

## CHAPTER 3: GENERAL GOVERNMENT EXPENDITURE

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- ◆ Total general government sector expenses for the 2008-09 Budget are estimated to be \$47.6 billion. This is an increase of 4.2 per cent on the revised estimate for 2007-08.
- ◆ Expenses have increased 5.8 per cent per annum on average over the four years to 2007-08.
- ◆ General government expenses are estimated to grow by an average of 4.5 per cent per annum over the four years to 2011-12.
- ◆ Expenditure allocations in this Budget support the priorities outlined in the State Plan and the Government's commitment to service delivery.
- ◆ The Budget focuses on reprioritising expenditure to deliver the Government's commitments in a budget-neutral framework.
- ◆ The major areas of expenditure are health, education and training, public transport and roads, police and justice and community and disability services which together represent approximately 80 per cent of expenses.
- ◆ New spending in 2008-09 will largely be in the areas of health, education, and community and disability services.
- ◆ Employee-related (including wages, leave and superannuation) and other operating costs represent approximately 70 per cent of expenses. A further 21 per cent of expenditure represents current and capital grants and subsidies.

### 3.1 INTRODUCTION

The NSW Government aims to deliver high quality public services for the benefit of the whole community. The general government sector provides services such as health, education, community and disability services, public transport and roads, police and justice and environment services.

The Government allocates resources in a way which:

- ◆ aims to meet the key strategic priorities identified in the State Plan within a budget-neutral framework
- ◆ uses a "value for money" approach that focuses on agency performance through the performance management and budgeting system

- ◆ makes provision for growing demand for services, population and economic growth and changing demographics and technology and
- ◆ ensures high quality front-line services are delivered more efficiently and at a sustainable level of expenditure growth.

The Government's approach to managing expenditure includes specific strategies to restrain expenditure growth and processes to improve the planning, funding and prioritising of government activities and spending. These include:

- ◆ a performance management and budgeting system which focuses on agency performance and value for money
- ◆ a wages policy which seeks to moderate the growth in employee costs while maintaining the real value of gains made in the recent past
- ◆ the ongoing application of efficiency dividends to drive productivity reforms
- ◆ reforms to Commonwealth-State funding agreements which will take effect from 1 January 2009 and
- ◆ reprioritisation of existing budget allocations to fund the delivery of State Plan priorities and service delivery improvements within a budget-neutral framework.

## **3.2 PERFORMANCE BUDGETING**

The Government's performance management and budgeting system (PMBS) strengthens the links between planning, and the funding, monitoring and reporting elements of the performance management cycle.

The State Plan sets clear priorities and targets for Government action and establishes accountability structures to deliver on the priorities, including:

- ◆ the Cabinet Standing Committee on State Plan Performance to monitor progress against State Plan priorities and targets
- ◆ allocation of State Plan priorities and targets to lead and partner Ministers and agencies
- ◆ preparation by lead agencies of Priority Delivery Plans to coordinate lead and partner agency service delivery strategies and
- ◆ establishment of a Performance Review Unit within the Department of Premier and Cabinet to review State Plan service delivery performance and conduct agency and functional area reviews.

The Government is committed to integrating the State Plan with priority setting and decision making in the budget cycle. Implementation has progressed in three areas.

## **PLANNING**

All budget dependent agencies prepare a Results and Services Plan (RSP) to inform decisions about the level of agency funding. The RSP sets out the links between results, services and service costs.

As part of preparations for the 2008-09 Budget, lead and partner agencies were required to integrate State Plan priorities and targets with their RSPs, and to identify links with existing agency budgets. This is the first step in achieving a clear “line of sight” between the State Plan, Priority Delivery Plans and agency business plans.

Reforms to Commonwealth-State financial relations will affect agency planning processes in 2008-09. The reforms, under the auspice of the Council of Australian Governments (COAG), will improve arrangements for specific purpose payments (SPPs) so that the present focus on input controls will be replaced with outcomes-based accountability NSW agencies. For example, in the health sector this could involve replacing a focus on inputs such as patient separations or occasions of service with a focus on delivering outcomes such as improvement in mortality rates or the percentage of patients who require unplanned readmission. A separate category of national partnership (NP) agreements will be created to support the delivery of specified outputs or projects, and to enable or reward the implementation of significant national reforms. Funding provided under the NPs will be subject to the achievement of performance benchmarks.

The reforms, which take effect from 1 January 2009, will establish new monitoring and accountability arrangements that will be integrated into the PMBS. Greater detail on the reforms is provided in Chapter 8.

## **BUDGETING**

An important element of the Government’s expenditure strategy is delivering State Plan priorities within a budget-neutral framework. To support this, the 2008-09 Budget process aligned with State Plan accountability structures to ensure that proposed service delivery enhancements were funded from the reprioritisation of existing agency budgets. For example, reprioritisation of existing agency budget allocations will fund the delivery of cross-agency initiatives in Aboriginal affairs.

Key changes to the budget process include:

- ◆ a streamlined business case process that required lead and partner agencies to make joint-agency budget submissions using their RSPs to identify how existing agency allocations could be better applied to State Plan priorities
- ◆ a cross-portfolio priority setting stage that reviewed current performance of State Plan priorities relative to targets and determined the basis for inviting detailed budget submissions and
- ◆ a new capital budget process that integrated the *State Infrastructure Strategy* and agency capital and maintenance planning, and required earlier and more strategic review of capital projects to enhance project risk management and prioritisation.

This year, the Government is reporting in Budget Paper No. 3 *Budget Estimates* on a results and services basis. This replaces program statements with service group statements featuring service measures and summary operating statements consistent with agency RSPs. The new format strengthens the performance focus of agency commentary, and supports ongoing alignment of agency RSPs and budgets with State Plan priorities and targets.

## **MONITORING**

To drive accountability for service delivery improvement and the efficient use of resources, the Government is strengthening arrangements for monitoring agency performance. The Cabinet Standing Committee on Expenditure Review plays a key role in monitoring the effectiveness of agencies' budget allocations and the scope for achieving better value for money.

