30 June 2030. This Act was replaced by the *Fiscal Responsibility Act 2012* which has set two targets: (1) the annual growth in general government expenses is less than the long-term average general government revenue growth; and (2) the elimination of the State's unfunded superannuation liability by 2030. The 2013-14 budget papers note that both targets are on track to be achieved (Budget Statement, p1-32)

As shown in Table 6.1.1, in the general government sector, net debt rose from 1 percent of Gross State Product (GSP) in 2003-04 to an estimated 3.2 percent of GSP in 2013-14. Net financial liabilities rose from 8.4 percent of GSP in 2003-04 to an estimated 13.6 percent of GSP in 2013-14.

**Table 6.1.1 Net debt and net financial liabilities - general government (\$m, %)**

	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13 (R)	13-14 (B)
Net debt	2,970	2,826	1,483	3,645	5,663	8,170	9,161	7,960	14,127	13,032	15,720
% of GSP	1	0.9	0.4	1	1.5	2.1	2.2	1.8	3.1	2.8	3.2
Annual change (%)		-4.8	-47.5	145.8	55.4	44.3	12.1	-13.1	77.5	-7.8	20.6
11yr change (%)											429
Net financial liabilities	25,072	31,363	27,526	25,685	30,361	48,213	52,170	49,698	72,624	69,228	67,463
% of GSP	8.4	10	8.3	7.3	8.1	12.3	12.7	11.4	16	14.7	13.6
Annual change (%)		25.1	-12.2	-6.7	18.2	58.8	8.2	-4.7	46.1	-4.7	-2.5
11yr change (%)											169

**Sources:** NSW Budget Papers 2013-14, *Budget Statement*, p1-30 (table 1.6) and p1-31 (table 1.7).

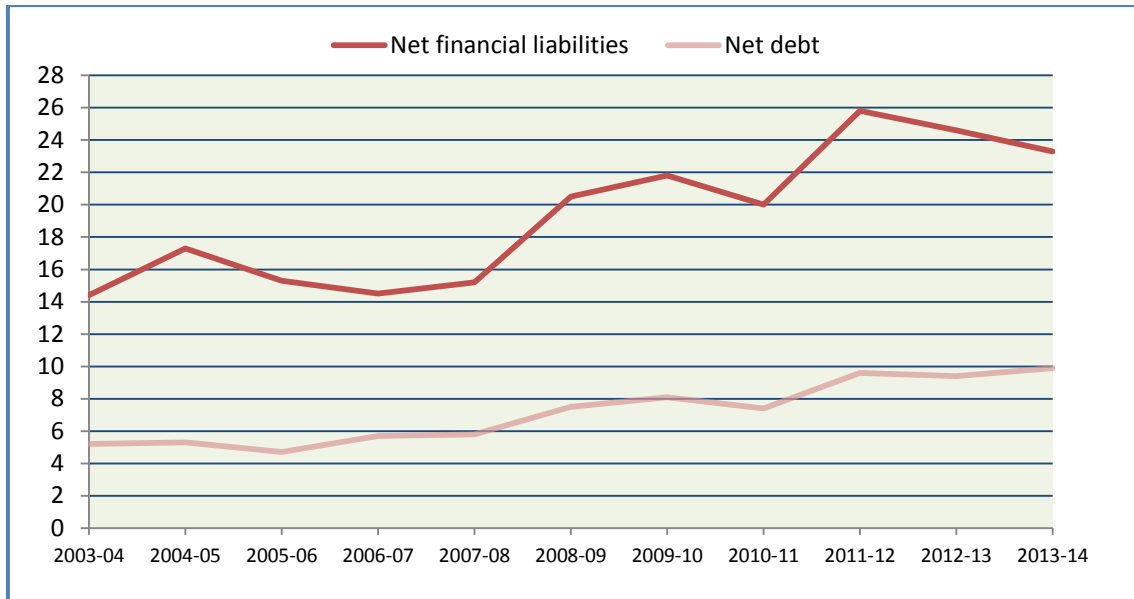
**Chart 6.1.1 Net debt and net financial liabilities - general govt (% of GSP)**

As shown in Table 6.1.2, in the total state sector, net debt increased from 5.2 percent of GSP in 2003-04 to an estimated 9.9 percent of GSP in 2013-14. Similarly, net financial liabilities increased from 14.4 percent of GSP in 2003-04 to an estimated 23.3 percent of GSP in 2013-14. The factors behind the trends up to 2010-11 are discussed in the *NSW Financial Audit* (p4-4 to p4-8).

