



FINANCIAL AUDIT

20 MAY 2022

COVID-19: response, recovery and impact

NEW SOUTH WALES AUDITOR-GENERAL'S REPORT

THE ROLE OF THE AUDITOR-GENERAL

The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the *Government Sector Audit Act 1983* and the *Local Government Act 1993*.

We conduct financial or 'attest' audits of state public sector and local government entities' financial statements. We also audit the Consolidated State Financial Statements, a consolidation of all state public sector agencies' financial statements.

Financial audits are designed to add credibility to financial statements, enhancing their value to end-users. Also, the existence of such audits provides a constant stimulus to entities to ensure sound financial management.

Following a financial audit the Audit Office issues a variety of reports to entities and reports periodically to Parliament. In combination, these reports give opinions on the truth and fairness of financial statements, and comment on entity internal controls and governance, and compliance with certain laws, regulations and government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits. These examine whether an entity is carrying out its activities effectively and doing so economically and efficiently and in compliance with relevant laws. Audits may cover all or parts of an entity's operations, or consider particular issues across a number of entities.

As well as financial and performance audits, the Auditor-General carries out special reviews, compliance engagements and audits requested under section 27B(3) of the *Government Sector Audit Act 1983*, and section 421E of the *Local Government Act 1993*.

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In accordance with section 52B of the *Government Sector Audit Act 1983*, I present a report titled '**COVID-19: response, recovery and impact**'.

A handwritten signature in black ink, appearing to read 'Margaret Crawford'.

Margaret Crawford

Auditor-General for New South Wales
20 May 2022



RECONCILIATION COMMITMENT STATEMENT

The Audit Office of New South Wales pay our respect and recognise Aboriginal people as the traditional custodians of the land in NSW.

We recognise that Aboriginal people, as custodians, have a spiritual, social and cultural connection with their lands and waters, and have made and continue to make a rich, unique and lasting contribution to the State. We are committed to continue learning about Aboriginal and Torres Strait Islander peoples' history and culture.

We honour and thank the traditional owners of the land on which our office is located, the Gadigal people of the Eora nation, and the traditional owners of the lands on which our staff live and work. We pay our respects to their Elders past and present, and to the next generation of leaders.

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COVID-19 response, recovery and impact

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1. Introduction

1.1 About this report

The COVID-19 pandemic continues to have a significant impact on the people and the public sector of New South Wales. Significant resources have been directed towards health responses and economic recovery. This report draws together the financial impact of COVID-19 on the agencies which were integral to the response across the state government sector, primarily drawn from our financial audits for the year ended 30 June 2021. It does not seek to assess the effectiveness of agency spending or initiatives. However, our 2021–2024 Annual Work Program details the ongoing focus our audits will have on providing assurance on the effectiveness of emergency responses. A series of performance audits have been completed or are in progress and planned.



Source: Auditor-General's 2021–24 Annual Work Program.

1.2 About COVID-19

As defined by the World Health Organisation (WHO), coronavirus disease (COVID-19) is an infectious disease caused by the SARS-CoV-2 virus. The first reported infection was in December 2019. By March 2020, WHO declared COVID-19 as a pandemic, which signals the worldwide spread of this new disease.

Recognising that COVID-19 was not just a public health crisis but one that would impact every sector, WHO called for countries to take a whole-of-government, whole-of-society approach, built around a comprehensive strategy to prevent infections, save lives, and minimize impact. The message to the world was to 'detect, test, treat, isolate, trace, and mobilize their people in the response'.

Scientists and health professionals have come together to accelerate the research and development process, develop new norms and standards to contain the spread of the coronavirus pandemic and help care for those affected. The first mass vaccination program started in early December 2020.

According to the WHO's 'Situation Report - 29 June 2021', cumulative global cases on COVID-19 exceeded 180 million with almost 4 million deaths. More than 2.65 billion doses of COVID-19 vaccines have been administered, mostly in high income countries. WHO's Situation Report - 28 December 2021 reported over 278 million cases and just under 5.4 million deaths globally.

The first cases in Australia were reported in Victoria and NSW in January 2020. The first death was in Western Australia in March 2020. On the 20 March 2020 our international borders were closed to all non-residents and non-citizens. The international borders were re-opened for the fully vaccinated on 1 November 2021.

At the end of June 2021, according to the Australian Government Department of Health data, a total of 30,610 cases of COVID-19 had been reported in Australia, including 910 deaths, with approximately 317 active cases. By the end of December 2021, total cases reported were 395,504 of which 137,752 were active and 2,239 deaths.

Commonwealth National Partnership Agreement on COVID-19

The National Partnership Agreement (the Agreement) was established to provide financial assistance for the additional costs incurred by states and territories health services in responding to the COVID-19 outbreak, including cost involved in diagnosis and treatment of patients with COVID-19 or suspected COVID-19, and efforts to control the spread of COVID-19 in the Australian community.

There are three sets of payments provided by the Commonwealth under this Agreement:

- upfront advance payment of \$100 million to the states on a population share basis. NSW was entitled to receive \$31.9 million
- a 50 per cent contribution for costs incurred by states for the diagnosis and treatment of COVID-19 including suspected cases
- a 50 per cent contribution for costs incurred by states for other COVID-19 activity undertaken by State public health systems for the management of the outbreak.

The Ministry of Health received \$0.9 billion during 2019–20 and \$1.1 billion during 2020–21 from the Commonwealth Government under this Agreement.

Australian Government assistance to State for COVID-19

Over the last two years the State requested assistance from the Australian Government to help deal with its response to the COVID-19 pandemic. These services were provided to the State free of charge under Defence Assistance to the Civilian Community (DACC) agreements, including supporting quarantine, borders, reception and repatriation efforts at Sydney airport and hotels.

If these services would have been purchased if not provided free of charge, the value of such volunteered services is required to be recognised in the financial statements. Agencies receiving these services did not have adequate processes in place to identify and assess the estimated value of such services provided free of charge, and they were not recognised in their financial statements.

1.3 COVID-19 in NSW

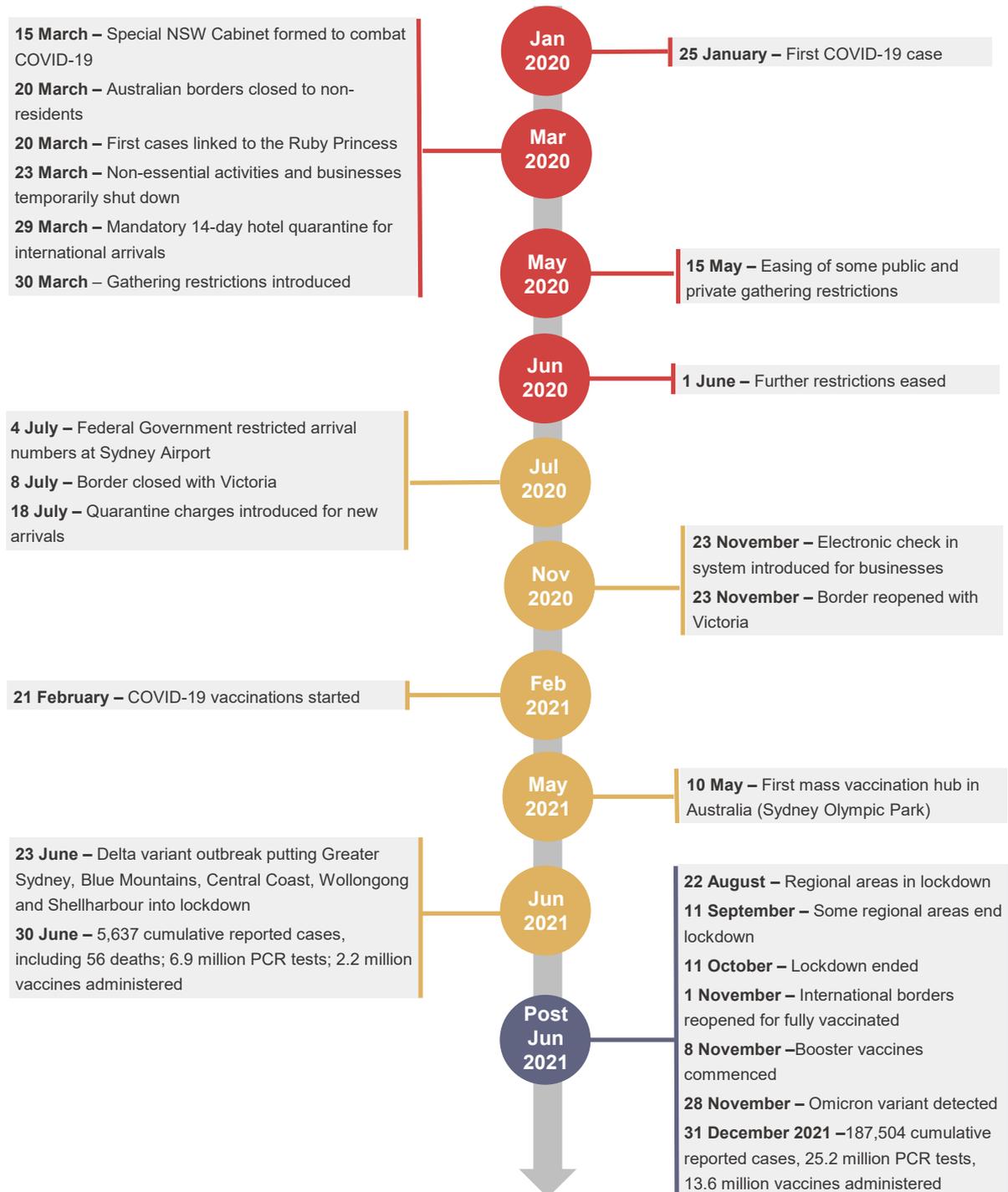
In NSW the first three cases were diagnosed in January 2020. Up to 30 June 2021, a total of 5,637 cases of COVID-19 have been reported in NSW, including 56 deaths. On 30 June 2021 128 people were being treated in hospital and one person was in intensive care. By the end of December 2021, total cases reported were 187,504, including 663 deaths. Of the active cases, 834 were being treated in hospital and 69 of these were in intensive care.

In March 2020, the State Emergency Operations Centre was established, led by NSW Police Force, to allow a co-ordinated response to COVID-19.

The following centres, within the Ministry of Health, also play a role in the response to COVID-19:

- The State Health Emergency Operations Centre leads the state-wide operational response to the COVID-19 pandemic, working with local health districts, speciality networks and other NSW Government organisations.
- The Public Health Emergency Operations Centre leads the public health aspects of the state-wide response to COVID-19, working closely with local health districts, speciality networks and other NSW Health organisations.