In 2008-09, new processes and systems will be implemented to support the work of the Committee and to integrate output from the strategic review program of the Performance Review Unit.

The Committee's role includes monitoring agencies' efficiency improvement plans and the delivery of efficiency dividends. An additional efficiency dividend of one per cent (approximately \$300 million) on total discretionary expenses will be delivered by agencies in 2008-09, 2009-10 and 2010-11. Discretionary expenses exclude items an agency cannot directly control like depreciation and the pass through of Commonwealth grants. The efficiency dividends have been set at a level which agencies can absorb through the iterative reform of their processes while not affecting front-line service delivery. Including the efficiency dividends implemented since 2005-06, the cumulative total of this saving to the budget will be around \$1.8 billion per annum by the end of 2010-11.

### 3.3 EXPENDITURE TRENDS AND COMPOSITION

#### EXPENSES

Total general government expenses for the 2008-09 Budget are \$47.6 billion. This is an increase of 4.2 per cent on the revised estimate for 2007-08.

Expenses have increased 5.8 per cent per annum on average over the four years to 2007-08. However, year on year growth rates are volatile, reflecting the timing of new initiatives, the winding down of some programs, the inflow of tied Commonwealth funding, variations in capital grants provided to the PTE sector and the timing of wage increases.

**Table 3.1: Summary of expenses by type**

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Revised</i>	<i>Budget</i>	<i>Forward estimates</i>		
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
Employee-related	19,505	20,732	21,344	22,527	23,579	24,693	25,346	26,286
Other operating	8,530	8,240	8,726	9,162	10,067	10,208	10,653	10,888
Depreciation and amortisation	1,994	2,127	2,308	2,478	2,603	2,791	2,940	3,067
Current grants and subsidies	6,035	6,797	7,426	8,161	7,963	8,107	8,452	8,586
Capital grants	1,368	1,621	2,839	2,071	1,962	2,534	3,391	3,807
Finance	1,061	1,184	1,257	1,297	1,440	1,540	1,666	1,773
Total Expenses	38,493	40,701	43,900	45,696	47,614	49,873	52,448	54,407
Year on year change %	5.6	5.7	7.9	4.1	4.2	4.7	5.2	3.7
4 year average growth %				5.8				4.5

Generally, the growth in expenditure over the four years to 2007-08 has been driven by several related factors:

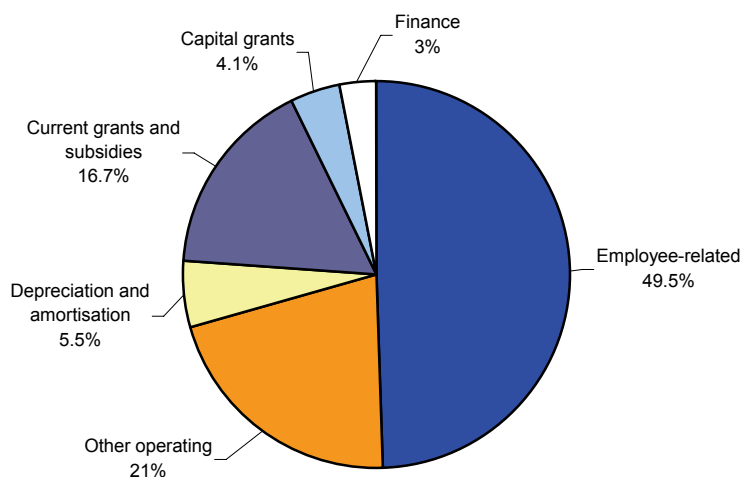
- ◆ a significant increase in capital grants for rail infrastructure
- ◆ increases in funding for other priority areas such as health, community and disability services, and environment
- ◆ real wage growth, particularly for front-line employees, as well as additional front-line positions for police, nurses and teachers and
- ◆ higher depreciation expenses in line with the growth in the general government capital expenditure program.

Expenditure over the Budget year and forward estimates period is forecast to grow at a slower rate, an average of 4.5 per cent per annum. This reflects the Government's efforts to manage expenditure growth through the wages policy, and the application of efficiency dividends and productivity reforms.

Expenditure pressures will continue over the next four years as a result of:

- ◆ the ageing of the population
- ◆ an increase in the demand for government services as living standards and community expectations continue to rise
- ◆ the demand for new technologies increasing the cost of service delivery
- ◆ an increase in investment in transport infrastructure, particularly for rail, funded through grants from the Budget and
- ◆ higher finance costs resulting from an expanded capital works program funded in part by an increase in general government net debt over the forward estimates period.

**Chart 3.1: Composition of total expenses – by type 2008-09**



Employee expenses account for around 50 per cent of total expenses reflecting the labour intensive nature of government services. Employee expenses consist of salaries and wages, annual leave, long service leave and superannuation expenses.

The NSW Government employs some 370,000 people, equivalent to about 300,000 full-time employees. More than 80 per cent are employed in the general government sector with the majority of employees providing frontline services in the areas of health, education, and public order and safety.

Other operating costs account for around 21 per cent of total expenses and represent the day-to-day running costs incurred in the normal operation of agencies. They include the non-labour costs of providing goods and services, such as repairs and maintenance and rental accommodation.

Current grants and subsidies and capital grants are 20.8 per cent of total expenses. These are provided to local government authorities, non-government organisations and state public trading enterprises (PTEs) to fund services and infrastructure in health, education, community services, housing and transport. Grants are also provided for rural and regional assistance. Of the total grants, around 35 per cent represent Ministry of Transport grants and subsidies to public trading entities and private operators for the provision of rail, bus and ferry services. The Ministry's share of funding will grow significantly over the forward estimates period reflecting the Government's increased investment in transport infrastructure.

Other expenses include depreciation and amortisation (5 per cent) which represents the whole-of-life cost of assets, and finance costs (3 per cent) such as interest on finance leases and other public sector borrowings.

