Friday, 23 June 2017

NSW State Budget 2017-18

Let the Good Times Roll

- **The NSW State Budget 2017-18 was handed down earlier this week.**
- **A budget surplus of $2.7 billion is forecast for 2017-18, an upgrade from the $1.5 billion surplus expected in the December Half-Yearly Review. It follows an estimated surplus of $4.5 billion in 2016-17, also revised upwards from earlier estimates. Budget surpluses are forecast through to 2020-21.**
- **Revenues have been boosted by robust stamp-duty revenues, courtesy of Sydney's strong property market, and the government's part-sale of the State's electricity networks. Residential stamp-duty alone is estimated to contribute $6.8 billion in revenue in 2016-17.**
- **In recent years the NSW government has sold off assets under its asset-recycling program, resulting in a reduction in debt. Net debt is forecast to be -1.4% of gross state product (or -$7.8 billion) at the end of 2016-17, the lowest since records began in 1996-97. It is projected to be 2.7% of gross state product (GSP) at the end of the forward estimates.**
- **The strength of revenue growth is unlikely to be sustained because we expect the housing market to moderate. Moreover, proceeds from the sale of assets through the asset recycling program were a one-off boost to revenues.**
- **The NSW Government forecasts GSP, a broad measure of economic activity, to rise by an estimated 2.75% in 2016-17. This follows growth of 3.5% in 2015-16. The forecast for 2017-18 was upgraded to 3.0% for 2017-18.**
- **The strong fiscal position has given the government room to lift spending on a range of areas. Key areas targeted this year were measures to assist first-home buyers and the education and health sectors.**

It is a much easier job to deliver a strong fiscal position when times are good. A buoyant State economy has given an injection of money to State government coffers. In particular, the strength of the housing market has boosted stamp-duty receipts. Transfer duty comprises over 30% of the government's tax revenue intake, which mostly reflects revenue from residential property transactions. The government's one-off partial leases of State electricity assets also provided a temporary lift to revenues.

The strong fiscal position has given the NSW government room to lift spending on a range of areas. There was increased spending in health, education and infrastructure and an attempt to address housing affordability.

Overall, it was an all-round rosy picture for the State economy and the State fiscal position. Nonetheless, there are still challenges for the outlook. The biggest challenge in the future is the projected drop in revenue growth over the next few years. The recent pace of revenue growth is unlikely to be sustained given the one-off impact of asset sales and a likely moderation in housing. The State government expects weaker growth in property transfer duties in coming years. Nonetheless, there are downside risks given the chance of a larger cyclical downturn in housing.

Economic Impact

There are elements of the State Budget which are positive for the economic growth outlook, particularly in the near term.

Public infrastructure spending has helped support economic growth over the past few years. It should help enhance productivity over the long-term and props up job growth. The State government has announced $72.7 billion worth of infrastructure spending over the next four years. NSW Treasury estimates that public investment will boost economic growth by an average of 0.5 percentage points a year over the next two years.

One of the key areas of focus was the measures to assist first-home buyers. Housing affordability has become a major social issue, and follows some Federal Budget measures aimed at addressing housing affordability. Of all policy changes to the housing market announced over the past few months, the NSW State Government's exemption of stamp duty for first-home buyers will likely have the most pronounced effect. Stamp duty will be abolished for both new and existing dwellings for first-home buyers up to $650,000. Previously the threshold was $550,000 and only applied to new dwellings. There will be concessional rates applying for homes up to $800,000. The stamp-duty exemption should help affordability for first-home buyers from 1 July. However, this effect will likely only be temporary – over the long-term, it will add to demand and push up dwelling prices, potentially exacerbating the affordability problem over the long term. That being said, stamp duty is viewed as an inefficient tax as it hinders turnover in housing, and prevents people moving to properties more suited to changing lifestyles.

The other key areas targeted this year were education and health. Infrastructure spending remains an ongoing theme. Sydney will in the future get 3 new motorways: M12 (linking M7 to the future Badgery's Creek airport), F6 (motorway in Southern Sydney) and M9 (outer orbital from Box Hill).