Timeline of COVID-19 in NSW

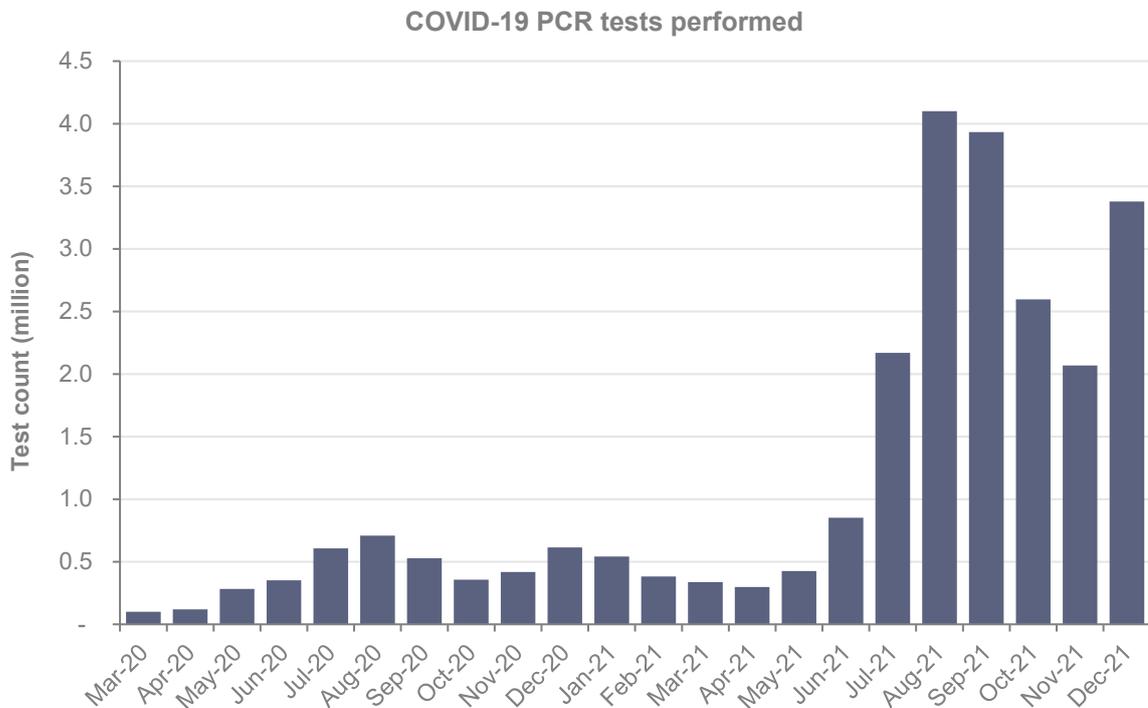


Source: Audit Office of NSW analysis 2022.

Testing

Polymerase chain reaction (PCR) testing for COVID-19 commenced in March 2020 and was expanded in April 2020 to anyone with symptoms. PCR testing clinics were established across NSW. They were operated by NSW Health Pathology and private operators.

The graph below shows the number of COVID-19 PCR tests performed from March 2020 to December 2021 in NSW.



Source: NSW Health (unaudited). Monthly data includes tests reported up to 8pm the previous day.

Up to 31 March 2020, 99,951 COVID-19 PCR tests were carried out in NSW. From then on, an average of 454,969 tests were performed each month till June 2021. By 30 June 2021, NSW had performed 6,924,488 COVID-19 PCR tests. The sharp increase in the number of tests in June 2021 was due to the outbreak of the COVID-19 Delta variant. This continued to result in high testing numbers till October 2021.

In December 2021, the number of PCR tests climbed again due to the outbreak of the COVID-19 Omicron variant. By the end of December 2021, NSW had performed 25.2 million PCR tests.

Under the Commonwealth National Partnership Agreement, NSW received a 50 per cent contribution for hospital costs incurred for the diagnosis and treatment of COVID-19.

Quarantine arrangements

From 29 March 2020 to 1 November 2021, all travellers arriving in Australia, regardless of their vaccination status, were required to quarantine at a designated quarantine facility, typically hotels. Unless granted an exemption to isolate at home, arrivals had to spend a minimum of 14 days in this government-arranged accommodation (up to 24 days where the individual refused to be tested, or where the individual tested positive for COVID-19). Hotel quarantine in NSW was a joint operation led by NSW Police and NSW Health with support from other NSW Government agencies. From 18 July 2020, travellers were charged for their mandatory stay in quarantine. From 1 November 2021, hotel quarantine ceased for fully vaccinated persons. Since 30 April 2022, international travellers are not required to quarantine, regardless of vaccination status.

The principle cross-agency governance body is the Interagency Operational Protocol Governance Committee for Quarantine Services during COVID-19, chaired by the Chief Executive of the Sydney Local Health District. This group is responsible for overseeing the interagency agreements and arrangements under which individuals arriving in NSW are required to quarantine in a designated quarantine hotel or health facility pursuant to the public health order. Underneath this Interagency Governance Committee, sits the NSW Hotel Quarantine Operational Governance Committee during COVID-19, chaired by the Deputy Controller of the State Health Emergency Operations Centre. This group provides a forum for consultation between key stakeholders, including NSW Police and NSW Health, in relation to hotel quarantine

Vaccine rollout

Australia's vaccination program was officially launched on 21 February 2021. The first high risk priority group included quarantine and border workers, frontline healthcare workers and aged and disability care residents.

The Australian COVID-19 Vaccination Policy outlines the approach to providing COVID-19 vaccines in Australia including the roles and responsibilities.

Australian Government	State and territory governments
Selecting and purchasing vaccines	Developing jurisdictional implementation plan
Safely transporting vaccines to storage and administration sites in each State and Territory	Ensuring appropriately qualified and trained workforce to support delivery of its jurisdictional implementation plan
Specifying priority populations	Authorising the selected workforce identified in the Commonwealth and State and Territory implementation plans to possess and administer vaccines
Specifying minimum training requirements for immunisation workforce	Identifying specific vaccination sites in accordance with the Policy and in line with the Commonwealth implementation plan that meet or exceed the minimum requirements
Specifying types of and minimum requirements for vaccination locations;	Ensuring immunisation providers comply with their safety, ethical, and reporting obligations
Setting data collection and reporting requirements	

Up to 30 June 2021 more than 7.6 million doses of vaccine were administered across Australia, including 2.2 million doses in NSW. The table below shows the NSW vaccination rates at 30 June 2021 and 31 December 2021.

Vaccine administered in NSW by	Total vaccine doses administered	
	30 June 2021	31 December 2021
NSW Health	830,684	4,368,796
GP network and other providers	1,355,422	9,279,755
Total	2,186,106	13,648,551
Sixteen and over population receiving two doses (%)	15	93.6

Source: NSW Health (unaudited). Doses administered includes all doses up to 8pm the previous day.

As you would expect as more of the population became eligible for vaccines, the number of doses administered in the six months till 31 December 2021 was 6.3 times the number at 30 June 2021.

At 31 August 2021, the Australian Government Department of Health started reporting vaccination rates by local government area and also captured indigenous status. It was reported 72,437 (45.4 per cent) Aboriginal and Torres Strait Islander people in NSW had received at least one dose and 33,116 (20.8 per cent) were fully vaccinated. At 31 December 2021 these numbers climbed to 137,647 receiving at least one dose (86.2 per cent) and 133,561 (83.7 per cent) receiving two doses.

Our performance audit has commenced to examine the effectiveness and efficiency on NSW Health's COVID-19 vaccine rollout. It will have a particular focus on whether NSW Health:

- set vaccination targets, supported by evidence
- effectively and efficiently managed the rollout of the COVID-19 vaccine
- effectively and efficiently managed demand.

2. Budget and financial impact

Section highlights

- Up to 30 June 2021, \$7.5 billion has been spent by state government agencies for health and economic stimulus.
- Revenue increased for most agencies as falling revenue from providing goods and services was offset by additional funding from appropriations, grants and contributions.
- Expenses increased as most agencies incurred additional costs to manage and respond to the pandemic along with delivering stimulus and support programs.
- Borrowings of \$7.5 billion over the last two years helped to fund the response to COVID-19.

2.1 Summary of key financial impacts

This section of the Report covers three financial periods from the start of COVID-19 in NSW till the 31 December 2021:

- 2019–20 data is mainly covering emergency funding.
- 2020–21 data is mainly drawn from our financial audit work.
- 2021–22 data is unaudited information sourced from NSW Treasury and the State Budget.

Up to the end of June 2021, \$9.7 billion was provided to state government agencies to respond to COVID-19, with \$7.5 billion being spent. Spending on infrastructure is excluded from the Report.

The key areas of spending since the start of COVID-19 in NSW to 30 June 2021 were:

- direct health response measures - \$2.2 billion
- personal protective equipment - \$1.4 billion
- small business grants - \$795 million
- quarantine costs - \$613 million
- cleaning costs - increases in employee expenses and cleaning costs across most clusters
- establish and distribute vaccines, including vaccination hubs - \$71 million.

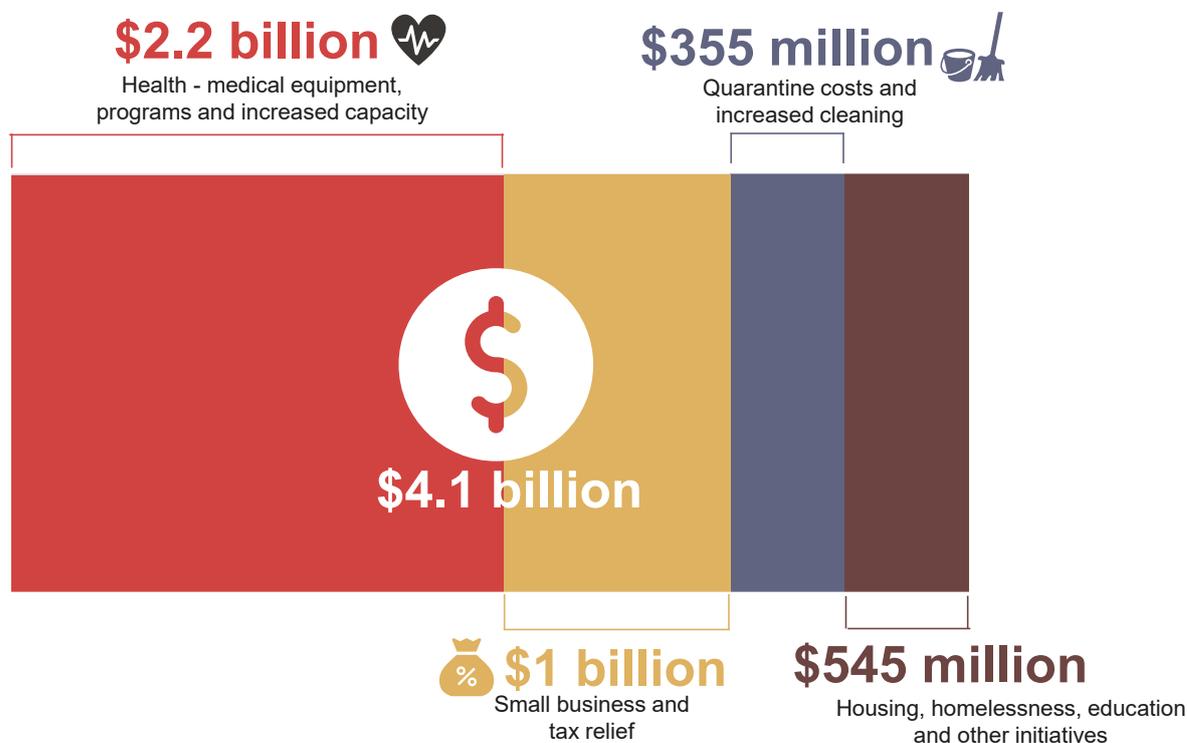
The Ministry of Health received \$1.1 billion from the Australian Government during 2020–21 (\$0.9 billion in 2019–20) to fund 50 per cent of hotel quarantine, cleaning and testing costs.

In addition, the State received \$721 million increase in Commonwealth Specific Purpose Payments for the COVID-19 response during 2020–21 (\$1.1 billion in 2019–20). The main recipient of this was the Ministry of Health.

2.2 Emergency funding response to COVID-19

2019–20 emergency funding of \$4.1 billion to respond to COVID-19, \$3.0 billion spent

In April 2020 the NSW Government announced a \$4.1 billion health and economic stimulus package in response to the COVID-19 pandemic. The following diagram summarises how the funding was allocated.