Total general government expenses are expected to decrease from an average 5.8 per cent per annum in the four years ending 2007-08, to 4.5 per cent per annum over the four years ending 2011-12. A slowing in the growth of employee expenses is central to the Budget outlook.

## **EMPLOYEE COSTS**

Table 3.2 shows growth in employee expenses over the forward estimates.

The growth in total employee expenses (including superannuation) is expected to decrease from 4.7 per cent in 2008-09 to 3.7 per cent in 2011-12. Future growth in employee expenses will be tempered by a combination of a reduction in the reported superannuation expense<sup>1</sup> and moderation of wages growth.

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<sup>1</sup> Under AASB 119 the interest assumed to determine superannuation interest costs falls from 6.35 per cent to 5.85 per cent in 2010-11.

**Table 3.2: General government employee expense growth, 2004-05 to 2011-12**

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Revised</i>	<i>Budget</i>	<i>Forward estimates</i>		
	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
Employee – other	17,061	18,033	18,773	20,237	21,065	22,155	22,846	23,766
Employee superannuation	2,444	2,699	2,571	2,290	2,514	2,538	2,500	2,520
Total Employee Expenses	19,505	20,732	21,344	22,527	23,579	24,693	25,346	26,286
Year on year change %	6.6	6.3	3.0	5.5	4.7	4.7	2.6	3.7
4 year average growth %				5.3				3.9

The Government has confirmed a range of initiatives to manage employee costs. The most significant of these is the wages policy which is to maintain the real value of past significant wage increases over time.

Premier's Memorandum M2007-12 was issued on 11 September 2007 to announce the Government's wages policy. The Government will fund wage increases and associated costs at 2.5 per cent per year, the mid-point of the Reserve Bank of Australia's (RBA) 2–3 per cent target inflation range. The policy permits wage outcomes in excess of 2.5 per cent, but only where the additional expense is offset by employee-related cost savings. Growth in employee related expenses will also reflect other factors including, importantly, changes in the number of employees.

Most major award agreements will expire in 2008-09. Agreements to be renegotiated over this period cover employees working in the areas of health, education, emergency services, and the general public service. The current agreement for police does not expire until 30 June 2009.

While the Government's wages policy will act to constrain wages growth on a unit cost basis, other factors will continue to exert upward pressure on employee costs such as:

- ◆ recruitment of additional staff to deliver key front-line services including:
  - additional doctors, nurses and allied health professionals to meet the NSW Government's commitment for year-on-year increases in the number of hospital beds
  - an increase in the NSW Police Force to allow for a further 750 officers by December 2011
- ◆ ongoing industrial awards that provide a significant proportion of employees (ie. teachers and police) with pay increases above 2.5 per cent in 2008-09

- ◆ the flow-through of Commonwealth funding into areas of State service delivery resulting in additional positions
- ◆ the increased value of accrued staff entitlements over the forward estimates period and
- ◆ the filling of existing vacancies within agencies.

### **3.4 SERVICE DELIVERY**

The NSW general government sector has over 100 agencies.

Under the Government Finance Statistics (GFS) framework, the activities or services of these agencies are categorised according to broad policy or function areas. These include health, education, social security and welfare, transport and communications, and public order and safety.

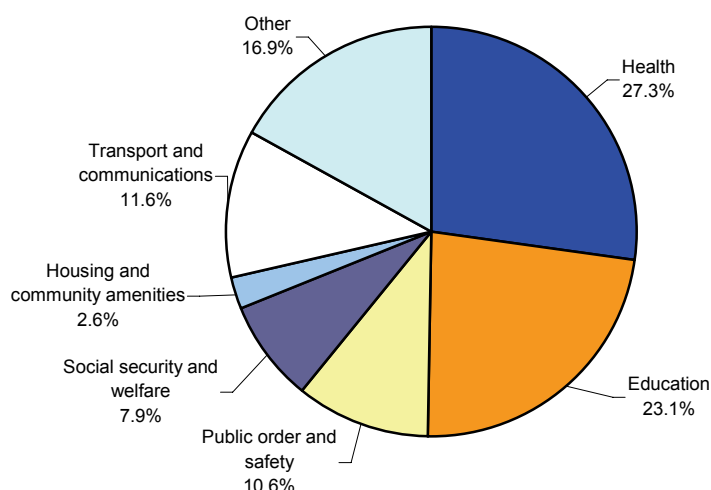
GFS policy areas will not necessarily align with individual agency level expenditure shown in Budget Paper No. 3 *Budget Estimates*. For example, the School Student Transport Scheme, which is categorised under the education policy area, is allocated in the Ministry of Transport's budget.

While not directly corresponding to agency structures, the GFS policy area categories have been adopted here to show the allocation of resources to service delivery at a high level. It is also consistent with data presented in Chapter 10 as part of the disclosure requirements of the Uniform Presentation Framework for the Australian Loan Council.

Expenditure grouped in the other purposes category includes government and economic services (regulatory, policy and legal), environmental protection, agriculture and natural resources.

GFS policy areas assist in inter-jurisdictional comparisons but the categories do not necessarily align with state level service delivery structures.

**Chart 3.2: Allocation by GFS policy area, 2008-09<sup>(a)</sup>**



(a) Chart 3.2 does not directly equate to the sum of individual agency expenditure reported in Budget Paper No. 3 Budget Estimates. GFS policy area data is prepared on a consolidated basis where transfers between general government agencies are eliminated.

Table 3.3 shows the growth in expenses for service delivery areas over the period from 2004-05 to 2008-09. While the table shows expenses on a GFS basis, it refers to them in a way that more accurately reflects the State's priorities and major areas of service delivery.