**Table 6.1.2 Net debt and net financial liabilities – total state (\$m, %)**

	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13 (R)	13-14 (B)
Net debt	15,357	16,660	15,518	19,982	21,774	29,437	33,345	32,426	43,740	44,437	49,066
% of GSP	5.2	5.3	4.7	5.7	5.8	7.5	8.1	7.4	9.6	9.4	9.9
Annual change (%)		8.5	-6.9	28.8	9.0	35.2	13.3	-2.8	34.9	1.6	10.4
11yr change (%)											220
Net financial liabilities	42,891	54,499	50,661	50,920	57,099	80,316	89,298	87,150	117,279	115,930	115,208
% of GSP	14.4	17.3	15.3	14.5	15.2	20.5	21.8	20	25.8	24.6	23.3
Annual change (%)		27.1	-7.0	0.5	12.1	40.7	11.2	-2.4	34.6	-1.2	-0.6
11yr change (%)											169

**Sources:** NSW Budget Papers 2013-14, *Budget Statement*, p1-30 (table 1.6) and p1-31 (table 1.7).

**Chart 6.1.2 Net debt and net financial liabilities – total state (% of GSP)**

As outlined in Table 6.1.3, the 53<sup>rd</sup> Parliament had much lower levels of debt than the 54<sup>th</sup> Parliament and the current Parliament. In both the general government sector and the total State sector, net debt is higher in the current Parliament than it was in the 54<sup>th</sup> Parliament but net financial liabilities are lower in the current Parliament than in the 54<sup>th</sup> Parliament.

**Table 6.1.3 Growth in net debt and financial liabilities by Parliament (%)**

	Compound annual growth (%)		
	53rd	54th	55th
General government Net debt	0.0	21.6	25.5
General government Net financial liabilities	0.3	17.9	10.7
Total State Net debt	6.6	12.9	14.8
Total State Net financial liabilities	4.6	14.4	9.8

## 6.2 Financial liabilities by type

The following tables show the composition and growth of financial liabilities for the general government and total state sectors over the past five years. Note that the first category of financial liabilities in the tables, "gross debt", includes finance leases, other borrowings, deposits, and advances received.

In the general government sector, superannuation provisions have generally been the largest category of financial liabilities (40 percent in 2013-14) followed by gross debt (33 percent in 2013-14). Gross debt increased by 88 percent over the six years (including the forecast for 2013-14). In contrast, superannuation provisions increased by 34 percent (including 2013-14).

In the total state sector, gross debt has been the largest category of financial liabilities (52 percent in 2013-14) and it has grown by 63 percent over the six-

year period (including 2013-14). Superannuation is the second largest category (27 percent in 2013-14) and it grew by 37 percent.

**Table 6.2.1 Financial liabilities - general government (\$m: %)**

	08-09	09-10	10-11	11-12	12-13 (R)	13-14 (B)
Gross debt	17,569	19,959	24,678	28,874	31,256	33,054
Superannuation provisions	29,409	32,722	32,333	47,181	44,460	39,444
Insurance claims	7,017	7,463	7,890	8,139	8,316	8,593
Other provisions	947	1,113	1,157	1,331	1,851	1,832
Leave entitlements	7,247	7,893	8,277	9,307	9,225	8,950
Other employee provisions	163	178	186	278	261	254
Tax liabilities	927	850	707	798	687	731
Payables & other liabilities	5,935	6,206	6,484	6,915	6,623	6,739
<b>Total</b>	<b>69,214</b>	<b>76,384</b>	<b>81,712</b>	<b>102,822</b>	<b>102,679</b>	<b>99,595</b>