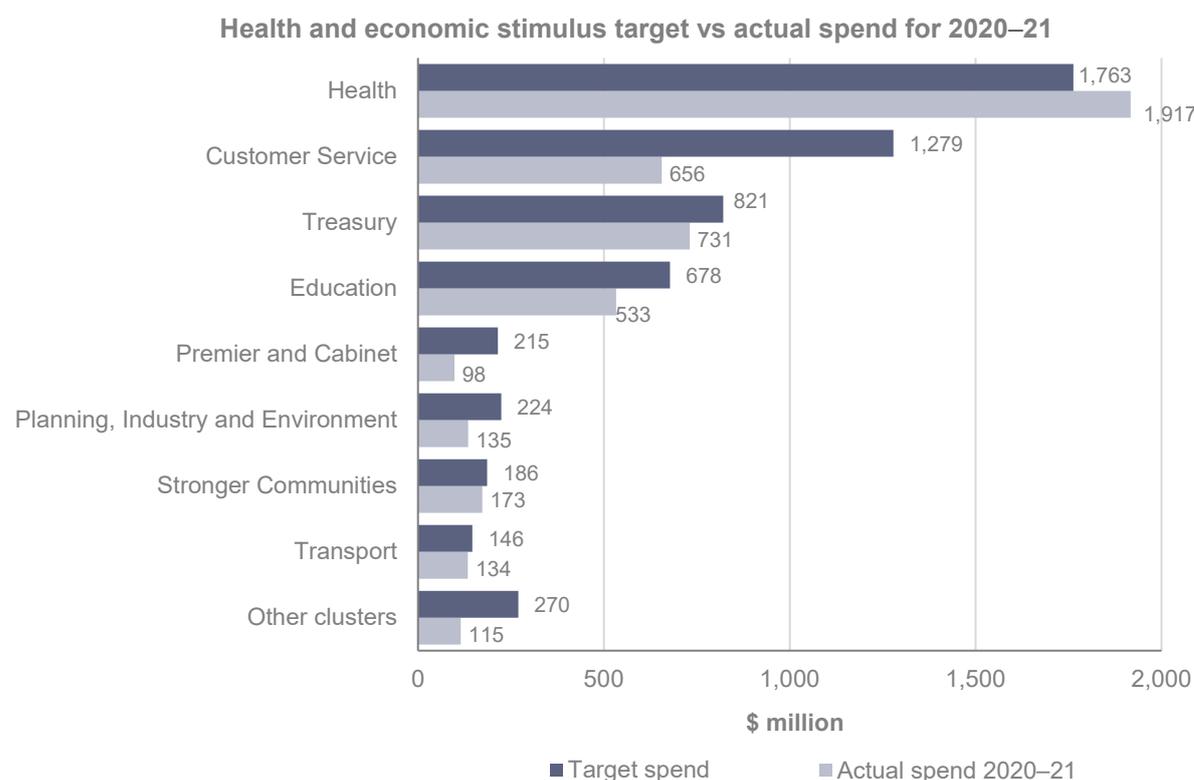
Cluster agencies had spent \$3 billion (just under 75 per cent) of the COVID-19 health and economic stimulus package by 30 June 2020. Unspent funding was primarily related to small business grants, land tax relief and personal protective equipment. Unspent funding was not carried forward to 2020–21.

Up to 30 June 2020, the unexpected nature of the pandemic meant most funding was provided via 'Exigencies of Government' measures under Section 4.13 of the *Government Sector Finance Act 2018* (GSF Act) which allows funding for urgent and unforeseen expenditures such as natural disasters. The ongoing nature of the COVID-19 pandemic meant subsequent funding was provided through appropriations included as part of the 2020–21 State Budget.

2.3 Response and recovery to COVID-19

Health and economic stimulus of \$5.6 billion in 2020–21

In 2020–21, the NSW Government allocated \$5.6 billion to cluster agencies as part of its health and economic stimulus in response to COVID-19. Around \$4.5 billion of this package was spent in 2020–21, leaving \$1.1 billion unspent and carried forward into 2021–22. The graph below shows the spend by cluster during 2020–21 compared to the target spend.



The \$171 million overspend in Health was due to additional costs incurred for public health activities, including:

- \$367 million overspend for response measures covering hotel quarantine, cleaning, telehealth services, testing, and contact tracing
- \$22 million overspend for health worker accommodation and medical research
- \$17.1 million overspend for establishment and distribution of vaccines.

The amounts above were offset by underspends including:

- \$179 million underspend for purchases of personal protection equipment
- \$35 million underspend for private hospitals to reserve intensive care unit capacity and manage elective surgeries
- \$18 million underspend for community based services, expanded virtual services and partnering with third party service providers.

Health funding in response to COVID-19 pandemic

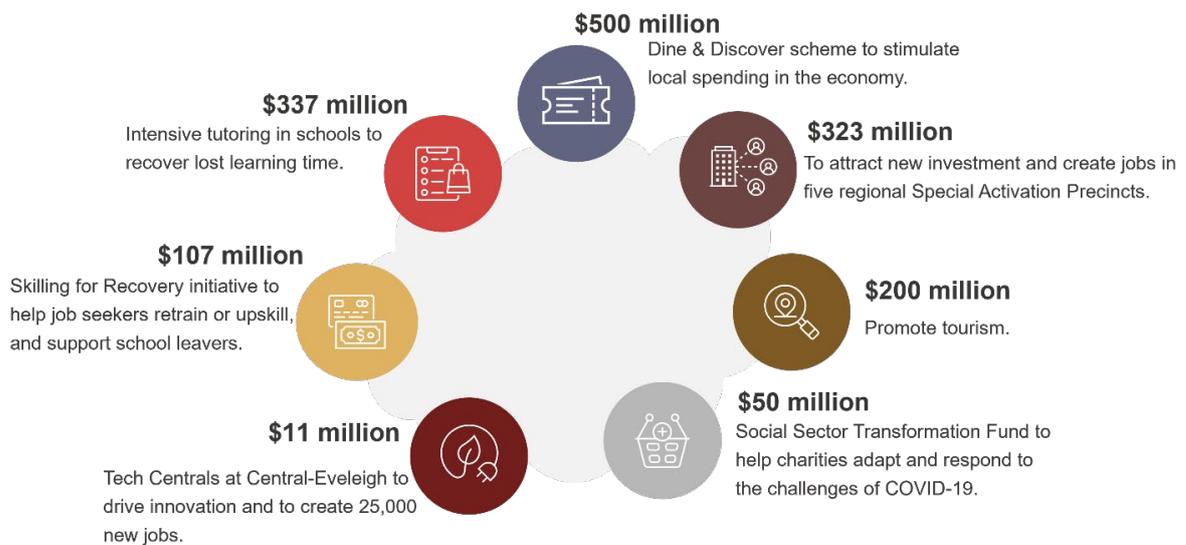
The 2020–21 Budget included investment in public hospitals, ambulance and emergency health services, mental health services, as well as funding for recovery measures and for the continued public health response to the COVID-19 pandemic.

Health measures included (expenditure to 2023–24):

- purchase personal protective equipment (PPE) to protect frontline emergency services workers and the public (over \$1.0 billion)
- increasing intensive care unit capacity, undertake additional COVID-19 testing and purchase additional medical equipment (\$700 million)
- mental health support measures (\$169 million)
- provide technology-enabled workforce support options (\$50 million).

2020–21 Budget included new stimulus measures

The State's 2020–21 Budget included new stimulus measures aimed to kick-start the economy and create jobs. The following diagram summarises how the funding was allocated.



Source: NSW Audit Office analysis of 2020–21 State Budget.

2021–22 Budget continues with health responses and economic stimulus

The State's 2021–22 Budget has continued to respond to and recover from COVID-19. There is a focus on investment and other initiatives to create jobs as well as packages to support the vulnerable. The funding includes:

- \$340 million for personal protective equipment and associated storage costs to keep frontline health workers safe
- \$261 million to support the COVID-19 vaccination rollout
- \$200 million to support COVID-19 pop-up clinics, testing and contact tracing
- \$145 million to provide medical care to returning travellers in quarantine
- \$50 million for a new Dine & Discover voucher to be used on Fridays in the CBD, to increase activity in the CBD and support dining and entertainment businesses
- \$20 million to provide 200,000 Sydney CBD accommodation vouchers worth \$100 each.

The last two years budgets identified the global pandemic as continuing to add uncertainty to the economic outlook and as a risk that could postpone, if not derail, the recovery. A few days after the 2021–22 Budget was released, the risk became reality as the Delta variant of COVID-19 spread across the State leading to Sydney entering lockdown with the rest of NSW following.

In October 2021, the Sydney CBD accommodation vouchers were expanded to be Stay NSW accommodation vouchers as part of the government's post-Delta Economic Recovery Strategy.

The table below shows the health and economic stimulus appropriated to clusters in the 2021–22 Budget and unaudited actual spending for the first six months of the financial year.

Clusters	2021–22 Budget (\$m)	Unaudited spending 1 July to 31 December 2021 ^{*^} (\$m)
Health	1,148	1,971
Customer Service	596	169
Treasury	19	7
Education	449	322
Premier and Cabinet	284	15
Planning and Environment	151	95
Stronger Communities	32	25
Transport	12	4
Other clusters	16	13
Cross-cluster [#]	809	463
Total	3,516	3,084

* Excludes additional budget and actual spending to respond to the Delta outbreak.

[^] 2021–22 actual spent from 1 July to 31 December is unaudited, does not consider project spend cycles and does not include funding allocated as part of the NSW Government's Economic Recovery Strategy released in October 2021.

[#] Includes amounts for hotel quarantine and increased cleaning of public infrastructure.

In addition to the State funding, the Ministry of Health continues to receive funding from the Australian Government, so its spending remains higher than the budget. Spending on some programs is slower than expected due to lockdowns and border closures. For example, the Premier and Cabinet's Job Plus program relied on businesses relocating to NSW due to incentives. The first payments are now expected to be in August 2022 when the applicants satisfy the criteria.

Post Budget response to the Omicron and Delta variants

Since the State's 2021–22 Budget was published, more than \$13 billion of supplementary support has been provided in response to the Delta outbreak. A significant portion is being administered by the Customer Service cluster as outlined in the table below.

Program	Supplementary support 1 July 2021 to 30 June 2022 (\$m)	Unaudited spending 1 July to 31 December 2021 (\$m)
Job Saver [*]	8,569	7,185
Business grants	2,300	2,350
Micro-business grants	670	766
Land tax relief ^{**}	475	192
Other ^{**}	752	114
Total spending	12,766	10,607

* The Job Saver program allocation includes Commonwealth Supplementary support of up to \$3.5 billion with \$3.3 billion spent to 31 December 2021.

** Spending is driven by timing of uptake by eligible persons.

This Delta outbreak placed pressure on the State Budget with a projected deficit of \$19.5 billion for 2021–22.

On 30 January 2022 the NSW Government announced a \$1 billion financial support package for businesses, workers and the performing arts hardest hit by the Omicron wave. This includes the following programs:

- small business support program
- small business fees and charges rebate
- commercial landlord hardship grant
- performing arts relaunch package.

2.4 Recording and monitoring COVID-19 spend

Reliable and accurate data on expenditure of funding is important to citizens as it helps to drive accountability and transparency.

NSW Treasury did not issue guidance on eligible COVID-19 expenditure or on how to record and monitor spending

NSW Treasury allocated COVID-19 funding with the intention it be used for specific programs and proper purposes. However no specific guidance was issued to detail eligible expenditure or how agencies should identify COVID-19 spending in finance systems. Also, the mechanisms for reporting and monitoring of expenditure were left for agencies to determine.

NSW Treasury advised they monitor overall agency budget performance through established monthly and year-end reporting requirements, and also monitor gross expenditure and achievement of individual response, recovery and stimulus programs.

