



### Government measures for business and industry

The 2016-17 NSW Budget was handed down by the NSW Treasurer, Gladys Berejiklian on Tuesday 21 June 2016. It is the first NSW Budget to include the proceeds from the 49 per cent lease of the State's electricity grid, with these proceeds supporting a recorded capital expenditure program in the four years to 2019-20.

On the revenue side, the Government is changing business costs for:

- Businesses with less than 50 employees will be granted from 1 July 2016 an increase in the payroll tax rebate from \$5000 to \$6000 for each new full-time equivalent employee. A rebate of \$2,000 will be payable on the first anniversary of the newly created job and \$4,000 on the second anniversary.
- Mortgage duty, share transfer duty and non-real transfer duties will be abolished from 1 July 2016. Around 250,000 NSW businesses were impacted by these three state- taxes in 2015.
- The current insurance based Emergency Services Levy will be replaced with an Emergency Services Property Levy from 1 July 2017. This will spread the costs of funding the State's fire and emergency services across the whole community and will bring NSW in line with other mainland states. Different property levy rates will be applied to different categories of land.

Changes to NSW Government programs that affect business and industry include:

- A \$100 million investment over two years to launch the Smart, Skilled and Hired program. This program will work with businesses to provide greater opportunities for young people to find a job and gain the skills needed to advance their careers targeting the highest youth unemployment areas, notably Western Sydney, and regional centres;
- The creation of the Sydney School of Entrepreneurship, a joint collaboration between the State, NSW universities and TAFE NSW. Commencing in 2016-17, this program will provide opportunities for collaboration between students and the business sector to develop and grow businesses in new and emerging areas;

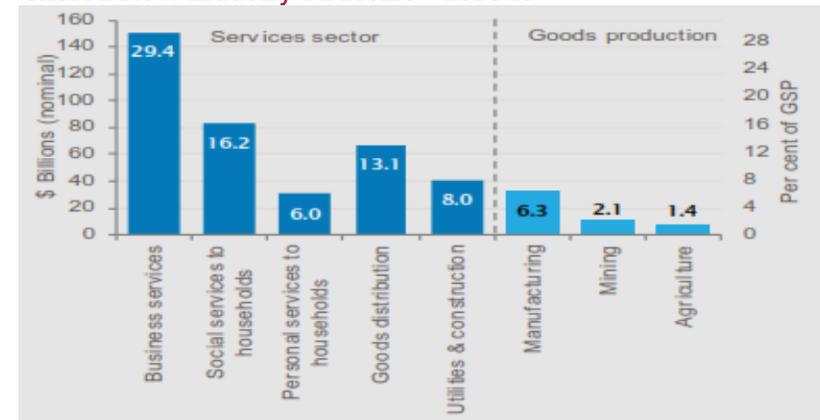
**Table 1: NSW Government "priority growth sectors"**

*NSW Economic Development Framework identified priority sectors*

- 1 Manufacturing
- 2 Professional Services
- 3 Digital
- 4 Agriculture
- 5 Creative Industries
- 6 Visitor Economy

Source: NSW Trade & Investment

**Chart 1: NSW Industry Structure – 2014-15**



Source: ABS and NSW Treasury

- \$14 million to support and leverage a number of new and existing services under the Innovate NSW Program that is aimed at supporting science and research in ICT, engineering, and physical and biological sciences; and
- \$6 million to support the uptake of energy efficiency programs for NSW industry.

## NSW Government infrastructure construction program

The NSW Budget provides for a record capital spend of \$73.3 billion over the four years to 2019-20. Infrastructure expenditure is spread across hospitals, schools, water supply social housing, rail and roads. The Budget confirms funding allocations to key transport projects such as Sydney Metro City, WestConnex and the CBD and South East Light Rail. Over the four years to 2019-20, transport comprises 56.6 per cent of the total infrastructure spend (See Table 2).

State-funded infrastructure investment - excluding Federal Government funded programs sourced from grants to NSW - totals \$48.5 billion over the four years to 2019-20, an average of \$12.1 billion per year (see Chart 2).