**Table 3.3: Growth in expenses by service delivery areas<sup>(a)</sup>**

	2004-05 Actual \$m	2008-09 Budget \$m	Growth in Expenses %
Health	10,413	12,980	24.7
Education and Training	9,408	11,007	17.0
Public Transport and Roads	4,429	5,543	25.2
Police and Justice	4,280	5,041	17.8
Community and Disability Services	2,904	3,747	29.0
Environment and Natural Resources <sup>(b)</sup>	1,178	1,806	53.3

(a) All service delivery areas show expenses consistent with their GFS equivalent. In the 2007-08 Budget Paper No. 2 Budget Statement, Chapter 2 this comparison was not presented on a GFS basis but by aggregated agency expenses. This was due to agency restructures and GFS data being incomplete at that time.

(b) Environment and Natural Resources combines the GFS policy areas: environmental protection and agriculture, forestry, fishing and hunting.

The areas which have experienced the highest rates of growth reflect the Government's response to changing external conditions and policy responses to climate change and drought, the need to upgrade transport infrastructure, increased demands in the area of child protection and support for people with disabilities.

The majority of general government spending is directed to health, education and training, public transport and roads which comprise over 60 per cent of total expenditure. This reflects the government's key State Plan commitment:

- ◆ *delivering better services* to the whole population in health, education and transport
- ◆ the significant resource requirements (labour, technology and infrastructure) to deliver services effectively to the whole NSW population and
- ◆ the provision of these services on a universal basis without discrimination (other than the basis of need) and often with free access.

A further 18.5 per cent of resources are directed to the areas of police and justice, and community and disability services. These areas support the State Plan activity including:

- ◆ *rights, respect and responsibility* – the justice system and services that promote community involvement and citizenship and
- ◆ *fairness and opportunity* – services that promote social justice and reduce disadvantage.

The remaining 19.5 per cent includes expenditure on environmental protection, and natural resources, government and economic services and housing and associated amenities. These areas provide general support to the State Plan in a lead and partner agency capacity to help achieve:

- ◆ *growing prosperity* – activities that promote productivity and economic growth, particularly in rural and regional New South Wales
- ◆ *environment for living* – planning for housing and jobs, environmental protection, arts and recreation and
- ◆ core government responsibilities including regulatory, policy, planning and legal services.

The State Plan delivery structures support a collaborative and cross-portfolio approach to the implementation of priorities. Agencies may have lead and/or partner responsibilities under the State Plan that extend across traditional service delivery structures.

## HEALTH

The NSW health system aims to keep people healthy by delivering high quality health care and providing the health care that people need. A wide range of health services such as inpatient hospital care, emergency care, community health and mental health are delivered through eight Area Health Services and State-wide services such as the Ambulance Service.

The current Commonwealth-State split in roles and responsibilities for the funding, regulation and provision of health services is complex and provides scope for service gaps, overlaps, poor coordination and other inefficiencies. The NSW Government is working through COAG on reforms that will extend across the full range of preventative, primary, acute and aged care sectors and contribute to a more integrated and effective health system.

Key priorities outlined in the State Plan include: improved access to quality health care (S1); improved survival rates and quality of life for people with potentially fatal or chronic illness (S2); improved health through reduced obesity, smoking, illicit drug use and risk drinking (S3); improved outcomes in mental health (F3); and reduced avoidable hospital admissions (F5).

Health outcome indicators point to a NSW health system that is world class. Life expectancy at birth in New South Wales is 78.9 years for males and 83.7 years for females. Outside Australia, only males born in Iceland, and females born in Japan, France and Spain can expect to live longer.

Public access to quality health care is an ongoing priority of the Government. To meet this commitment, total expenditure by NSW Health will reach \$13.2 billion in 2008-09. This is an increase of \$632 million or five per cent on the 2007-08 Budget. Health spending represents around 27 per cent of the total NSW Budget, up from around 24 per cent in 1996-97.

NSW Health has been provided with substantial real funding increases for priorities such as mental health, improved access to emergency and acute services, and early intervention and prevention. Budgeted expenses for NSW Health will grow by an annual average rate of 7.2 per cent from 2004-05 to the 2008-09 Budget.

Funding provided in recent budgets and service improvements introduced by NSW Health have enabled the health system to continue to improve performance during 2007-08, despite a significant increase in demand and activity. For example, emergency department attendances for the nine months to March 2008 were up by 76,273 patients or 5.7 per cent compared to the same period last year.

Even with this increase in demand, considerable improvements have been realised in health service performance and productivity. For example, the number of patients waiting longer than 12 months for elective surgery has declined from over 10,000 in March 2005 to only 153 in February 2008.

The public health system continues to face increasing demand pressures driven by an ageing and growing population, worldwide workforce shortages, rising consumer expectations and technological change. These pressures require a Government policy response that manages expenditure growth, ensures best value for money and directs resources to areas of the highest clinical need.

To address these demographic and technological challenges, NSW Health has set strategic directions for the health system over the next ten to twenty years that include making prevention everybody's business, strengthening primary health and continuing care in the community, creating better experiences for people using health services, ensuring a fair and sustainable health system and building a sustainable health workforce.

Some of the key programs and strategies for NSW Health in 2008-09 are:

- ◆ continuing the focus on improving hospital productivity; reforming services in light of evidence and best practice; investing in early intervention and prevention activities; and increasing the emphasis on health care at home
- ◆ introducing episode funding for hospital services as part of a nationally consistent approach to activity-based funding for hospital services and internal capital charging to recognise the cost of capital
- ◆ continuing the expansion of after hours GP clinics and HealthOne services which involve the integration of public and private sector general practices and other health care services
- ◆ implementing the third year of the Government's five year, \$939 million plan for *A New Direction in Mental Health*, to provide earlier and better access to a greater range of mental health services to the people of New South Wales.
- ◆ funding of \$48.9 million for the full year cost of operating an additional 180 acute beds added in 2007-08 to ease the pressure on the busiest emergency departments
- ◆ using Commonwealth elective surgery funding of \$28.9 million in 2008-09 to ensure that no elective surgery patients are overdue for their recommended timeframe of treatment by the end of December 2008