Lead cluster agencies advised:

- spending is recorded and tracked in financial systems using separate cost centres, project codes or internal orders
- COVID-19 spending is controlled in the same way as all other spending
- transactions were approved by delegated officers in line with the delegation of authority
- COVID-19 spending is reviewed each month.

Monthly review processes implemented by lead cluster agencies included review of system generated reports and spreadsheets such as:

- forecast reports
- budgeted against actual spending
- cost centre or internal order data extracts
- reporting of program spending against funding
- high level cluster finance reports.

Ministry of Health implemented additional financial controls

The Ministry of Health requires all health entities to submit monthly COVID-19 expense reports which are reviewed by a finance manager. Every six months, the Director of Finance in each health entity reviews and approves these expense reports. The Ministry of Health also engaged an independent party to perform testing to ensure health entities expense reports were accurately capturing COVID-19 related expenses.

2.5 Financial impacts from COVID-19

COVID-19 pandemic impacted financial results in 2020–21

The COVID-19 pandemic significantly impacted the financial performance and position of state government agencies. Lockdowns and restrictions led to lower revenue from providing goods and services. Agencies directly responsible for responding to the COVID-19 pandemic saw higher expenses. Inventory and receivables balances were impaired, borrowings and annual leave liabilities grew. The largest impacts were seen in the Transport, Health, and Education clusters, which directly deliver services to the public.

Decreases in revenue from providing goods and services were offset by increases in appropriations, grants and contributions, as state government agencies received health and stimulus funding in response to the pandemic. The Treasury, Education and Health agencies transferred funds to other NSW Government agencies and affiliated agencies, while the Customer Service and the Premier and Cabinet clusters led delivery of programs for businesses and individuals. Further details of the transferred funds and programs are outlined below.

Most state government agencies had expense growth, due to additional operating requirements to manage and respond to the pandemic along with implementing new or expanded stimulus programs and initiatives. Employee-related and other operating expenses increased as agencies engaged additional staff and purchased additional materials or services, to manage the pandemic and administer new programs. Financial information for specific clusters impacted by COVID-19 is detailed below.

Health

Health programs implemented or expanded due to COVID-19 are detailed in the table below.

Program	Description	Appropriations and expenditure (2020–21)*
Health stimulus	Support direct COVID-19 response measures, such as clinics, quarantine arrangements, increased pathology testing and contact tracing, as well as workforce costs for security and allied health, and medical research.	Appropriations: \$500m Target spending: \$834m Actual expenditure: \$1.22b
Personal protective equipment	Additional personal protective equipment for healthcare workers.	Appropriations: \$385m Target spending: \$433m Actual expenditure: \$254m
Elective surgeries	Accelerated delivery of elective surgeries, partly through partnering with private hospitals to preserve capacity in public health.	Appropriations: \$459m Target spending: \$339m Actual expenditure: \$303m
Mental health package	Mental health services during the pandemic, including community-based services, expanded virtual services, and partnering with third party service providers.	Appropriations: \$67m Target spending: \$69m Actual expenditure: \$51m
Vaccine distribution	Establish and distribute vaccines, including vaccination hubs.	Appropriations: \$54m Target spending: \$54m Actual expenditure: \$71m
Other	Various other health programs were expanded.	Appropriations: \$34m Target spending: \$34m Actual expenditure: \$15m

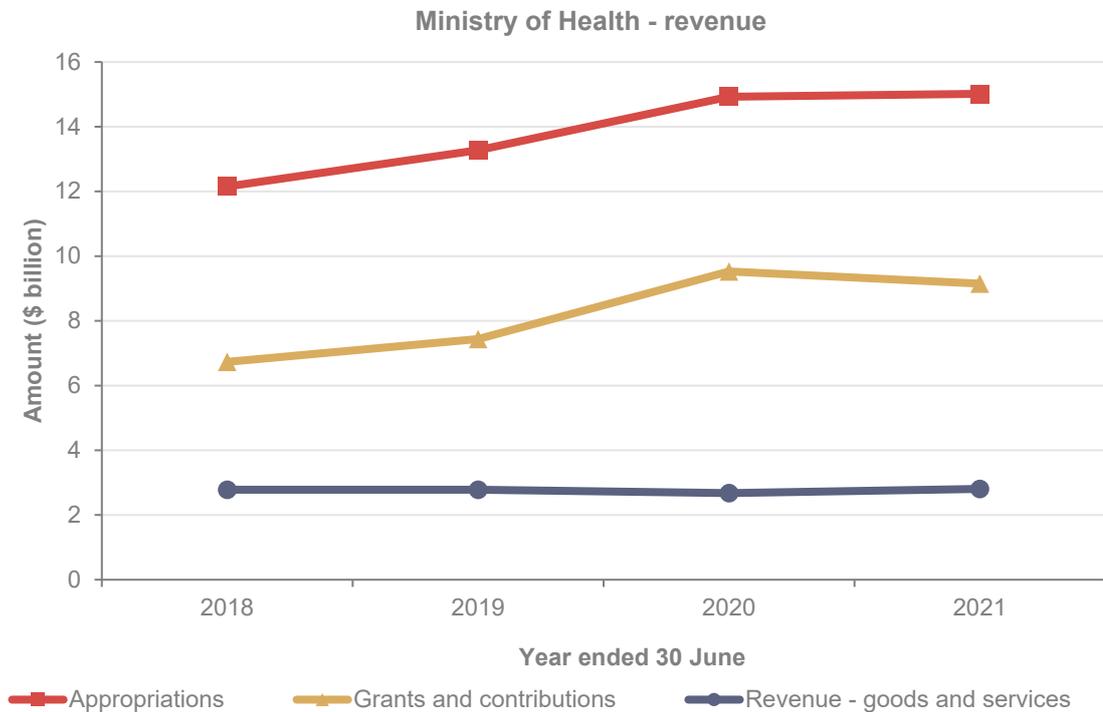
* Actual expenditure includes amounts funded by Australian Government.

The target and actual spending for health stimulus is above the appropriated amount due to funding received from the Australian Government including \$1.1 billion to fund 50 per cent of hotel quarantine, cleaning and testing costs.

The Australian Government imposed restrictions on health systems in 2020 due to the surge in COVID-19 cases. This included the suspension of non-urgent and most semi-urgent elective surgeries from late March to mid-May 2020. The 2020–21 NSW Budget included \$459 million to fast-track elective surgeries, with a focus on surgeries delayed by COVID-19. This led to a 15 per cent reduction in the number of people on elective surgery waiting lists for the June 2021 quarter compared to the previous year and a reduction in overdue surgeries from 10,500 to around 2,100. However, this improvement has not been sustained. Minister of Health advised this was due to the subsequent Delta and Omicron outbreaks in the 2021–22 financial year requiring further deferral of non-urgent elective surgeries to support the pandemic response and ensure sufficient hospital capacity.

Health received significant funding through appropriations and grants

The graph below shows the consolidated revenue over the past four years for the Ministry of Health.



Source: Audited Financial Statements published by the Ministry of Health.

The Ministry of Health received funding from both the Australian and State governments in response to the COVID-19 pandemic. Appropriations from the State Government increased from \$13.3 billion in 2018–19 to \$14.9 billion in 2019–20 and \$15.0 billion in 2020–21. Income from grants and contributions increased from \$7.4 billion in 2018–19 to \$9.5 billion in 2019–20 and fell to \$9.1 billion in 2020–21.

Appropriations were made for both recurrent funding requirements and to support additional demand for health services and additional operating costs arising from COVID-19. This included medical and surgical supplies, personal protective equipment, ventilators, fit-out of additional ambulances and increasing capacity of pathology and hospitals.

Health expenses increased by \$2.3 billion over the last two years

Ministry of Health's expenses increased from \$23.5 billion in 2018–19 to \$24.8 billion in 2019–20 and \$25.8 billion in 2020–21.

Employee-related expenses increased from \$14.4 billion in 2018–19 to \$15.0 billion in 2019–20, and \$15.1 billion in 2020–21. The Health cluster employed an additional 4,893 full time staff in 2020–21 (2,763 in 2019–20) and incurred an extra \$28.0 million in overtime work mainly in response to COVID-19.

Operating expenses increased from \$6.7 billion in 2018–19 to \$7.1 billion in 2019–20, and \$7.8 billion in 2020–21. Increases were mainly due to responding to the pandemic, including the purchase of additional medical and surgical supplies including personal protective equipment.

Grants and subsidies increased from \$1.4 billion in 2018–19 to \$1.5 billion in 2019–20, and \$1.7 billion in 2020–21. This increase was mainly due to funding transferred to affiliated and controlled health organisations for continued COVID-19 support including providing personal protective equipment free of charge.

Private hospital capacity and viability payments refunded

Expenses for outsourced patient care increased during the pandemic, mainly due to movement of patients to private healthcare providers to free up capacity in public hospitals and delivery of elective surgeries through the private healthcare system. The Australian Government provided funding of \$331 million in 2019–20 to NSW under the National Partnership Agreement to support additional hospital costs, public health measures and private hospital sector viability payments to ensure sufficient hospital capacity to respond to the ongoing pandemic.

The private hospital sector in NSW received \$147 million over the two years till 30 June 2021 and \$177 million was returned. These overpayments were the result of the financial impact on the private hospitals being shorter and less severe than anticipated.

COVID-19 inventory impaired and written off

At 1 July 2020, HealthShare NSW held \$731 million in inventory. During 2020–21, \$656 million of COVID-19 inventory was procured, of which \$220 million was consumed and \$776 million, was impaired or written off.

The \$559 million impairment was an estimate of how much inventory would expire before being used based on anticipated future usage and the inventory items' expiry dates. Due to the significant increase in usage of PPE arising from the Delta outbreak in June 2021, and issues with the verification of expiry dates of inventory held in stock, there was a high degree of uncertainty over the estimate.

The write offs against the COVID-19 inventory stockpile comprised of:

- \$159 million for inventories not meeting regulatory standards. Protective masks were supplied by an overseas vendor which failed the Therapeutic Goods Administration (TGA) post market review
- \$37.6 million for expired inventories mainly relating to protective equipment including masks, gloves, hand sanitisers, face shields, isolation gowns and swabs
- \$20.7 million for inventories assessed as faulty, primarily ventilators acquired from overseas which were not performing in accordance with the supplier's operation manual.

First-time recognition of COVID-19 vaccine inventory

Health began administering COVID-19 vaccinations to priority groups, such as staff from healthcare, emergency services, quarantine, border workers, and their households, in February 2021, and to the public via mass vaccination hubs from May 2021. Inventories of the Pfizer and Astra-Zeneca vaccines were recognised at \$22.3 million and \$17.1 million, respectively, at the end of the 2021 financial year. The supply of vaccines will increase in 2021–22 and future years, both in terms of brands and quantum.

\$107 million in hotel quarantine receivables with a significant portion not recoverable

From 18 July 2020, returning travellers are being charged a fixed fee for staying in hotel quarantine. During 2020–21, Sydney Local Health District (Sydney LHD) reported \$214 million in revenues associated with the hotel quarantine program. Of this, \$107 million remained outstanding at 30 June 2021, and was recognised as a receivable. The Sydney LHD assessed \$28.2 million as unlikely to be recovered. Our audit concluded this amount was understated.

Agile health services to meet new demand and modify service delivery

A new digital platform known as myVirtualCare was implemented in September 2020 for more accessible healthcare. myVirtualCare is a custom web-based videoconferencing platform aimed at helping patients, healthcare providers and carers in accessing and managing care. The platform provides patients with access to clinical and social care providers via a web link.