**Table 6.2.2 Growth in financial liabilities - general government (%)**

	08-09 to 09-10	09-10 to 10-11	10-11 to 11-12	11-12 to 12-13 (R)	12-13 to 13-14 (B)	6yrs
Gross debt	13.6	23.6	17.0	8.2	5.8	88.1
Superannuation provisions	11.3	-1.2	45.9	-5.8	-11.3	34.1
Insurance claims	6.4	5.7	3.2	2.2	3.3	22.5
Other provisions	17.5	4.0	15.0	39.1	-1.0	93.5
Leave entitlements	8.9	4.9	12.4	-0.9	-3.0	23.5
Other employee provisions	9.2	4.5	49.5	-6.1	-2.7	55.8
Tax liabilities	-8.3	-16.8	12.9	-13.9	6.4	-21.1
Payables & other liabilities	4.6	4.5	6.6	-4.2	1.8	13.5
<b>Total</b>	<b>10.4</b>	<b>7.0</b>	<b>25.8</b>	<b>-0.1</b>	<b>-3.0</b>	<b>43.9</b>

**Sources:** The 2008-09 figures are from NSW Budget Papers 2012-13, *Budget Statement*, p7-2 (table 7.1); and the other figures are from NSW Budget Paper 2013-14, *Budget Statement*, p8-2 (table 8.1).

**Table 6.2.3 Financial liabilities – total state (\$m: %)**

	08-09	09-10	10-11	11-12	12-13 (R)	13-14 (B)
Gross debt	51,048	60,287	64,620	74,946	79,411	82,977
Superannuation provisions	30,986	34,529	34,054	50,922	48,050	42,307
Employee provisions	N/R	12,966	13,742	15,289	15,394	15,219
Other provisions	N/R	7,248	7,940	8,572	9,503	9,976
Payables & other liabilities	9,626	9,268	9,490	8,898	9,112	9,117
<b>Total</b>	<b>110,200</b>	<b>124,297</b>	<b>129,846</b>	<b>158,625</b>	<b>161,470</b>	<b>159,596</b>

**Table 6.2.4 Growth in financial liabilities – total state (%)**

	08-09 to 09-10	09-10 to 10-11	10-11 to 11-12	11-12 to 12-13 (R)	12-13 to 13-14 (B)	6yrs
Gross debt	18.1	7.2	16.0	6.0	4.5	62.5
Superannuation provisions	11.4	-1.4	49.5	-5.6	-12.0	36.5
Employee provisions	N/R	6.0	11.3	0.7	-1.1	N/A
Other provisions	N/R	9.5	8.0	10.9	5.0	N/A
Payables & other liabilities	-3.7	2.4	-6.2	2.4	0.1	-5.3
<b>Total</b>	<b>12.8</b>	<b>4.5</b>	<b>22.2</b>	<b>1.8</b>	<b>-1.2</b>	<b>44.8</b>

**Sources:** The 2008-09 figures are from NSW Budget Papers 2012-13, *Budget Statement*, p7-12 (table 7.6); and the other figures are from NSW Budget Paper 2013-14, *Budget Statement*, p8-10 (table 8.6).  
**Note:** the N/R notation is shown for two categories in 2008-09 because the 2012-13 budget papers use different categories to the 2013-14 budget papers.

### 6.3 Interest expenses

The table below shows interest expenses for the general government and total state sectors over the past 11 years. In both sectors, interest expenses increased by more than 170 percent. Similarly, there was a significant increase in interest expenses as a proportion of total revenue. In the general government sector, interest expenses increased from 2.1 percent of revenue in 2003-04 to an estimated 3.6 percent of revenue in 2013-14. In the total state sector, interest expenses increased from 3.6 percent of revenue in 2003-04 to an estimated 6.0 percent of revenue in 2013-14.