- ◆ investing in oral health services including \$7.5 million over three years to expand water fluoridation in NSW communities and a further \$4 million for recruitment and retention of public oral health practitioners State-wide
- ◆ spending \$3 million as part of its \$14 million commitment over four years to create a further 80 clinical nurse educator positions across the State to increase nursing workforce skills and enhance patient safety
- ◆ funding for Aboriginal communities including \$19.1 million over four years to provide quality access to early childhood health services and \$15.2 million over four years to expand the existing Housing and Accommodation Support Initiative to provide improved housing
- ◆ investing \$839.5 million in the 2008-09 capital works program including: redevelopment of Narrabri Hospital; the Lismore Hospital Stage 2 Integrated Cancer Care Centre; mental health units in Gosford, Bloomfield, St George and James Fletcher Hospitals; radiotherapy services; investment in diagnostic and treatment equipment; and completion of the Newcastle Mater Hospital redevelopment and the Forensic Hospital at Long Bay Correctional Facility as privately financed projects
- ◆ the continuation of current major projects including redevelopment at Auburn, Liverpool and Royal North Shore Hospitals, and rural projects including redevelopments at Orange and Queanbeyan and
- ◆ the continuing rollout of the Rural Hospital and Health Service Program Phase 4.

## **EDUCATION AND TRAINING**

The Government's education and training services include school education services, vocational and workforce training, technical and further education (TAFE) services, and student support services, including school student transport.

Most of the Government's expenditure in this area goes towards delivering a quality public school education system that provides equitable opportunities for all students. School education services are provided through primary schools, secondary schools and grants to non-government schools. Its other core service provides a vocational training system that improves the skills and qualifications of students and provides life-long learning opportunities for all people in New South Wales.

Improved educational outcomes are a key Government priority. Education and training services contribute directly to the State Plan by focusing on: increasing levels of attainment for all students (S4); more students completing Year 12 or recognised vocational training (S5); more people participating in education and training throughout their life (P4); and better access to training in rural and regional New South Wales to support local economies (P7).

Overall, NSW students perform strongly against national literacy and numeracy benchmarks. Scores achieved for maths in recent Trends in International Mathematics and Science Study (TIMSS) are amongst the highest in Australia for Year 4 and the highest for Year 8, with scores for science being the highest in Year 8. In addition, NSW students rank highly in international maths, science and literacy tests, with 15 year old students near the top of the international rankings for reading.

The Government's activities in education and training are affected by a range of expenditure drivers.

- ◆ Education in NSW government schools is provided on a universal basis, free of charge. A core commitment in government schools is access for all students (including those with special needs and geographic, economic, social, or cultural disadvantage), and the provision of free or subsidised travel to schools for all students. Costs of educating and supporting students with special needs are expected to increase.
- ◆ Teaching is labour intensive, with over 50,000 front-line teachers. There has been real wage growth for teachers under the current wage agreement.
- ◆ There are 2,240 government schools and 134 TAFE campuses across the State. Costs arise from the maintenance and upgrade of buildings, and the rapid expansion into school classrooms of new technologies with high up-front and ongoing costs.

External conditions also affect education services.

- ◆ Long-term demographic trends show an ageing population and a shrinking proportion of the school-aged population. While this proportion is decreasing, the total number of students will increase gradually in the medium to longer term.
- ◆ Employers and students require an increasingly wide range of training solutions, driven by significant skilled labour shortages, technological change in the workplace, and the changing patterns of work and job roles.

The 2008-09 total expenses for the education and training policy area will be \$11 billion. This includes an increase of \$494 million for the Department of Education and Training, which is a 4.7 per cent increase on the 2007-08 Budget. This increase is mainly due to an additional \$403 million for school education. Other government agencies, including the Office of the Board of Studies and the Ministry of Transport, will provide over \$500 million to support education services in 2008-09.

Some of the key strategies and programs for the Department of Education and Training include:

- ◆ To help all students achieve their potential, the Government supports targeted interventions including: equity programs for disadvantaged students; additional services for students with learning difficulties or disabilities; and programs for gifted and talented students.
- ◆ Support for travel to school for students costs over \$500 million and includes transport services such as private transport for students with disabilities.
- ◆ Over the last four years, new expenditure of nearly \$1 billion has targeted a broad range of educational improvements including literacy and numeracy programs, improved teacher quality, an expanded range of support options for students with disruptive behaviour, equity programs for disadvantaged students, improved learning outcomes for Aboriginal school students, and school maintenance and technology initiatives. An additional 1,500 teacher positions were created to reduce class sizes in years K-2 to State-wide averages of 20, 22 and 24 children, respectively.
- ◆ Other continuing initiatives will further improve educational outcomes for students, will provide extra support to new teachers, will introduce a consistent literacy and numeracy assessment for Kindergarten students in public schools, and provide support for the transition of students from primary to secondary schools at 463 secondary schools State-wide.
- ◆ Capital expenditure of about \$650 million in 2008-09 will upgrade NSW government school buildings and infrastructure including: initiatives to improve sport facilities and encourage physical activity; the *Connected Classrooms* initiative to provide videoconferencing, interactive whiteboards, and information-sharing tools in schools; and the \$280 million four year *Building Better Schools* initiative to provide additional toilet upgrades, electrical upgrades, security fences and halls and gyms and 800 science laboratory upgrades.

In 2008-09, TAFE NSW, the largest provider of workforce training in Australia through its ten institutes, has an estimated operating cost of \$1.7 billion and \$85 million for the construction and upgrading of buildings and other infrastructure.

- ◆ To meet new and emerging demands for training, TAFE NSW is strengthening its relationships with industry and enterprises, is customising services locally, and is investing in staff and technology. It will offer greater service diversity and flexibility for students.
- ◆ Targeted funded programs are increasing enrolments in skill shortage areas.
- ◆ Current vocational education and training initiatives include: the *Training our Workforce* initiative to generate more than 33,000 additional training opportunities, including establishing a network of ten NSW Skill Centres; and the *Learn or Earn* initiative to improve trade skills for young people and increase take up and completion of apprenticeships and vocational education. This initiative is providing guaranteed places for 5,850 young people under 18 years of age who have not completed Year 12 and do not have a job; from 13,000 new training places at TAFE NSW.