In February 2022, NSW Health released the NSW Virtual Care Strategy 2021–2026, which aims to support a co-ordinated, consistent and sustainable approach to scale virtual care across NSW. A performance audit is planned to examine the use of virtual care services, where clinically appropriate, and NSW Health’s focus on sustainably embedding the virtual care model

The pandemic also required close contact tracers. Health Education and Training Institute (HETI) designed and delivered a rolling program of online training for close contact tracers in readiness for infection rate surges. Recordings of the virtual training were made available to local health districts.

Annual leave balances continued to rise during the pandemic

The operational demands in managing the COVID-19 pandemic, presented new challenges in managing excessive leave balances. Prior to the emergence of COVID-19, the Health cluster was actively reducing the percentage of employees with excess leave balances. With COVID-19 pandemic driving operational demand there was less capacity for employees to take leave. This led to over 35 per cent of employees having excess leave balances at 30 June 2020 and 2021.

The table below shows the increase in annual leave provision over the past three years and percentage of employees with balances over 30 days.

NSW Health annual leave balance and excess leave

As at 30 June	2019	2020	2021
Annual leave balance (\$'000)	1,799,566	1,974,856	2,192,040
Employee annual leave balances exceeding 30 days (%)	37	35	39

Source: Audited NSW Health.

Our report on [Health 2021](#) made the following recommendations related to COVID-19:

- hotel quarantine fees - develop a tailored assessment methodology to estimate recoverability of fees and work with Revenue NSW to develop a tailored debt recovery strategy
- COVID-19 inventories - review the current stocktaking and impairment methodology to incorporate validation of data key to the management of COVID-19 related PPE
- COVID-19 vaccines - work with the Commonwealth to obtain primary price information on COVID-19 vaccines.

Customer Service

Major programs administered or managed by the Customer Service cluster include:

Program	Description	Appropriations and expenditure (2020–21)
NSW Dine & Discover vouchers*	<p>In March 2021, the Dine & Discover NSW program commenced. Every NSW resident aged 18 and over was eligible for four \$25 vouchers to spend in participating businesses. The vouchers, made available through the Service NSW App, allowed residents to access:</p> <ul style="list-style-type: none"> Dine NSW Vouchers to be used for dining at restaurants, cafés, bars, wineries, pubs and clubs or for takeaway meals Discover NSW Vouchers to be used for entertainment and recreation, including cultural institutions, live music, and arts venues. 	<p>Appropriations: \$500m ** Target spending: \$500m Actual expenditure: \$240m</p>
Digital Restart Fund	<p>The fund aims to support digital, information and communications technology initiatives across government sectors such as:</p> <ul style="list-style-type: none"> better integration of digital technology in the infrastructure and curriculum of regional schools enhancing efficiency and productivity of courts and tribunals through new digital technologies improving online customer experience of Revenue NSW with better integration of services for taxes and fines reducing assessment times in E-Planning with the implementation of the next phase of an end-to-end digital planning service. 	<p>Appropriations: \$500m Target spending: \$320m Actual expenditure: \$126m***</p>
Land tax concessions	<p>Commencing in 2020, commercial and residential landowners who reduced tenants' rent were provided land tax concessions.</p>	<p>Appropriations: \$nil Target concessions: \$200m Actual concessions: \$156m</p>
Digital voucher rebate for businesses *	<p>To provide \$1,500 vouchers to cover NSW Government fees and costs to small businesses.</p>	<p>Appropriations of \$142m Target spending: \$142m Actual expenditure: \$14m</p>
Temporary staff for Service NSW	<p>Due to increased customer demand and changing customer needs, an additional 1,000 staff were recruited to expand capacity and enable 24/7 access to non-health related COVID support and advice.</p>	<p>Appropriations of \$103m Target spending: \$87m Actual expenditure: \$86m</p>

* Funding for this program was included in appropriations made to Treasury, and transferred to Service NSW via the Department, for delivery.

** Of \$500m in appropriations outlined in the Outcomes Statement in the 2020–21 Budget, \$400m in administered funding was received by the Department of Customer Service in 2020–21.

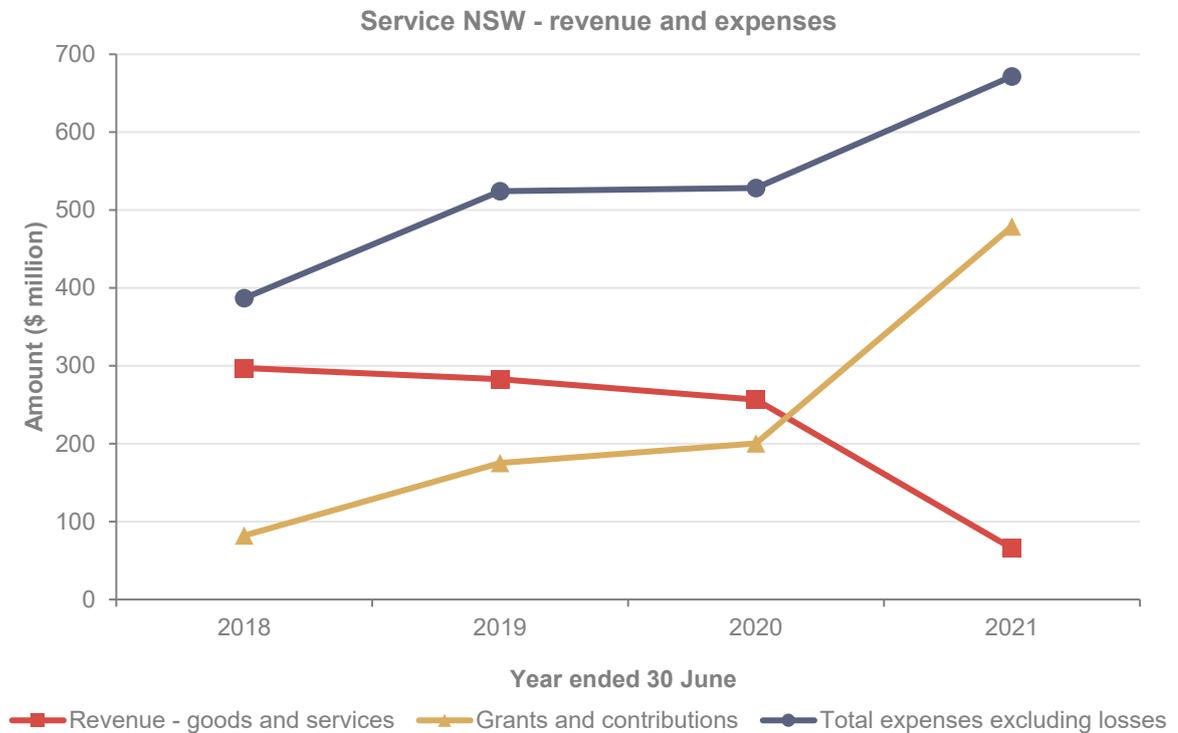
*** Spending was impacted by resource constraints and Machinery of Government Changes.

The Department of Customer Services received exigency funding of \$713 million in 2020–21 (\$319 million in 2019–20) and these amounts were primarily transferred to Service NSW and Revenue NSW to fund programs they administer.

Due to the NSW lockdowns the Dine & Discover vouchers were not able to be used by 30 June 2021 so actual expenditure was less than the budgeted amount. The date to use the vouchers was extended to 30 June 2022. In addition, the NSW Government provided an additional two vouchers for each NSW eligible resident from December 2021, which are available until 30 June 2022. Service NSW administers this program.

Service NSW delivered several COVID-19 response programs

Within the Customer Service cluster, Service NSW was the lead agency delivering several programs to support individuals and businesses through the pandemic. The graph below shows revenue and expenses over the past four years for Service NSW.



Source: Audited Financial Statements published by Service NSW.

Service NSW's income from grants and contributions increased from \$175 million in 2018–19 to \$200 million in 2019–20, and to \$479 million in 2020–21. This increased funding was due to a change in Service NSW's funding model whereby revenue it previously received from fee for service arrangements was replaced with grant funding. In addition, there was funding to deliver COVID-19 response programs.

Service NSW's revenue from providing goods and services decreased from \$283 million in 2018–19 to \$257 million in 2019–20, and \$65.7 million in 2020–21. Reductions in revenue were mostly due to the change in the funding model mentioned above. The COVID-19 lockdowns also contributed to less fee for service revenue in 2019–20 as some service centres had reduced operating hours.

Employee-related expenses increased from \$250 million in 2018–19 to \$268 million in 2019–20, and \$360 million in 2020–21. Service NSW recruited additional staff late in 2020 to assist with COVID-19, cleaning and administering bushfire and flood activities. There were additional staff hired in 2021 to undertake COVID-19 initiatives. Total number of employees increased by 719 to 4,154 employees in 2021 compared to 2020.

Service NSW also administered programs on behalf of the Crown so not all the funding and expenditure are recognised in its financial statements, they are disclosed as administered items. Other major programs delivered in conjunction with other clusters, such as Treasury, are detailed in other sections of this report.

Other cluster revenue decreased during the pandemic

The following license fees were waived in the Customer Service cluster:

- Liquor and Gaming NSW waived liquor licence fees for businesses in the hospitality and entertainment industries, resulting in \$26.4 million (2020: \$7 million) loss of revenue.
- NSW Fair Trading waived building and business licences resulting in approximately \$31.9 million (2020: \$10.6 million) loss in revenue.
- Safe Work NSW waived certain licence fees resulting in approximately \$4.7 million (2020: \$1.4 million) loss in revenue.

Expenses fell in 2019–20, but increased in 2020–21

The Department of Customer Service's expenses fell from \$2.0 billion in 2018–19 to \$1.6 billion in 2019–20 but increased to \$1.9 billion in 2020–21. The main drivers for these fluctuations were COVID-19, Machinery of Government changes and restructuring of cluster agencies. Movements relating to COVID included increase in grants and subsidies from the Department of Customer Service to Service NSW.

Treasury

The Treasury appropriations increased from \$116 million in 2018–19 to \$962 million in 2019–20 and \$1.1 billion in 2020–21.

This funding related to several COVID-19 related programs and stimulus administered or delivered by Treasury or transferred through to other agencies, including:

Program	Description	Appropriations and expenditure (2020–21)
Quarantine for incoming international travellers	Support for costs of 14-day hotel quarantine for incoming international passengers, covering accommodation and security.	Appropriations: \$524m Target spending: \$524m Actual expenditure: \$532m
Small business recovery grants	\$3,000 for eligible small businesses or not-for-profit organisations where turnover declined due to COVID-19.	Appropriations: \$150m * Actual expenditure: \$225m
Southern border small business support grant	For grant payments to small businesses along the NSW-Victorian border experiencing revenue loss because of border closures.	Appropriations of \$45m Target spending: \$45m Actual expenditure: \$15.3m
CBD revitalisation and extension	Boost economic activity in the CBD by supporting projects and events, including promotion of outdoor and cultural events, live music, and other support for arts and culture. Grants ranging from \$250,000 to \$1 million were offered to eligible councils, businesses, and cultural institutions. Individual projects were administered or delivered in conjunction with other agencies in the Premier and Cabinet, Transport, and other clusters.	Appropriations: \$58m Target spending: \$58m Actual expenditure: \$36m

Program	Description	Appropriations and expenditure (2020–21)
COVID-19 stimulus support for international students	Provide crisis accommodation for international students in hardship, supporting housing for 5,970 students for up to 20 weeks.	Appropriations: \$20m Target spending: \$20m Actual expenditure: \$18m

* Appropriations of \$750m for small business support grants in 2019–20 (\$533m spent).

Treasury's expenses increased substantially over the course of the pandemic

Treasury's expenses increased from \$138 million in 2018–19 to \$1.07 billion in 2019–20 and \$1.13 billion in 2020–21.

Employee-related expenses increased from \$85 million in 2018–19 to \$134.2 million in 2019–20 and \$133.7 million in 2020–21. This was partially due to additional staff engaged to deliver COVID-related programs.