**Table 6.3.1 Interest expenses – general government and total state (\$m)**

	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13 (R)	13-14 (B)
General government	789	1,190	1,184	1,257	1,320	1,488	1,674	1,877	2,082	2,249	2,246
% of revenue	2.1	3.0	2.8	2.8	2.8	3.0	3.0	3.3	3.5	3.8	3.6
Annual change (%)		50.8	-0.5	6.2	5.0	12.7	12.5	12.1	10.9	8.0	-0.1
Total state	1,675	2,143	2,210	2,008	2,863	3,172	3,534	4,200	4,210	4,342	4,533
% of revenue	3.6	4.4	4.2	3.7	4.9	5.2	5.4	6.1	5.9	6.0	6.0
Annual change (%)		27.9	3.1	-9.1	42.6	10.8	11.4	18.8	0.2	3.1	4.4

**Sources:** NSW Budget Papers 2013-14, *Budget Statement*, p1-30 (table 1.6); and p1-31 (table 1.7)

## 6.4 Credit rating metrics

The NSW Government's credit-worthiness has for many years been rated by two rating agencies: Standard and Poors (S&P) and Moody's. NSW has consistently held a AAA rating (the highest rating). The credit rating history and process is discussed in the *NSW Financial Audit* (p1-33 to 1-42). As noted there, the rating agencies conduct annual reviews, considering a range of factors including the economy, financial management, and debt profile; and each agency puts special emphasis on a key balance sheet metric:

- S&P metric: net debt and net unfunded superannuation in the non-financial public sector as a ratio of revenue in the non-financial public sector. S&P sets trigger band limits for this metric to remain consistent with a Triple-A rating; for NSW, this band is 120 to 130 percent.
- Moody's metric: total State gross non-commercial debt as a ratio of general government sector revenue. Moody's has not set formal trigger bands but it "has said informally that the NSW ratio should not be allowed to exceed 60-70 percent" (*NSW Financial Audit*, p1-38).

It is not clear whether S&P continues to use the ratio referred to above; the 2013-14 budget papers report different credit metrics (i.e. gross debt/operating receipts in the non-financial public sector; and gross interest paid/operating receipts in the non-financial public sector). Table 6.4.1 shows all of these metrics. They have all deteriorated over the past decade. The S&P metric is currently within the trigger band (122 percent forecast for 2013-14). Similarly, the Moody's metric is above the informal trigger band (73.3 percent in 2013-14).

In October 2012, S&P affirmed the AAA rating for NSW but revised its outlook for NSW from stable to negative (see [press release](#)). It took the view that "there is a one in three chance of a downgrade in the coming 24 months, based on our view that NSW's budgetary performance could weaken and might not provide NSW with the capacity to undertake its infrastructure program while managing to contain its debt burden." In contrast, in May 2013, Moody's stated that the outlook for NSW remained stable (see [press release](#)).

**Table 6.4.1 Credit rating metrics (%)**

	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13 (R)	13-14 (B)
S&P	61.1	80.5	64.7	63.6	69.7	100.2	103.9	98.5	129.0	125.7	122.0
Gross debt/ receipts	51.4	53.3	51.5	58.3	54.8	62.4	62.4	72.7	76.2	84.3	87.4
Gross interest/receipts	3.3	3.3	3.3	3.3	3.3	3.3	3.5	3.9	4.3	4.5	4.6
Moody's	46.8	50.6	39.6	40.9	44.5	56.1	58.1	59.3	66.9	72.8	73.3

**Sources:** NSW Budget Papers 2012-13, *Budget Statement*, p1-29 (table 1.4); NSW Budget Papers 2013-14, *Budget Statement*, p1-30 (table 1.6). The S&P metrics for 2011-12 to 2013-14 were calculated from NSW Budget Papers 2013-14, *Budget Statement*, p10-21 to p10-23 (tables 10.14 and 10.15).