Key infrastructure projects across all sectors include:

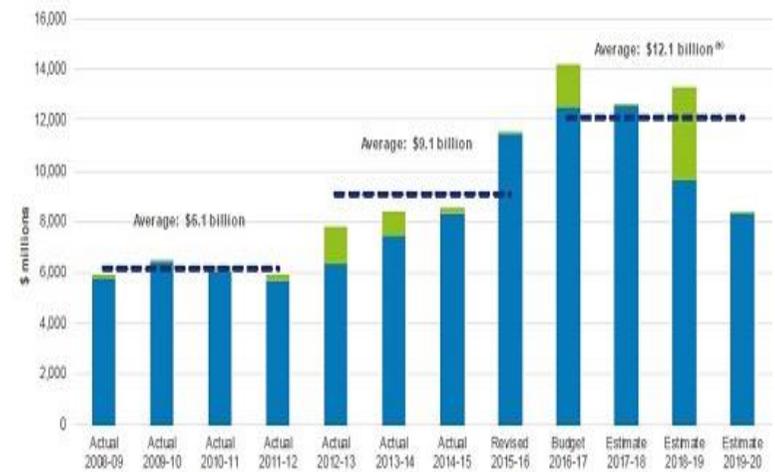
- \$6.2 billion over four years to progress the **Sydney Metro** and **Southwest rail** projects, creating new capacity for the whole Sydney rail network. It will create new capacity for the entire Sydney rail network, delivering a new 30 kilometre metro line, commencing from Chatswood and extending under Sydney harbour, through new CBD stations and then south west to Bankstown;
- \$5.8 billion over four years for the **Sydney Metro Northwest** rail project;
- \$3.8 billion over four years for the **Prison Bed Capacity program** to add new capacity to the prison system;
- \$2.9 billion in 2016-17 to continue the development and delivery of the **WestConnex** project (40 per cent of the \$2.9 billion to be provided by the State, with the remainder provided by the Commonwealth and private sector);
- \$2.6 billion over four years to fund capital projects for **education**, including new schools and upgrades at existing schools to meet the growth in student numbers and to improve facilities;

Table 2: NSW State-Capital Expenditure by Operational Sector

	2016-17	2017-18	2018-19	2019-20	Four year total	
	Budget	Forward Estimates				
	\$m	\$m	\$m	\$m	\$m	%
Transport	11,881	11,557	11,245	6,819	41,502	56.6
Health <sup>(b)</sup>	1,457	1,117	1,052	883	4,509	6.1
Education	653	851	788	657	2,948	4.0
Justice	1,626	1,736	925	432	4,719	6.4
Housing	658	624	586	571	2,439	3.3
Electricity <sup>(c)</sup>	1,457	1,556	1,495	1,475	5,983	8.2
Water	942	1,028	972	765	3,708	5.1
Venues, Arts and Culture	1,902	443	329	110	2,785	3.8
Other	1,260	1,109	1,326	1,062	4,757	6.5
<b>Total<sup>(d) (e)</sup></b>	<b>21,833</b>	<b>20,017</b>	<b>18,715</b>	<b>12,772</b>	<b>73,337</b>	<b>100</b>

Source: NSW Treasury

Chart 2: NSW State-Funded Capital Expenditure Program



Source: NSW Treasury

- \$2.4 billion over four years for **social housing projects**, including \$1.4 billion to support the Communities Plus social housing program;
- More than \$1 billion over the next four years for the **Northern Sydney Freight Corridor** and growth trains for the suburban rail network;
- \$518.4 million for the Next Generation of the **intercity rail fleet**;
- \$154.2 million for the **Fixing the Trains** program;
- \$129 million over four years for the construction of new and upgraded production, studio, rehearsal and performance venues at the **Walsh Bay Arts Precinct**;
- \$64.0 million in 2016-17 to continue planning for the Parramatta Light Rail system;
- \$62 million for planning and procurement activities to replace the **XPT rail fleet** and **Northern Sydney Freight Corridor**;
- \$50.0 million for the **Fixing Country Roads Program** to fund road and bridge upgrades in rural and regional areas;
- \$49 million in 2016-17 to continue Stage 5 of the **Multipurpose Services strategy**, including further planning to deliver integrated health services for rural and remote communities;
- \$17.6 million for planning for the **Western Harbour Tunnel and Beaches Link**, identified in the State Infrastructure Strategy as a long term initiative.
- Funding for **sporting stadiums**, including a new stadium for Western Sydney, and upgrading existing facilities at Olympic Park and Moore Park.