Treasury's operating expenses increased from \$46 million in 2018–19 to \$163 million in 2019–20, and again to \$693 million in 2020–21. The main reason was due to accommodation and security costs associated with the hotel quarantine program (\$82.6 million in 2019–20, increasing to \$532 million in 2020–21). Treasury recouped \$77 million of these costs from other states in 2021.

Treasury's grants and subsidies increased from \$263,000 in 2018–19 to \$755 million in 2019–20, but decreased to \$282 million in 2020–21, of which \$554 million in 2019–20 and \$129 million in 2020–21 related to COVID-19 programs. The decrease between the 2019–20 and 2020–21 financial years was primarily due to a change in the way Treasury recognised funding transferred to other Departments in 2020–21, (especially the Dine and Discover and Digital Voucher schemes administered by the Customer Service cluster), and hotel quarantine costs.

Support for businesses impacted by reduced demand, changed service delivery or closure due to public health orders

Small business support packages aimed to ease the financial pressure on small business affected by the COVID-19 pandemic by delivering immediate cash-flow. An additional second round of funding for the \$3,000 small business recovery grant introduced stricter eligibility requirements. Businesses had to be in a highly impacted industry and have had a significant decline in turnover. Grants were administered by Service NSW.

In November 2021, Service NSW and NSW Police announced Strike Force Sainsbery to investigate fraudulent applications for COVID-19 business support payments. At that time, Service NSW had uncovered \$15.9 million in fraudulent applications and stopped the payment of another \$4.6 million worth of grants.

Our 2021 report, [Grants administration for disaster relief](#), found NSW Treasury met urgent timeframes to design the grants and Service NSW made timely payments in line with the grants' objectives and eligibility criteria.

Borrowings of \$4.8 billion to fund the response to COVID-19

Borrowings of \$4.8 billion (2020: \$2.7 billion) from bonds issued through New South Wales Treasury Corporation helped to fund the NSW Government COVID-19 stimulus response in 2020–21. The proceeds from these bond issues were provided as loans largely to Treasury as it manages borrowings on behalf of the State and was responsible for allocating stimulus funding to cluster agencies.

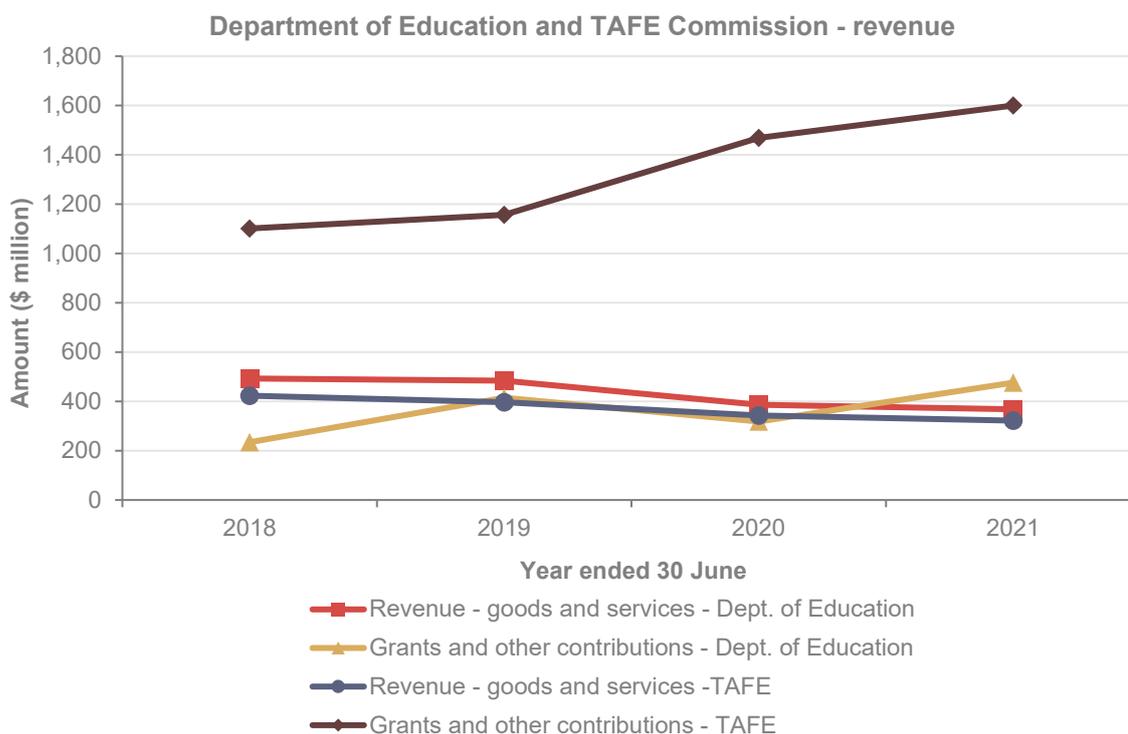
Education

The Department of Education's appropriations increased from \$14.5 billion in 2018–19 to \$18.2 billion in 2019–20 and \$18.9 billion in 2020–21. Education delivered several COVID-related programs and stimulus from these increased appropriations, including:

Program	Description	Appropriations and expenditure (2020–21)
Intensive learning support program	For primary, secondary and specialist school students most in need to reduce the impact of COVID on learning.	Appropriations: \$337m Target spending: \$178m Actual expenditure: \$132m
Skilling for Recovery	To provide support for job-seekers and school leavers to (re)train, providing free training places, phone concierge services and industry placement pathways, delivered in partnership with the Commonwealth.	Appropriations of \$107m Target spending: \$107m Actual expenditure: \$86m
Fee-free early education	A temporary measure to support families by providing fee relief for preschool education during the pandemic.	Appropriations: \$120m Target spending: \$101.5m Actual expenditure: \$87.5m

Education revenue lower than budgeted

The graph below shows revenue over the past four years for the Department of Education and the Technical and Further Education Commission (TAFE Commission).



Source: Audited financial statements.

The Department of Education's revenue from providing goods and services decreased from \$484 million in 2018–19 to \$386 million in 2019–20 and \$368 million in 2020–21. The drop in revenue was mainly due to restricted activities through the pandemic period, including excursions, subject contributions, school sport and extra-curricular activities.

The TAFE Commission's revenue from providing goods and services decreased from \$397 million in 2018–19 to \$343 million in 2019–20 and \$322 million in 2020–21. The drop in revenue was mainly due to delivery of courses being paused or delayed throughout the pandemic.

The Department of Education's income from grants and contributions fell from \$414 million in 2018–19 to \$318 million in 2019–20, before increasing to \$476 million in 2020–21. The decrease in 2019–20 was mainly due to a decrease in school-generated contributions, and a decrease in grants and contributions received from other public sector agencies for education services provided. Additional grants and contributions received in 2020–21 were mainly due to contributed assets and grant funding, mainly from additional Restart NSW funding.

The TAFE Commission's income from grants and contributions increased from \$1.2 billion in 2018–19 to \$1.5 billion in 2019–20, and further increased to \$1.6 billion in 2020–21. This was mainly due to increases in asset contributions and grants received from NSW public sector agencies for services provided, offsetting decreases in operational based funding.

Continuity of learning and operation of education and childcare services

With an estimated two to four months of student learning loss from the transition to home learning, the 2021 COVID-19 intensive learning support program was implemented to assist students who particularly suffered across primary, secondary and specialist schools. Funding of \$337 million was provided to employ additional educators to deliver small group tuition for students.

Our report on the [COVID Intensive Learning Support Program](#) concluded the Program is being effectively implemented.

In addition, for early childhood education, time-limited payments of \$47 million were made to:

- NSW councils for eligible early childhood education and care services to support their continued operation and viability through the COVID-19 pandemic
- fund community preschools and mobile preschools on contract with the Department. This supported staff retention and provided fee-free preschool to eligible children. The program aims to provide 600 hours of fee-free preschool for eligible children in the two years before school.

Significant increase in employee expenses and cleaning costs

Employee related-expenses for the Department of Education increased by \$611 million in 2020–21.

The Education cluster increased staff numbers by 2,418 full time equivalents in 2020–21 (4,866 in 2019–20), including an additional 175 full-time equivalents employed by TAFE (decrease of 113 in 2019–20). The Department of Education had planned to hire additional teaching staff in response to growth in student enrolments prior to the pandemic. The increase in staff numbers is not necessarily in response to COVID-19, though additional staffing was required for stimulus programs identified above.

The Department of Education's cleaning costs increased by \$146 million (2020–21: \$479 million; 2019–20: \$333 million). Increases were partially offset by school operating expenses decreasing by \$48 million due to reduced extra curriculum and excursion activities (2020–21: \$384 million; 2019–20: \$433 million). Education travelling and sustenance expenses also decreased by \$18 million due to travel restrictions (2020–21: \$6.8m; 2019–20: \$24.8m).

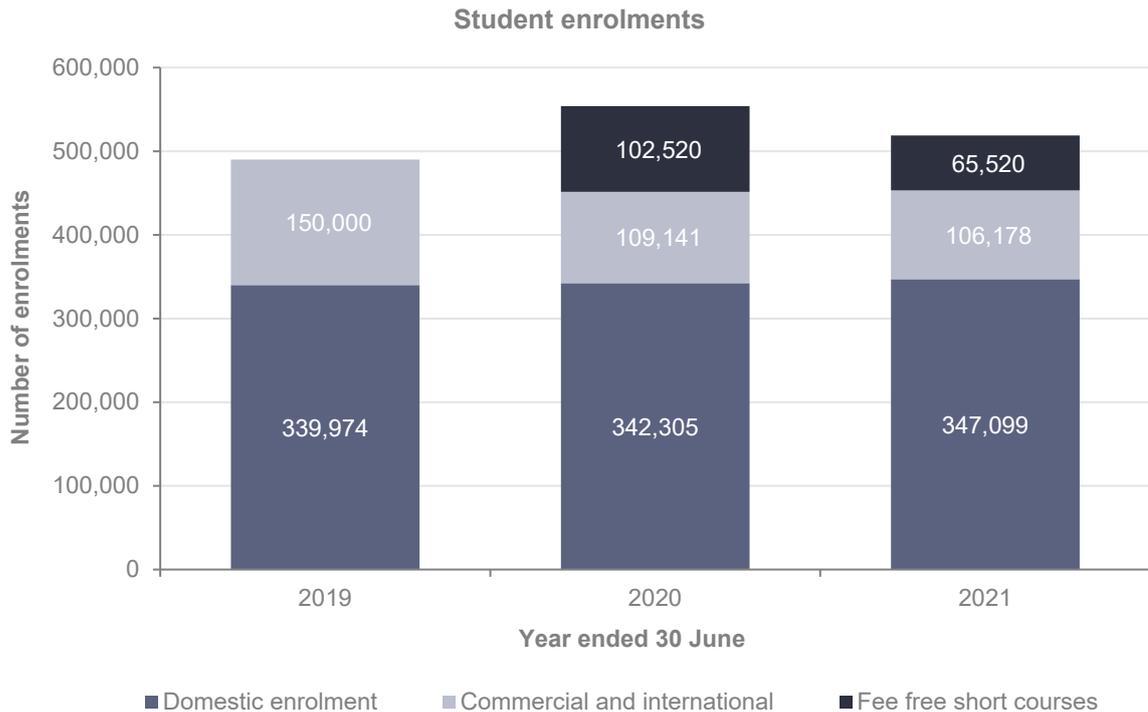
The TAFE Commission's operating expenses decreased from \$433 million in 2018–19 to \$418 million in 2019–20, and again to \$398 million in 2020–21. Cleaning costs increased by \$30 million over the two years of the pandemic (\$11 million in 2019–20 and \$19 million in 2020–21), and maintenance costs increased by \$25.5 million in 2020–21. However, these increases were offset by decreases in minor stores and provisions consumed in 2019–20, and by decreased costs on contractors, service expenses and other operating expenses in 2020–21.