## **PUBLIC TRANSPORT AND ROADS**

The public transport and roads portfolio area has two components: the management of the road system and road users undertaken by the Roads and Traffic Authority of New South Wales (RTA) and the provision of public transport which is funded through the Ministry of Transport.

An efficient transport system is intrinsic to a productive state economy as well as connecting individuals to the community and maintaining their wellbeing.

The State Plan has identified three related priorities: increasing the share of peak hour journeys on a safe and reliable public transport system (S6); improving the efficiency of the road network (E7); and safer roads (S7).

Forecast budget expenses for the transport area in 2008-09 (including grants to transport operators) are \$5.5 billion. Over the period from 2004-05 to 2008-09, transport expenses will grow by around 25.2 per cent.

In 2008-09, RTA expenses are forecast to grow by 5.9 per cent (to around \$2.4 billion), after having grown by an average of 3.2 per cent per annum over the past four years (including 3.9 per cent in 2007-08).

The overall rate of expenditure growth on roads is linked to funding from vehicle taxes and charges and also is tied to growth in the consumer price index and vehicle registrations. A major factor in the longer term, which will affect road expenditures (mainly capital), is the planned implementation of new infrastructure funding arrangements with the Commonwealth.

Growth in expenses over the period to 2008-09 predominantly reflects increases in the level of support for public transport, which comprises approximately 55 per cent of total transport expenses. The additional funding has been largely used to improve the performance of rail services. Significant additional financial support has been also provided for bus reform, which has led to improved services for commuters reflected in increased bus patronage figures.

In March 2008, the Government announced SydneyLink, a series of major transport projects to transform Sydney's public transport infrastructure. The first stages of SydneyLink will be the \$12 billion North West Metro and the \$1.36 billion South West Rail Link. SydneyLink is the largest expansion of the rail network since the 1930s and will put services into the growing areas of the north west and south west of Sydney.

Funding for passenger rail services (including grants to RailCorp and to the Transport Infrastructure Development Corporation) have grown by 17.3 per cent over the four years from 2003-04 to 2007-08. This is budgeted to increase a further 18.1 per cent in 2008-09.

The growth in funding for passenger rail services reflects several related factors including:

- ◆ The growth in budget grants for capital spending for rail more than doubling from \$331 million in 2000-01 to \$729 million in 2008-09, reflecting new rollingstock (new Millennium, Outer Suburban and Hunter rail cars) and the Epping Chatswood Rail Line and a private public partnership to deliver and maintain 626 new air-conditioned rail cars (with a total contract value of \$3.6 billion).
- ◆ An increase in funding for CityRail maintenance commencing in 2000-01.
- ◆ The slow down of CityRail revenue growth relative to expenses. Over the period 2001-02 to 2006-07, regulated fare revenue increased by 14.3 per cent, or an average of 2.9 per cent per annum, compared to an increase in operating expenses over the same period of 40 per cent, or an average of 8 per cent per annum. In 2007-08 fares are only forecast to recover around 24 per cent of projected CityRail operating expenses, compared with nearly 30.3 per cent in 2001-02.

- ◆ Major service initiatives including recruiting and training 600 transit officers and recruiting additional drivers and guards (around 350 since January 2004).
- ◆ Implementation of the \$1.8 billion Rail Clearways program to increase operational flexibility and capacity of the CityRail network.
- ◆ Initiatives to improve the capital structure of transport businesses, including debt reduction.

The focus of the additional funding is not merely to maintain current performance, but to lay a foundation to secure the improved performance of CityRail into the next decade and to contribute towards meeting the State Plan priorities.

Customer service has been a major focus during 2007-08. The Customer Service Improvement Program is a plan for RailCorp that puts the customer at the centre of its operational planning and management. RailCorp have already started to deliver the first changes from this program.

The program will ensure that RailCorp focuses its efforts on getting the basic essentials right. This plan will involve a set of deliverables in 2008, 2009 and 2010 to systemically improve the customer service performance of RailCorp through a variety of measures.

The aim of the program is to significantly improve the quality and consistency of the day-to-day service provided by RailCorp to its customers, by lifting RailCorp's performance and increasing its ability to deliver consistently acceptable levels of service across the network.

It consists of inter-related initiatives that address each customer service challenge. The program will ensure that the customer is at the centre RailCorp's service and operations.

Funding for government and private bus services and other private transport, including the School Student Transport Scheme, will increase 6.9 per cent to \$897 million in 2008-09. This compares to \$684 million in 2004-05 immediately prior to the commencement of bus reform.

The future rate of growth of transport expenditure reflects significant emerging spending on major rail initiatives, particularly SydneyLink projects including the North West Metro and the South West Rail Link (\$4.1 billion over four years) and the delivery of 626 new passenger rail carriages over three years from mid 2010.

## **POLICE AND JUSTICE**

The police and justice area covers the activities of agencies in the criminal justice system, including services provided by the NSW Police Force, the Attorney General's Department, the Department of Corrective Services, and other emergency services agencies.

*Keeping People Safe* and *Building Harmonious Communities* are specific goals for the State Plan. Key priorities include: reducing rates of crime, particularly violent crime (R1); reducing re-offending (R2); and reducing levels of antisocial behaviour (R3).

Strategies to support the State Plan are targeted at achieving reductions of 10 per cent in the incidence of violent crimes against individuals and 15 per cent in the incidence of property crimes against households by 2016. The State Plan also aims to reduce the proportion of the NSW population who perceive problems with anti-social behaviour such as noisy neighbours and public drunkenness.

Between 2004-05 and 2008-09 expenditure in the police and justice area is expected to grow by 17.8 per cent to \$5 billion, mainly due to increased police numbers and higher numbers of inmates in the correctional system.

The NSW Police Force's average authorised police strength has been increased from 14,454 officers at 30 June 2003 to 15,206 officers as at 31 January 2007. Authorised strength will be progressively increased by a further 750 positions to 15,956 by December 2011.