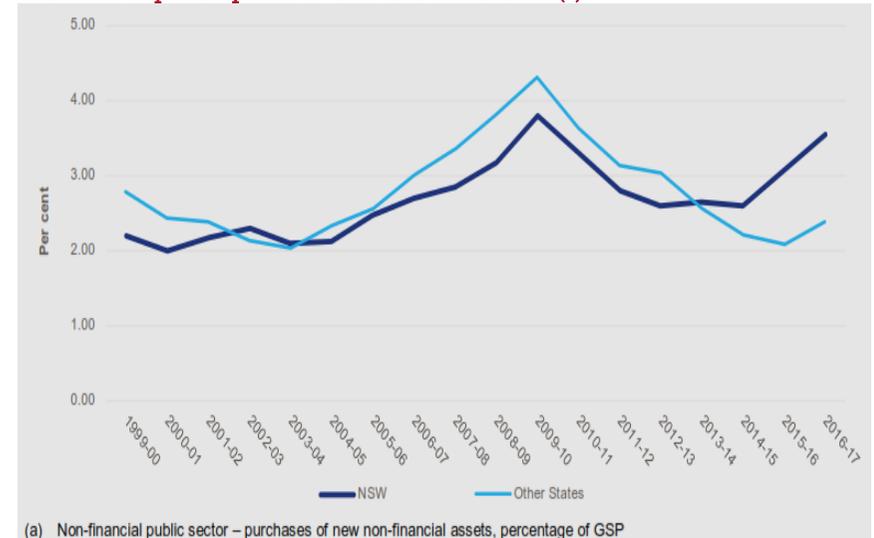
As a result of these and other infrastructure spending initiatives, New South Wales capital spending as a proportion of Gross State Product (GSP) in the non-financial public sector is expected to be 3.5% in 2016-17, the highest of all states. The average across all other states is 2.4% (See Chart 3).

## Road Upgrades for Vital Transport Links

In addition, the Budget commits to undertaking major upgrades for vital link roads. This includes:

- \$1.8 billion towards Western Sydney Roads to support Sydney’s second airport at Badgery’s Creek;

Chart 3: Capital Spend to GSP across States (a)



(a) Non-financial public sector – purchases of new non-financial assets, percentage of GSP

Source: NSW Budget Papers, NSW treasury calculations, ABS

Table 3: Confirmed Capital Spending – the Key Projects

Confirmed capital spending in NSW Budget: Key projects	\$bn,
Sydney Metro and Southwest rail: over 4 years	+6.2
Sydney Metro Northwest: over 4 years	+5.8
Prison Bed Capacity program: over 4 years	+3.8
WestConnex in 2016-17	+2.9
New schools, upgrades and improved facilities: over 4 years	+2.6
Social housing projects: over 4 years	+2.4
Western Sydney Roads to support Badgery’s Creek Airport;	+1.8
Northern Sydney Freight Corridor: over 4 years	+1.0

Source: NSW Treasury

- \$560 million towards the NorthConnex project;
- \$313.4 million towards the Princess Highway upgrade;
- \$315.3 million towards the Western Sydney Growth Roads; and
- \$150.7 million towards the Western Highway and Bells Line of Road (\$150.7 million).

## Investing in the Regions

Regional NSW is an important contributor to the state’s economy, providing jobs and contributing significantly to industry exports and economic growth. In recognition of this, the NSW Government will continue to allocate 30 per cent of its investment in infrastructure towards projects in regional NSW.

Key regional Budget initiatives include:

- \$1.5 billion in State and Federal Government contributions in 2016-17 towards the Pacific Highway duplication program, including Oxley Highway to Kundabung, Kundabung to Kempsey, Frederickton to Eungai, Warrell Creek to Urunga, Warrell Creek to Nambucca Heads and Woolgoolga to Ballina;
- Around \$500 million from Restart NSW Fund to build a 270 kilometre pipeline from the Murray River to secure Broken Hill’s water supply;
- \$142 million in 2016-17 to deliver the Newcastle Light Rail;
- \$135 million in Restart NSW funds for the Bridges for the Bush program;
- \$133.0 million in 2016-17 for the redevelopment of Gosford Hospital, covering the upgrading of facilities and the construction of a new carpark;
- \$118 million to continue the Gosford Hospital redevelopment;
- \$110 million in 2016-17 for the Foxground and Berry Bypass (Illawarra and South Coast); and
- \$75.2 million in 2016-17 for continuing work on the \$260 million redevelopment of Lismore Base Hospital.