Economic Forecasts

Table 3.1: Economic performance and outlook [(a)1]

New South Wales	2015-16 Outcomes	2016-17 Forecasts	2017-18 Forecasts	2018-19 Forecasts	2019-20 Projections	2020-21 Projections
Real state final demand	4.4	3¼	3½	2¾	-	-
Real gross state product	3.5	2¾	3	2¾	2¾	2½
Employment	3.8	¾	1¾	1¾	1½	1¼
Unemployment rate[(b)]	5.4	5	5	5	4¾	4¾
Sydney consumer price index[(c)]	1.5	2	2¼	2¼	2½	2½
Wage price index	2.1	2	2¼	2½	2¾	3
Nominal gross state product	4.9	5¾	4¾	4½	4¾	4¾
Population	1.4	1½	1½	1½	1½	1½

(a) Per cent change, year average, unless otherwise indicated
(b) Year average, per cent
(c) 2015-16 to 2020-21 includes a ¼ percentage point contribution from tobacco excise increases

Source: ABS 5206.0, 5220.0, 6202.0, 6401.0, 6345.0, 3101.0 and Treasury

The forecasts for the economic outlook seem reasonable and within reach. It paints a picture of a NSW economy that should remain robust over the forecast period.

Very weak wages growth poses downside risk to the NSW (and wider Australian) economy through restraining consumer spending. However, unlike the Federal Budget, this State Budget has provided more conservative projections for wages growth.

NSW's credit rating has the highest possible rating and this should be retained with this Budget.

Key Measures in the Budget

First-home Buyers

- New measures that will help first-home buyers enter the market were confirmed in the Budget.
- From 1 July 2017, transfer duty will be abolished for first home buyers on homes up to $650,000 and reduced for properties between $650,000 and $800,000. Insurance duty on lender's mortgage insurance will also be abolished.
- $10,000 grants to first home buyers for purchasing new homes up to $600,000.
- $10,000 grants also available to people who build their first home on vacant land and where total value of house and land does not exceed $750,000

Other housing buyers

- From 1 July 2017, duty on lenders mortgage insurance for all buyers will be abolished.

Foreign Investors

- From 1 July 2017, foreign investor transfer duty surcharge will increase from 4% to 8%.
- Land tax surcharge of 0.75% will increase to 2.0% per annum from the 2018 land tax year.

Infrastructure

- The State government has committed $72.7 billion to infrastructure investments over the next four years to 2020-21. This includes $7.2 billion for the third stage of WestConnex, $4.9 billion over four years for Sydney Metro City and South West and $3.5 billion over four years for the Pacific Highway upgrade.

Hospitals

- $7.7 billion investment over four years to be spent on health.
- This includes the redevelopment of existing hospitals and the building of new hospitals. These include Randwick Hospital Campus, Campbelltown, Tweed, Nepean, Maitland, Concord, Shellharbour, Hornsby, Wyong, Wagga Wagga, Coffs Harbour, Goulburn, Mudgee, Sydney Children's hospital network Westmead, Inverell and Cooma.
- Investment in over 4,500 extra nurses, midwives, doctors and allied health professionals.

Education

- The Budget announces increased education expenditure with the student population at NSW Government schools anticipated to growth by 21% (164,000) over the next 15 years.
- A sum of $4.2 billion will be invested over the next four years towards 90 new schools and upgrades of schools, delivering more than 1,500 new classrooms. There will be funding for 1,000 extra teachers and wireless internet access in more than 900 regional schools. $2.2

billion of these new capital works will commence over the next two years.
- In a further hand out for children, the Active Kids rebate (a non-means tested measure) will pay parents $100 for each school-aged child who participates in sport or swimming lessons. This will cost $207 million over the four years.

Sports, Arts, and Culture

- The Budget provides $1.8 billion over four years to transform the Art Gallery of NSW into a global art museum capable of hosting more major exhibitions.
- There is additional funding for the Sydney Opera House renewal program, Western Sydney Stadium in Parramatta, national parks and gardens for education, and research, regional arts and cultural activities to enhance visitor experiences.

Jobs and Small Businesses

- A range of insurance tax cuts to reduce the operating cost of small businesses from 1 January 2018.
- Businesses with aggregate turnover less than $2 million will be exempt from paying duties on insurance for commercial vehicles, professional indemnity and public liability.
- Small businesses however, might be disappointed that there was no tax relief from payroll tax in this Budget.

Farming

- Abolition of insurance duty on crop and livestock insurance from 1 January 2018.

Regional NSW

- A $1.3 billion regional growth fund” to create jobs and build regional sporting & culture infrastructure.

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