The services and performance of criminal justice agencies are often sequential and interdependent. The key results of one agency can be influenced by the performance of other agencies as a person moves through the criminal justice system from one agency to another until their matter is finalised.

Increased policing activities and investigations have affected the courts system. Between 2003-04 and 2006-07, the number of criminal cases finalised in the Supreme, District and Local Courts increased by 4.4 per cent, with the largest increase occurring in the District Court.

The increased level of activity in the criminal courts has in turn resulted in more inmates within correctional centres. Between June 2003 and April 2008, the number of full time adult inmates increased from 8,113 to in excess of 9,600. Other factors contributing to this increase include legislative amendments that impose longer prison sentences and make obtaining bail more difficult. Changes in bail laws have increased the number of people on remand from 1,864 in June 2003 to 2,447 in April 2008.

Legislative amendments have also increased the number of juveniles in detention. Total juvenile admissions have risen from an average of 3,403 in 2003-04 to an estimated 5,610 in 2007-08, with around 90 per cent of those in custody on remand.

The NSW Police Force's budget represents approximately 39 per cent of the police and justice area and is a major driver, both directly and indirectly, of expenditure growth. In addition to increasing police numbers, the growth in the Force's expenditure reflects the provision of additional recurrent funding to support police operations, enhanced DNA testing and maintenance and other costs associated with the significant and ongoing upgrade of information technology and communications systems.

Funding of \$191.2 million has been allocated over the next four years to increase the Police Force's authorised strength by a further 750 officers by December 2011, along with further funding of \$20 million for DNA testing and related initiatives. Capital funding totalling \$67.5 million has been allocated in 2008-09 for new and ongoing information technology and communications works, including \$26.4 million towards the upgrade of the Force's Core Operating Policing System (COPS).

Expenditures by the departments of Corrective Services and Juvenile Justice have increased by 23.6 per cent from a combined \$877.4 million in 2004-05 to an estimated \$1.1 billion in 2008-09. This increase reflects demand pressures created by increasing inmate numbers and new initiatives to better monitor and supervise offenders serving community based orders to improve completion rates and reduce re-appearances in court.

The number of community based orders completed by young offenders remains high at around 90 per cent, while the percentage of all young offenders showing a reduction in their assessed risk of re-offending has increased from 56 per cent to 63 per cent between 2005-06 and 2007-08.

Current performance in reducing re-offending by inmates managed by the Department of Corrective Services is also showing some promising trends, with the percentage of offenders returning to court within 24 months of a conviction decreasing from 32.2 per cent in 2000 to 29.9 per cent in 2004. The department's *Throughcare* program is addressing offender transitional needs through an improved assessment process and targeted programming directed at achieving and sustaining reduced rates of re-offending.

The Attorney General's Department's expenditures are expected to grow from \$582 million in 2004-05 to \$745.7 million in 2008-09, an increase of \$163.7 million or 28.1 per cent. Around 78 per cent of the department's expenditures in 2008-09 will be directed towards the provision of court services and crime prevention and community support services. The balance of funding is spent on a range of activities, including the provision of legal and regulatory services and services provided by the Crown Solicitor's Office.

The department is continuing to develop and support new court diversion and intervention programs such as the Rural Alcohol Diversion Program, the Magistrates' Early Referral Into Treatment program, Young Adult Conferencing, and the implementation of the Domestic Violence Intervention Court Model.

Other recent initiatives have also had a significant impact on those coming into contact with courts, including reforms to improve the protection of sexual assault complainants and additional safeguards for children and other vulnerable witnesses. The successful Circle Sentencing Program, which is targeted at reducing re-offending rates in Aboriginal communities, has also been expanded beyond regional New South Wales into Sydney.

Over the next four years, the Attorney General's Department will continue to focus on improving court facilities and support systems, further developing Alternate Dispute Resolution mechanisms through court-based mediation and Community Justice Centres and expanding the Aboriginal Mediation Program with the aim of reducing the current over-representation of Aboriginal people in the legal system.

## **COMMUNITY AND DISABILITY SERVICES**

The Government provides community and disability services to support those who are most disadvantaged in our community or who need support during times of crisis. There is a wide range of responsive services, including accommodation for people with a disability, support and intervention to help families and children at risk, and community-based services to assist frail older people and people with a disability to participate in community life and live at home.

Access to community and disability services that improves opportunities for the most disadvantaged and vulnerable is a key priority for the Government. Services such as preschool programs and community care programs will be expanded and reshaped to focus on strategies for prevention and early intervention. Total expenditure in this area will reach \$3.7 billion in 2008-09. Expenses will grow by an annual average rate of 6.6 per cent from 2004-05 to 2008-09.

Specific State Plan priorities which support the delivery of these broad outcomes include: improved health and education outcomes for Aboriginal people (F1); increased employment and community participation for people with disabilities (F2); increased proportion of children with skills for life and learning at school entry (F6); and reduced rates of child abuse and neglect (F7).

The Department of Community Services promotes the safety and wellbeing of children and young people by supporting vulnerable families and intervening where there is a risk of harm or neglect to children or young people. For those children who are not able to safely remain with their families, the department supports their carers to provide a safe, well-functioning placement.

The Department has dealt with an increase in child protection reports, from reports concerning 85,000 children in 2001-02 to reports concerning more than 132,100 children estimated in 2007-08, an increase of over 55 per cent for the period. To respond to this increase, by June 2008 the Department of Community Services expects to employ an extra 1,025 caseworkers in early intervention, child protection and out-of-home care compared with June 2004. In 2008-09, the department will spend:

- ◆ \$195 million to purchase services that support families in crisis such as homelessness or domestic violence, and help them to re-establish independent living arrangements.
- ◆ \$263 million on prevention and early intervention, including \$49 million on the Brighter Futures early intervention program to support vulnerable families and reduce child abuse and neglect and \$141 million on support for preschools and children's services. An extra \$21 million per year under the Government's Preschool Investment and Reform Plan will achieve universal access to a preschool program for children in the year before school by providing preschool opportunities for an additional 10,500 children for two days per week.
- ◆ \$395 million on child protection services including investigation, support services such as counselling and health assessments, and referral to court if necessary.
- ◆ \$495 million on out-of-home care services. In addition to caseworkers who manage individual placements, out-of-home care services are being expanded to provide increased placements and services such as counselling and health assessments.