The Department of Education's grants and subsidies increased from \$1.8 billion in 2018–19 to \$3.5 billion in 2019–20, and again to \$4.2 billion in 2020–21. These were mainly disbursed to other entities for intensive learning and relief packages.

Fee-free TAFE short courses led to higher student enrolments

The NSW Government introduced fee free short courses in 2020 to provide opportunities for people impacted by the COVID-19 to retrain or upskill. These courses include medical administration, digital literacy, coding, health, leadership, and business.

The overall number of TAFE student enrolments during the pandemic period increased compared to the 2018–19 financial year. While, commercial and international student enrolments decreased during the pandemic period, this was more than offset by uptake of fee-free TAFE short courses. In 2019–20, there were more than 100,000 fee-free short course intakes. The graph below shows the impact of fee-free TAFE courses on student enrolment numbers over the past three years.

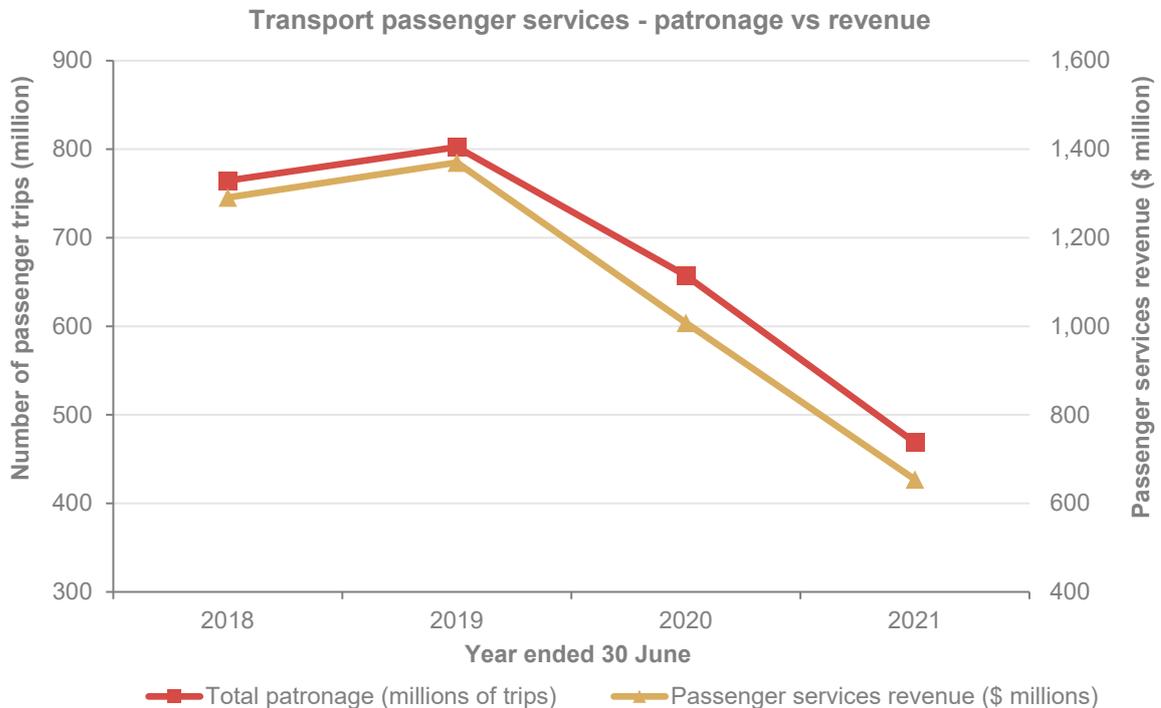


Source: Information from agencies (unaudited).

Transport

Passenger revenue and other transport revenue streams decreased

The graph below shows the decline in revenue and patronage for public transport services in NSW.



Source: Audited financial statements, and unaudited Annual Reports.

The overall number of trips decreased by 41.5 per cent from pre COVID-19 numbers during 2018–19 to the 2020–21 financial year. The decrease in number of trips resulted in \$716 million (52.2 per cent) decline in revenue since 2018–19, with \$654 million during 2020–21. The decrease was mainly due to capacity restrictions on public transport services and border closures during the COVID-19 pandemic.

Between the 2020–21 and 2019–20 financial years, the following other revenue streams of the Transport cluster decreased to a lesser extent due to COVID-19:

- toll/e-tag revenue by \$4.8 million
- collection of fines and penalties by \$7.5 million since normal fare compliance operations ceased for parts of the year
- rental income by \$51.5 million.

These revenue streams decreased to a lesser extent, as these were driven by road traffic, which recovered more quickly to pre-pandemic levels than those related to public transport.

Reduced patronage on public transport led to \$131 million payments to private operators

Contract costs were \$131 million higher as ferry, private bus, light rail and Metro operators had lower farebox revenue. Opal collections prior to the onset of COVID-19 were approximately \$160 million per month; dropping to about \$80 million a month in June 2021.

Reduce transmission on public transport

Public transport is an essential service, which health workers, other workers and students need to get to and from work and school. The confined spaces and limited ventilation of public transport vehicles may increase the risk of transmission among passengers and frontline transport workers. Protection of frontline transport workers is a priority to maintain services. To reduce transmission and improve safety the following steps were taken:

- increased frequency and intensity of cleaning across all public transport hubs, stations and vehicles
- implemented measures to ensure safe capacities including visual distancing indicators and access to real-time monitoring data of capacities
- introduction of green dots to ensure physical distancing on trains, buses and ferries to show passengers the safest places to sit and stand
- artificial intelligence/machine learning to monitor mask compliance across the transport network.

While these measures were implemented to reduce the spread of COVID-19 on public transport, the Transport cluster also introduced pop-up cycleways for people as a safe alternative. These were low-cost temporary cycleways linking existing bike networks and connecting people with employment hubs in the Greater Sydney region and areas of Regional NSW (\$9.8 million spent in 2020–21).

Expenses impacted by COVID-19

The Transport cluster's cleaning costs increased by \$51 million (2020–21: \$107 million; 2019–20 \$56.0 million) largely due to cleaning activity on all modes of public transport.

Employee-related expenses increased gradually from \$3 billion in 2018–19 to \$3.1 billion in 2019–20 and \$3.2 billion in 2020–21. Part of this increase is due to additional staff costs for COVID-19 marshalling and cleaning. This included an additional 1,900 staff to conduct daily cleaning of trains, buses, and transport infrastructure, requiring 2.75 million extra hours of cleaning during the financial year.

Reduced patronage and travel restrictions resulted in a \$11.8 million decrease in fuel costs in 2020–21 compared to prior financial year.

Other clusters and key agencies

Australian Government assistance to State for COVID-19 emergency

Over the last two years the State requested assistance from the Australian Government to help deal with its response to the COVID-19 pandemic. These services were provided to the State free of charge under Defence Assistance to the Civilian Community (DACC) agreements, including supporting quarantine, reception and repatriation efforts at Sydney airport, hotels and borders.

The NSW Police Force (NSWPF) received assistance under DACC agreements. The received services had an estimated value of \$94.4 million. The NSWPF determined the value of received services was not material and did not record the assistance provided free of charge within its 2020–21 financial statements.

NSW Police Force costs were recovered from Ministry of Health

The NSWPF incurred costs in response and recovery operations for COVID-19. These costs were for hotel quarantine, Victorian Border closure operations, personal protective equipment and cleaning. Ministry of Health reimbursed costs of \$31.9 million in 2020–21 (\$3.9 million in 2019–20).

The Premier and Cabinet cluster administered tourism and arts programs

The Department of Premier and Cabinet's appropriations increased from \$480 million in 2018–19 to \$1.7 billion in 2019–20 and \$2.4 billion in 2020–21 while grants and contributions increased from \$47 million in 2018–19 to \$137 million in 2019–20, and \$201 million in 2020–21.

A significant portion of these additional appropriations were due to Machinery of Government changes or were otherwise part of non-COVID-related programs. The significant COVID-19 related programs, particularly for arts and tourism, are included below.

Program	Description	Appropriations and expenditure (2020–21)
Arts sustainability fund	Funding to provide for continuation of arts sector in NSW during and after COVID-19.	Appropriations: \$50m Target spending: \$50m Actual expenditure: \$48.7m
Made in NSW*	Funding invested new film and TV projects through the Made in NSW program.	Appropriations: \$35m Target spending: \$35m Actual expenditure: \$12.5m
Live music support	Aims to keep live music venues open and create employment opportunities for musicians, promoters and technicians. Tiered payments of up to \$750,000 to eligible music venues.	Appropriations: \$24m Target spending: \$24m Actual expenditure: \$21m

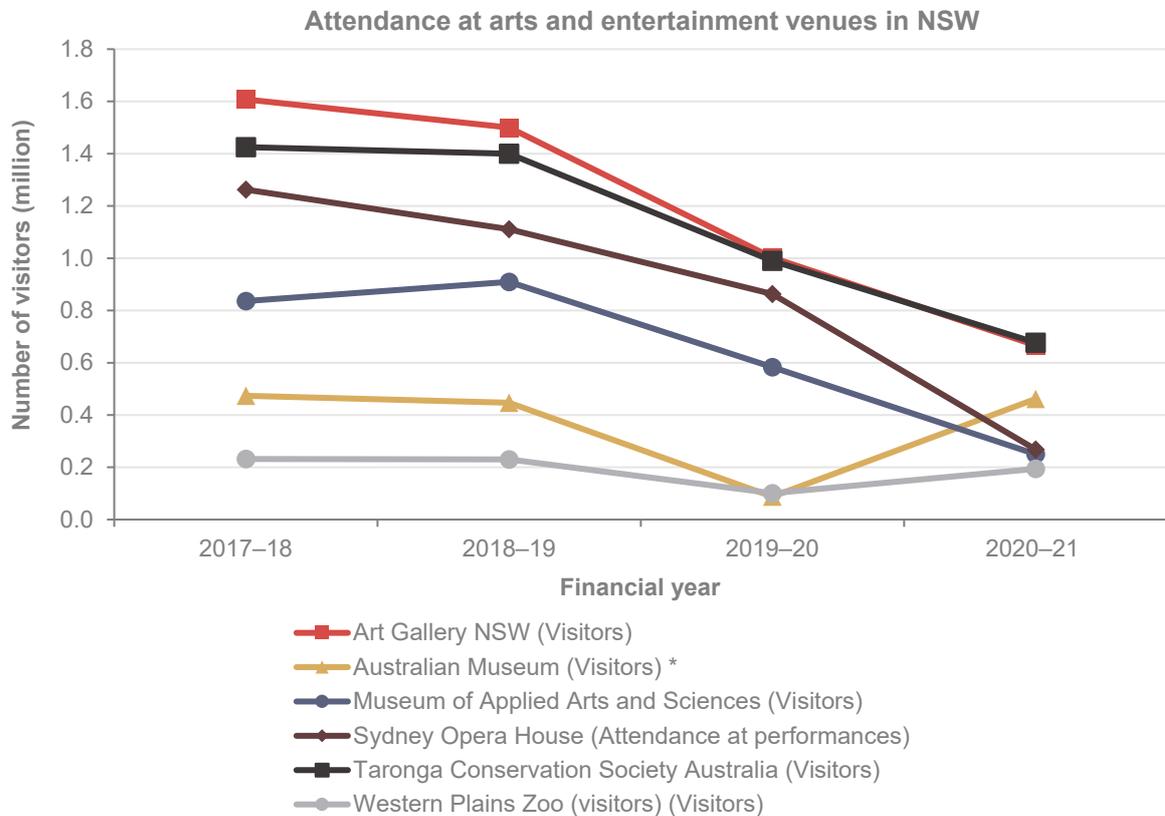
* Expenditure lower than target spending as payments not made until all deliverables are met so timing difference between awarding grants and payments.