A number of other projects announced in the Budget will have cross-regional benefits, including:

**Table 4: Regional Programs in NSW**

<b>Bridges for the Bush*</b>	Replaces or upgrades bridges in regional NSW
<b>Cobbora Transition Fund</b>	Drives economic growth and productivity in local communities impacted by the Cobbora Coal project
<b>Fixing Country Roads*</b>	Improves local and regional roads managed by local governments
<b>Hunter Infrastructure and Investment Fund</b>	Enhances liveability and promotes economic growth in the region
<b>Illawarra Infrastructure Fund</b>	Supports economic growth in the region
<b>Regional Freight Pinch Point and Safety Program</b>	Improves key road and rail freight corridors
<b>Regional Health Infrastructure</b>	Fast-tracks health infrastructure in Coraki, Grafton, Macksville, Taree, Armidale and Lismore
<b>Regional Tourism Infrastructure</b>	Invests in regional airports, cruise terminals and rail infrastructure
<b>Resources for Regions</b>	Addresses infrastructure constraints in mining-impacted communities
<b>Water Security for Regions</b>	Secures water supplies and aims to drought-proof regional communities, and address deficiencies in wastewater treatment
<b>Western NSW Freight Productivity</b>	Improves the Cobb Highway, Silver City Highway and other freight corridors in western NSW
<b>Fixing Country Rail</b>	Improves country rail infrastructure to support our primary producers who make a vital contribution to our economy
<b>Regional Growth Environment and Tourism Fund</b>	Invests in environmental and tourism related assets in regional NSW, supporting regional heritage and the visitor economy
<b>Regional Growth Roads</b>	Targets roads in Lower Hunter, Central Coast, the Illawarra and North Coast
<b>Regional Multipurpose Services (MPS) Facilities</b>	Secures the sustainability of smaller rural facilities and focuses on innovation and flexibility in service delivery
<b>Regional Road Freight Corridor</b>	Improves freight corridors to support economic activity in regions
<b>Regional Schools Renewal Program</b>	Upgrades schools and places a greater emphasis on technology to address challenges faced by students in rural and remote areas
<b>Regional Water Security and Supply Fund</b>	Addresses deficiencies in drinking water quality, capacity, drought security, dam safety and wastewater treatment in regional communities

Source: NSW Treasury

- \$110 million from Restart NSW for the Regional Water and Waste Backlog Program to ensure drinking water and wastewater services are of acceptable quality;
- The Next Generation Rail Fleet will provide a new, state of the art fleet of intercity trains, including about 440 new carriages that will transport passengers to the Central Coast, Newcastle, the Blue Mountains and the Illawarra;
- A Whole-Of-System Digital Platform will deliver clinical process improvements and digital infrastructure to provide for more efficient healthcare delivery in regional hospitals.

## Improving Housing Supply and Affordability

In recognition of the importance of housing development and the need to improve the supply of housing, the Government has committed additional funding for unlocking new land and paying for the necessary infrastructure. This will help to improve affordability as well as lending further support to industry and job creation that has flowed from rapid growth in dwelling investment in NSW over the last three years (See Chart 4).

\$262 million will be directed from the Housing Acceleration Fund to support infrastructure development in South West and Western Sydney, and the development of nearly 43,000 homes. The Government will also:

- Provide \$41 million of new funding over four years to the Greater Sydney Commission to assist the Commission in metropolitan planning in partnership between state and local governments;
- Allocate \$1.0 million to develop the Greenfield Building Code to help convert housing approvals into homes. The new code aims to reduce costs and red tape for owners, increase certainty for investors, and reduce the time to completion; and
- Establish a \$1.1 billion fund to facilitate new housing stock to support vulnerable households.

## Government measures for education, jobs and training

The Government has allocated \$15.7 billion towards education and training in 2016-17. Key education funding initiatives include:

- \$12 billion in 2016-17 for government schools to deliver quality teaching services to students and \$1.2 billion in support of non-government schools;

Chart 4: NSW Residential Construction – March 1996 to March 2016



Source: ABS and NSW Treasury

- \$400 million over four years for a Schools Infrastructure Strategy, delivering more classrooms in key student growth areas, including new schools in North Kellyville and Smalls Road Ryde, and upgrades to Oran Park Public School;
- \$190 million to Jobs for NSW - a private sector and NSW Government backed initiative aimed at tapping into the insights and knowledge of leading private sector minds to help drive government policy in order to grow the economy and create jobs;
- \$100 million over two years for Smart, Skilled and Hired, a targeted youth unemployment support program; and
- \$10 million through social impact investment to support regions with high youth unemployment.

