Workers Insurance Association

# NSW State Budget

## 2025-26 Budget Digest

**June 2025**

## Overview

This is the third state budget the Minns Labor government has handed down and while projecting a budget deficit of $3.4 billion for 2025-26, shows that the government is back to a cash surplus, meaning day-to-day operations no longer *add* to debt.

Workers' compensation was paid an unusually high amount of attention when compared with previous budgets due to the growing fiscal impact and the Treasurer's personal focus on scheme reform.

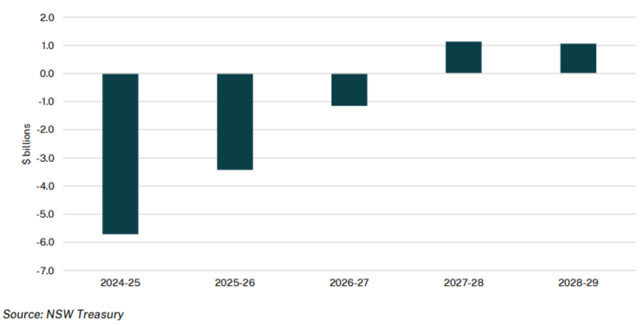
This budget shows significant budget repair with a projected surplus of $1.1 billion by 2027-28, see graph below. This financial position enables the government to invest in critical services and infrastructure.

Three key focus areas of this year's budget included:

1. Engaging with the housing affordability crisis
2. Alleviating the cost of living pressure
3. Reinvigorating the state's economy

Despite global economic and geopolitical volatility, the state's economy is growing, inflation moderating (2.3%), and real wages increasing. A fall in interest rates also bodes well for consumers and investors alike.

<u>2025-26 State Government Budget Result</u>



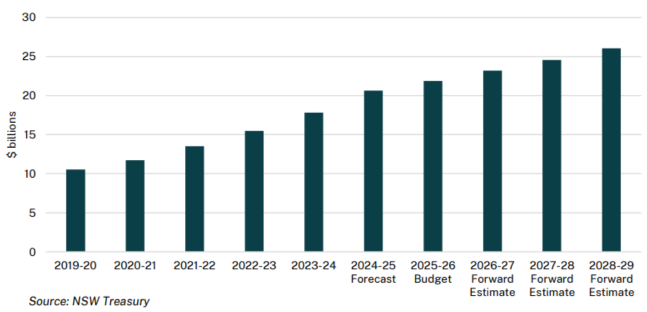

## Workers' Compensation

The Budget Statement shed a spotlight into the financial impact of the scheme and how it currently affects the fiscal position of the government. This reflects the comments made by Treasurer Mookhey concerning the growing impact of the scheme on the NSW government.

Critically, workers' compensation was given attention in the budget as part of a cluster of 'fiscal risks and pressures' where it was mentioned as a growing 'additional expense' of significance (2025-26 Budget Statement).

Of the forecast $3.4 billion increase in insurance expenses, $2.6 billion was attributed to the 'deteriorating performance' of the workers' compensation scheme. The graph below indicates the growing liability valuations of Treasury Managed Funds, where workers' compensation factors in as a significant and growing component.

<u>Treasury Managed Funds Liability Valuations</u>




The proposed reforms to the workers' compensation scheme were highlighted as reducing the 'future deterioration' of the scheme.

> *"This is a responsible, sustainable budgeting, delivering real investments while building long-term resilience."*
>
> \- Treasurer Daniel Mookhey

## Economic Reinvigoration & Productivity

While state budgets post COVID-19 have predominantly focused on fiscal repair and a return to pre-pandemic economic levels of activity, encouragingly, this budget began to look at moving beyond pandemic levels of economic growth.

> *"We are making sure we build the homes we need, along with the essential infrastructure we need to go with them."*
>
> \- Treasurer Daniel Mookhey

An innovative move on the part of government was the establishment of the Investment Delivery Authority to 'identify and clear barriers to significant economic investment' (2025-26 Budget Statement) with the aim of accelerating large investments and stimulating economic growth. Part of the government's rationale behind fiscal repair is paving the way for future investment along with taking steps to safeguard NSW's increasingly at-risk credit rating (AAA).

An angle not touched on by the government was how the proposed workers' compensation reform could improve return-to-work levels, increasing the average productivity and drive GDP growth in NSW. Despite this, the state's productivity remains concerning low with NSW trailing behind the average for Australia and other advanced economies.