The Department of Premier and Cabinet's expenditure increased due to these new programs, with expenditure on grants and subsidies increasing from \$297 million in 2018–19 to \$1.3 billion in 2019–20, and again to \$2.1 billion in 2020–21. However, part of these movements is more attributable to Machinery of Government changes, rather than COVID-19.

The new Department of Enterprise, Investment and Trade (DEIT) was established on 1 April 2022, to drive the NSW Government's commitment to economic transformation. Programs previously administered by the Premier and Cabinet cluster will move to DEIT.

Lower visitation and attendance at venues and events

Restrictions such as international border closures, community lockdowns and physical distancing requirements impacted visitation and attendance at major arts and tourism venues resulting in significantly lower revenue during 2020–21. The graph below shows the decline in visitors/attendance since pre COVID-19 levels during 2019.



* The Australian Museum closed to the public from July 2019 for Project Discover renovations and reopened on 28 November 2020 with free general admission. No international tourists and limited domestic tourists attended in 2020–21 due to COVID-19 restrictions.

Source: Annual Reports published by agencies (unaudited).

The Art Gallery of New South Wales and the Museum of Applied Arts visitation decreased by 33.5 per cent and 57.1 per cent respectively in 2020–21. The Art Gallery's revenue from providing goods and services decreased by 2.9 million (29 per cent) in 2020–21 compared to prior year.

The Sydney Opera House Trust's tour attendance decreased by 97.6 per cent from the prior year, while attendance at performances decreased by 68.9 per cent. The total number of performances held in 2020–21 by the Sydney Opera House almost halved decreasing from 1,473 to 750. Performance revenue in 2020–21 decreased by \$24.9 million compared to prior year. Some of the movement was due to closure of the Concert Hall for planned renovations. Precinct revenue also decreased by \$18.5 million compared to prior year.

The Sydney Opera House Trust obtained a letter of financial support from the Minister for the Arts.

In 2018–19, 1.4 million paid to visit Taronga Zoo and 230,000 paid to visit Western Plains Zoo. By 2020–21, Taronga Zoo paid visitors had decreased by 723,207 (51.6 per cent). However, Western Plains Zoo paid visitors decreased by a small amount over the same period as there were less restrictions in regional areas. Revenue from providing goods and services was more than \$80 million in 2018–19. This dropped to \$66.2 million in 2019–20 and \$65.6 million in 2020–21.

Agencies lodged insurance claims with the NSW Government's insurer, Treasury Managed Fund (TMF), for revenue losses incurred due to business disruptions from the COVID-19 pandemic. Some agencies have received payments for claims during 2020–21 and others were still being assessed and likely to be paid during 2021–22.

Provide housing to people sleeping rough to reduce the risk of transmission

People sleeping without shelter or in public places (sleeping rough) typically live in communal arrangements, with some having limited access to basic hygiene supplies or showering facilities. These factors may increase the risk of transmission of COVID-19 amongst this population.

In response to the pandemic, the NSW Government provided additional funding for the Department of Communities and Justice to institute a range of actions aimed at preventing vulnerable people from becoming homeless, and people sleeping rough from contracting or transmitting the virus. These initiatives included:

- securing temporary accommodation for people in Sydney sleeping rough and people in large crisis care facilities
- \$34.1 million to prevent people experiencing homelessness (\$26 million spent in 2020–21)
- \$65.1 million in funding for Together Home, a program that aims to move people sleeping rough into more stable housing.

The \$34.1 million funding (split over two years) announced in March 2020 was part of the second economic stimulus package, targeted at preventing homelessness. This included greater access to private rental subsidy with increased supply and flexibility of temporary accommodation, and through Rent Choice for youths aged 16–24 and those escaping domestic and family violence.

The Together Home Program delivered social housing head lease subsidies for an initial 400 places, and further extended to an additional 400 places. This included wrap around support in partnership with community housing providers and specialist support services targeting rough sleepers and other complex needs cohorts for up to two years. The Program also provides specialised support for those with severe mental health conditions and Aboriginal people.

Our 2021 audit, [Responses to homelessness](#), found the Department of Community Services and Justice had effectively planned and implemented a crisis response to assist people sleeping on the streets during the COVID-19 pandemic. However, the COVID-19 response to homelessness will not be sufficient to address forecast demand in 2021 and beyond.

The Productivity Commission Report on Government Services 2022 reported unmet demand for homelessness accommodation services continued to grow year on year, from 45.2 per cent in 2018–19 to 48.2 per cent in 2020–21.

Support for vulnerable people and communities

Households and communities required support for basic needs and the following programs were established (approved funding in 2020–21):

- Social Sector Transformation Fund to support small and medium-sized charities and not-for-profits organisations working in health and social service to help them modernise their operations including better digital service delivery, improving business strategies and service delivery models and retaining employees (\$50 million).
- Food relief program to provide pantry and hygiene supplies for Aboriginal people in communities impacted by the COVID pandemic particularly in remote and rural communities. This targeted the elderly, sick and most vulnerable households. Focus was also on remote and rural communities who had suffered existing food security issues as well as those in border towns who relied on access to food across borders (\$663,000).
- COVID-19 Aboriginal Community Controlled Organisations (ACCOs) Grants Program to provide grants of up to \$50,000 to ACCOs who provide culturally appropriate, locally-based support to Aboriginal community members. The support involves mental health, community wellbeing and healing, education and employment, and provision of supplies supporting compliance with health advice (\$1.3 million).
- Domestic Family Violence Support package to adapt service delivery, meet increased demand and enhance victim safety (\$3.1 million).
- OzHarvest and Foodbank funding to support people experiencing food insecurity (\$8.3 million).

- Energy Accounts Payment Assistance (EAPA) scheme to send energy retailers \$50 vouchers towards electricity or gas accounts of eligible household (\$25 million). Households struggling with energy bills due to a short-term financial crisis or emergency due to COVID-19 were provided with \$50 vouchers from the EAPA scheme.
- Return to Work program to assist women who lost their jobs to re-enter the workforce (\$5 million).

Reduce transmission at correctional centres and maintain inmate social connection and access to services

Correctional centres are a higher risk environment for outbreaks as inmates live in close proximity and have shared living arrangements with a large group of people, making it difficult to physically distance. Inmates are at great risk of harm and even death should they contract COVID-19, due to many having underlying medical conditions or disability. The following measures were implemented to reduce transmission while maintaining social connection and access to services:

- postponing many District and Local Court matters, changes in bail decisions and the review of previous remand decisions
- greater use of audio-visual link technology to maintain contact with families and friends and for court attendance
- continuing to use alternative service delivery methods, including virtual courtroom hearings, contactless registry services and telephone/virtual meeting room hearings
- using offsite venues for COVID-safe jury empanelment, to create additional capacity to finalise more cases and reduce backlogs
- quarantining and testing of new inmates for COVID-19 in a controlled setting.
- providing vaccination opportunities for staff and inmates
- delivering training sessions for young people on COVID-19 and social distancing upon intake
- stimulus package for NSW Youth Justice Program to support the Youth Justice reform program in the priority reform areas of staff coaching and infrastructure/information technology enhancements. A total of \$7.5 million was spent in 2020–21.

The COVID-19 pandemic impacted the number of people being received into and discharged from prison. Productivity Commission Report on Government Services 2022 reported the following movements in key indicators:

- decreased percentage of eligible prisoners participating in accredited education and training courses from 22.7 per cent in 2019–20 to 18.5 per cent in 2020–21
- increase in real net recurrent expenditure per prisoner per day from \$294.31 in 2019–20 to \$383.04 in 2020–21
- slight decrease in imprisonment rate per 100,000 adults from 213.1 in 2019–20 to 203.1 2020–21.

COVID-19 was unlikely to be the only driver for the changes in these indicators.

Right of use assets were impaired by \$257 million

Cluster agencies recorded impairment losses on right of use assets of \$257 million for year ended 30 June 2021, due to rental market conditions being negatively impacted by COVID-19. The Ministry of Health incurred the largest loss of \$99.2 million. Right of use assets represents a lessee's right to use an underlying asset, such as a building, for the lease term. Market rents for office accommodation were impacted by lockdowns and restrictions and a move to work-from-home arrangements. Impairment of right of use assets is assessed annually and has no impact on cash flows.

3. Looking forward

Section highlights

- NSW Government unlikely to meet targets in *Fiscal Responsibility Act 2012*.

3.1 Challenges for NSW

The pandemic and response so far have highlighted the importance of carrying out robust risk planning and being clear about risk appetite and risk tolerance as the basis for choosing which trade-offs should be made in emergencies.

The main challenges for the State include:

- long term economic recovery
- achieving fiscal responsibility targets
- effectively managing health risks
- harnessing the learnings and innovation identified throughout the pandemic.

3.2 State objectives and targets

Achieving fiscal responsibility targets at risk

The economic and financial management of the COVID-19 response by the NSW Government aims to meet the object, targets and principles of the *Fiscal Responsibility Act 2012* (FRA).

The object of the FRA is to maintain a AAA credit rating for the State of New South Wales. The fiscal targets for achieving this object are:

- annual expense growth kept below long-term average revenue growth
- elimination of State's unfunded superannuation liability by 2030.

Response measures for COVID-19 have put these targets at risk. The expenditure growth for 2020–21 and forecast for 2021–22 both exceed the long-term revenue growth rate of 5.6 per cent. Also, the 2020–21 Budget saw the adoption of a revised contribution plan to fully-fund Defined Benefits Superannuation liability by 2040. This includes a two year contribution holiday after which contributions will resume and increase by 5 per cent per annum. This change will require the FRA's 2030 target to be amended.

While Moody's and Fitch reaffirmed the State's triple-A credit rating, S&P lowered the rating to double-A plus, primarily due to the increase in debt from economic stimulus and investment in infrastructure in response to COVID-19. Despite this, S&P highlighted the strong financial management and liquidity during the response phase.

Improvements to the State's operating and debt positions can assist in achieving the triple-A rating. The NSW Government plans to return to operating surplus by 2024–25 and reduce net debt to seven per cent of Gross State Product by June 2030.

The FRA also has principles of sound financial management to support the object of the Act. A major component of the third principle is lowering the fiscal gap to achieve intergenerational equity. Current estimates from the 2021 Intergenerational Report project the fiscal gap to be 2.6 per cent of Gross State Product by 2060–61. While this is lower than the previous projection from the 2016 Intergenerational Report, COVID-19 has impacted key economic indicators as well as the cost of servicing debt which is excluded from the fiscal gap measurement.

3.3 Planned audits

Our 2021–24 Annual Work Program includes a series of audits having regard to COVID-19 by considering the financial implications and trends at the State sector level, and the delivery of new or expanded projects, programs, or services. The following audits are planned:

- NSW COVID-19 vaccine rollout: to assess the effectiveness and efficiency of NSW Health's COVID-19 vaccine rollout.
- Virtual health care: may examine the use of virtual care services, where clinically appropriate, and NSW Health's focus on sustainably embedding the virtual care model.
- Co-ordination of response to COVID-19: to assess the effectiveness of NSW Government agencies' co-ordination in selected local government areas.

OUR VISION

Our insights inform and challenge government to improve outcomes for citizens.

OUR PURPOSE

To help Parliament hold government accountable for its use of public resources.

OUR VALUES

Pride in purpose
Curious and open-minded
Valuing people
Contagious integrity
Courage (even when it's uncomfortable)

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