In addition, the Budget confirms continued support for the Small Business Grant Scheme, encouraging small businesses to create new jobs. Small businesses that do not pay payroll tax may apply for a grant of up to \$2,000 when they hire new employees. Further details on the Small Business Grant are available at: <http://www.osr.nsw.gov.au/grants/sbg>

## New South Wales Budget: revenue, expenditure, balance and debt

Revenue to the New South Government is estimated to have grown by 6.0% p.a. (nominal growth) in 2015-16. Revenue growth is expected to moderate to an average of 2.3% p.a. over the next four years as growth in both transfer duties and the State's GST revenue declines, and Australian Government National Partnership Payments fall. Expenses increased by 5.4% p.a. in 2015-16 (nominal growth) and are expected to rise at an average annual rate of 3.0% p.a. over the next four years.

On the revenue side, the New South Wales government is expecting a fall in revenue from land transfer duty in 2016-17 (down 1.2%) following strong growth of 11.9% in 2015-16. Softer growth at an average rate of 3.7% p.a. is expected to continue over the next three years to 2019-20 due to moderating housing activity relative to the exceptional growth of recent years. Revenue from payroll tax is expected to grow by 5.0% p.a. in 2016-17, and by an average of 5.3% p.a. over the four years to 2019-20. Payroll tax receipts will be supported by a projected stronger pace of State economic growth which is expected to underpin sustained employment growth. Payroll tax and transfer duties together are estimated to have accounted for around 58% of the state's total taxation revenue in 2015-16.

Table 5: NSW Budget Aggregates

	2015-16 Revised	2016-17 budget	2017-18 estimate	2018-19 estimate	2019-20 estimate
Operating revenue, % chg.	6.0	4.4	-0.1	0.7	4.1
Operating expenses, % chg.	5.4	4.2	3.2	0.6	3.9
Budget Result, \$mn	3,409	3,713	1,326	1,382	1,613
Net Debt, \$mn	663	7,539	15,023	21,856	23,994
Net debt ratio, % of GSP	0.1	1.3	2.6	3.5	3.7

Source: NSW Treasury

Table 6: NSW Economic Performance and Outlook

% change p.a.	2014-15 actual	2015-16 forecast	2016-17 forecast	2017-18 forecast
Real GSP	2.4	2.75	3.0	2.75
Real Final Demand	3.3	3.25	3.5	3.0
Employment	1.2	3.5	1.75	1.5
Unemployment rate	5.9	5.5	5.25	5.0
CPI	2.2	1.0	2.0	2.25
WPI	2.3	2.25	2.5	2.75
Population	1.2	1.25	1.5	1.5

Source: NSW Treasury

NSW Government expenses are growing due to increased demand for health and education services, more transport and road projects, commencement of the National Disability Insurance Scheme, and funding for key services to protect vulnerable people in the community. Total Government expenses are expected to grow by 4.2% in 2016-17 and at an average of 3.0% p.a. over the four years to 2019-20.

The Government expects an operating surplus of \$3.7 billion in 2016-17, up from an expected surplus of \$2.5 billion at the 2015-16 Budget. This larger surplus has been driven by higher than expected revenues, in particular, higher transfer duties and the long-term lease of TransGrid. Solid operating surpluses are expected to continue, averaging \$2 billion per year in each of the four years to 2019-20.

Net debt at 30 June 2016 is expected to be close to zero (\$663.1 million and 0.1% of GSP) reflecting receipts from the long-term lease of TransGrid. Net debt is projected to increase to 3.7% of GSP (\$24.0 billion) by 2019-20. However, as the Government notes, this does not take into account the proceeds from the partial lease of Ausgrid and Endeavour, which will further increase cash receipts and reduce net debt below the current Budget forecasts.

## New South Wales economy: outlook, opportunities and risks

The Budget paints a positive outlook for the NSW economy with growth to benefit from the state's diversified range of industries and its low exposure (relative to national output) to weaker mining investment. As a result NSW GSP is expected to expand at an above-trend pace of 2.75% in 2015-16 followed by further solid growth of 3.0% in 2016-17 and 2.75% in 2017-18. The outlook will be supported by low interest rates, strong population growth and a low Australian dollar.

The Government also expects continuing strength in household consumption and dwelling investment. This will see State Final Demand rise by 3.5% in 2016-17, before moderating to 3.0% in 2017-18. Non-mining business investment, public investment and net overseas service exports are also expected to contribute to growth over the next few years. Unemployment is expected to fall from 5.5% in 2015-16 to 5.25% in 2016-17 and 5.0% in 2017-18 while employment growth is expected to remain above trend at 1.75% in 2016-17 and 1.5% in 2017-18.

Key risks to this positive growth outlook for New South Wales are:

- A more protracted recovery in the global and domestic economies;
- A later and slower recovery in non-mining business investment; and
- A decline in the broader housing market.

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