<u>Productivity Growth Comparison</u>

| (CAGR) | 1994 to 2004 | 2004 to 2014 | 2014 to 2024 |
|---|---|---|---|
| NSW | 1.6 | 0.8 | 0.5 |
| AUS | 2.2 | 1.2 | 0.5 |
| Advanced economies[b] | 1.9 | 1.0 | 0.9 |

(a) Growth is for fiscal years for New South Wales and Australia, and for calendar years for advanced economies.
(b) Advanced economies include Australia, USA, Euro Area, Canada, Japan, UK and NZ.

*Source: ABS, Long term Productivity Database, International Monetary Fund and NSW Treasury*

As per the above graph, consistently trailing productivity rates is an issue of concern that cuts across industry and will be a growing issue.

## Housing Affordability

Solving the shortage of housing is a key pillar of Mookhey's budget with immediate reforms aimed at supporting the development of 15,000 homes in the short-term.

Three reforms central to driving housing supply and reducing the cost of building include:

1. Accelerating planning approvals for large-scale affordable housing.
2. Tax incentives for build-to-rent developments.
3. Investing in national skill gaps in the construction sector.

The government has also given significant attention to emergency housing to combat homelessness.

## Education

The government is rolling out significant investment in education to the tune of $9 billion over four years on school infrastructure including funding new schools across the state alongside upgrades to public schools by adding additional classrooms. This expenditure is projected to result in 140 new classrooms accommodating 2,500+ students.

TAFE remained a priority with $1.2 billion over four years with a focus on the education of trades essential to the construction of residential housing. 4,800 trades are expected to be fast tracked as a result of that investment.

## Cost-of-Living

This state budget forecast a gradual easing around cost-of-living pressures with the underlying fundamentals all returning to within the RBA's targeted ranges:

- Unemployment: 4%
- Inflation: 2.3%

- Sydney CPI: 3%

The US's trade policies remain uncertain including tariffs which are forecast to have a 'modest direct' impact on the NSW economy resulting in a slightly suppressed forecast for economic growth (2025-26 Budget Statement). Given the US remains unpredictable, NSW Treasury indicated there is a risk of retaliatory tariffs.

Tax and interest rate cuts have led to an increase in consumer spending to-date and stabilised discretionary spending which was in decline and while remaining suppressed relative to historical figures is showing indications of returning to the long-term historical average.

The remaining unknown influence on the State's economy is geopolitical risk and the fallout from conflicts across the Middle East and Eurasia.

## Health Services

This budget allocates $12.4 billion to health infrastructure, with $3.3 billion to be spent in the upcoming year on new hospitals and upgrades. While over $800 million is directed toward essential health services to relieve pressure on the system and improve care delivery statewide meaning faster treatment and rehabilitation for injured workers.

Beyond infrastructure, the government is investing $83 million to strengthen maternity services, $37.5 million to expand mobile dental clinics in regional areas, and $40.1 million to establish Australia's first complex care centre for children with chronic conditions. A further $20.7 million will boost access to specialised therapies.

> *"My job is to create the infrastructure and get rid of the red tape ...."*
>
> \- Premier Chris Minns

## Infrastructure & Transportation

This year's budget focused its infrastructure spend on Western Sydney with $835 million for projects in and around the new international airport and the Aerotropolis region. This forms part of a broader $5.2 billion commitment to road upgrades supporting that development and improving connectivity. Nearly half a billion ($452m) has been announced to increase the number of bus services across greater Sydney and regional NSW with an expansion in the size of the bus fleet.

## Opposition Response

The coalition response to the budget focused on:

- Ongoing debt levels, fiscal management, and putting the state's (AAA) credit rating at risk.
- Insufficient cost-of-living relief for families, including ending the $60 weekly toll cap and school vouchers.
- A lack of engagement around lacklustre productivity growth numbers and engagement with tech, AI or innovation.

Additional commentary by industry groups highlighted the need for more investment in infrastructure (road) maintenance and noted the lack of any new infrastructure projects.

## Concluding Remarks

The 2025–26 NSW State Budget reflects a government focused on fiscal repair and housing affordability with significant mention concerning the impact of the workers' compensation scheme and it's future. There was a slight shift in tone toward forward-looking investment with targeted funding across health, education, and infrastructure, the budget also acknowledges ongoing pressures, including workers' compensation liabilities and weak productivity. Overall, it signals cautious optimism, with reforms aimed at restoring economic momentum.

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