The Department of Ageing, Disability and Home Care is responsible for delivering programs and policies that assist older people and people with a disability and their carers to participate in community life.

In 2006-07, the Government committed a record \$1.3 billion in new funding over a five year period to support the strategy, *Stronger Together: A new direction for disability services*. The Department will use these funds to manage demand pressures from the impact of ageing carers and improved life expectancies for people with disabilities. *Stronger Together* will provide more assistance for people with disabilities to live in their own home and increase the range of specialist accommodation services for those unable to live at home.

Some of the key programs and strategies for the Department of Ageing, Disability and Home Care in 2008-09 include:

- ◆ expanding community support programs, resulting in additional places for post school programs for disabled people who leave school but are unable to enter the workforce (\$47.4 million in 2008-09), additional attendant care places offering intensive in-home support (\$14.1 million in 2008-09), and new flexible respite places (\$14.7 million in 2008-09)
- ◆ providing \$5 million over four years (\$1.5 million in 2008-09) for intensive assistance to 410 children and their families with managing problem behaviours, both at home and at school; and \$500,000 over four years to keep children with autism spectrum disorder at school and
- ◆ 620 additional supported accommodation places (\$109.3 million in 2008-09) to improve the circumstances of young people in nursing homes and provide alternative models of support for young people living in nursing homes.

Aboriginal people within the community remain disadvantaged with various economic and social indicators showing a considerable level of disparity in outcomes. The Government's continued commitment to Aboriginal communities is reflected in the following priorities for 2008-09:

- ◆ There will be a strengthened focus on improving the safety and wellbeing of Aboriginal children, particularly through the implementation of the *New South Wales Interagency Plan to Tackle Child Sexual Assault in Aboriginal Communities*. This includes providing a Community Officer and community activities in 'Focus Communities' to raise awareness and prevention of child sexual assault in Aboriginal communities.
- ◆ Providing Community Officers in 40 Partnership Communities, who will work with government and non-government agencies to connect services to needs in Aboriginal communities.

## **ENVIRONMENT AND NATURAL RESOURCES**

The Government is pursuing a range of environmental initiatives and programs targeted at addressing the impact of climate change and reducing greenhouse gas emissions; reducing environmental degradation and pollution; improving waste management; and improving the management of land and water resources and of the coastal environment.

Expenditure in this policy area is influenced by a number of factors including: the changing values and expectations of the community; the changing condition of the environment and the natural resource base; and the need to strike a balance between economic growth and environmental and natural resource protection.

In 2008-09, total expenses for the environment and natural resources area will be approximately \$1.8 billion, an increase of 53 per cent since 2004-05. Key drivers of expenditure include initiatives to improve water management and address the impacts of climate change, increased drought assistance funding and the NSW Government's response to the equine influenza virus.

Specific State Plan priorities which support the environment and conserve our natural resources include: a secure and sustainable water supply for all users (E1); a reliable electricity supply with increased use of renewable energy (E2); cleaner air and progress on greenhouse gas reductions (E3); and better outcomes for native vegetation, biodiversity, land, rivers and coastal waterways (E4).

The Department of Environment and Climate Change (DECC) is responsible for environment and natural resource policy and developing programs to address the impacts of climate change and broader sustainability issues. The department works closely with the Department of Water and Energy (DWE) on resource security and sustainability initiatives. DWE has responsibility for delivering policy reform in the water and energy sectors and carries out a regulatory and enforcement function within these sectors.

At a regional level, Catchment Management Authorities (CMAs) work in partnership with the community and other areas of government to develop and implement programs at a catchment level. In 2008-09, CMAs will spend \$219.5 million on administering and implementing natural resource management programs, funded by the Commonwealth and NSW Governments.

A Memorandum of Understanding on Murray-Darling Basin reform was agreed in principle at the Council of Australian Governments' (COAG) meeting on 26 March 2008. New South Wales is working with the Commonwealth and other state governments to develop an investment plan for priority water saving projects in the Murray-Darling Basin.

COAG also agreed to adopt a single national emissions trading scheme to address the impacts of climate change. The national scheme will replace existing state and territory schemes including the NSW Greenhouse Gas Abatement Scheme, and in combination with complementary initiatives will establish a nationally consistent set of climate change measures. Progress is continuing on the development of a national renewable energy target.

Major initiatives and achievements include:

- ◆ The \$340 million Climate Change Fund will fund projects aimed at saving water and energy and reducing CO<sub>2</sub> emissions.
- ◆ The \$439 million *City and Country Environment Restoration Program* continues to support the protection of high conservation value crown lands and marine environments.
- ◆ The NSW *Rivers Environmental Restoration Program* (RERP), funded jointly by the Commonwealth (\$71.77 million) and NSW Government (\$101.5 million), aims to arrest the decline of rivers and wetlands.
- ◆ The Department of Primary Industries will spend \$442.6 million in 2008-09 to support and enhance the value of New South Wales' primary industry exports, which currently represent approximately 40 per cent of the State's export revenue.
- ◆ The Government has continued to expand the national park estate. The reserve system has been expanded by 600,000 hectares since 2005-06 with an additional 12 new parks and reserves in 2007-08. Expenditure in 2008-09 for land acquisitions for parks across New South Wales is budgeted at \$12.6 million. A further \$3.4 million has been allocated for national park fire management and \$3.9 million for upgrading public infrastructure in the Kosciuszko National Park.
- ◆ During 2008-09, the Government is providing \$13.2 million in waste service improvement payments to Councils to drive and reward improved Council waste systems and management.