Committee for Sydney

NSW's big budget turnaround – our analysis

Last year's budget focused squarely on recovery. NSW was emerging from a deep health crisis that was expected to hit our economy hard.

At that time, the government outlined $29 billion in stimulus and support designed to cushion the economy from further damage. NSW was bracing for tough economic times, with unemployment tipped to hit 7.5 per cent and our deficit forecast to rise to $16 billion.

Instead, we find ourselves in an economic boom.

The state's unprecedented stimulus spending complemented quick macroeconomic action from the central bank and the Commonwealth's income replacement measures. These economic management actions, combined with a strong health response, helped NSW avoid economic catastrophe.

This year's budget exudes a far more upbeat mood.

Some of the headline announcements include:

- Revised 2020/21 budget deficit of $7.9 billion – halved from forecast deficit of $16 billion in the November budget
- Forecast return to surplus of close to half a billion dollars by 2024/25
- Above trend economic growth of 3.25 per cent for 2021/22
- Unemployment falling to 4.5 per cent by 2024/25
- Record $108.5 billion infrastructure investment over the next four years, including major spending on new metro lines
- Public sector wages increase 2.5 per cent per year, costing $2.7 billion over four years
- More than $6 billion in rebates, concessions and cost of living measures including new $100 CBD Friday lunch vouchers and $100 Learn to Swim vouchers
- $1.15 billion to start building the Bradfield city centre
- $490 million to cut taxes, incentivise uptake and reduce barriers for electric vehicle purchases over the next four years, including a deferred transition to a per-kilometre road user charge.

Stronger revenue enables bigger spending

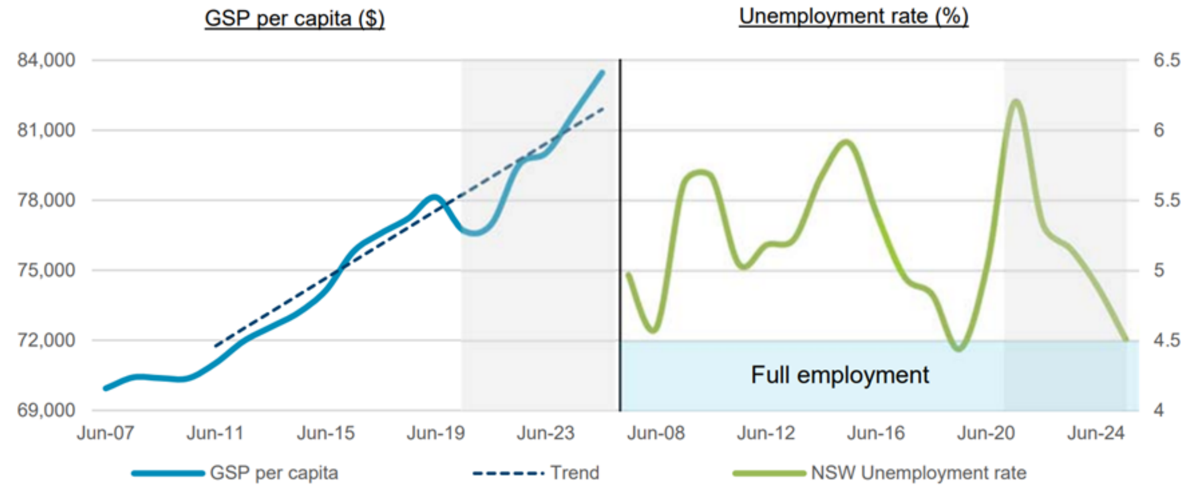
The clearest indication of the government's more positive outlook is reflected in its decision to boost public sector wages. After last year capping yearly salary increases at 1.5 per cent, this year's budget resumes the government's pre-pandemic policy of offering a 2.5 per cent annual rise.

The budget deficit for 2020/21 has been reduced to $7.9 billion, down from $16 billion projected in the last budget and $13.3 billion in the half-yearly review update.

Fundamentally, this is because the economy is doing much better than expected, despite the costs of continued border closures. In fact, the budget assumes a delay in opening international borders until the middle of 2022.

As the entire developed world spends big to stimulate the economy, we find ourselves in the middle of a global economic boom, even as the pandemic rages on in many countries.

An additional 200,000 workers are expected to be employed by June 2025 (relative to the 2021 March quarter) when the unemployment rate is forecast to reach estimates of full employment (around 4.5 per cent).



Source: ABS 5220.0, 6202.0, 3101.0 and NSW Treasury - via Budget Paper No. 1

But the key question is whether the government is seizing on these more optimistic economic times to build for the future, as advocated in the Committee for Sydney's pre-budget statement.

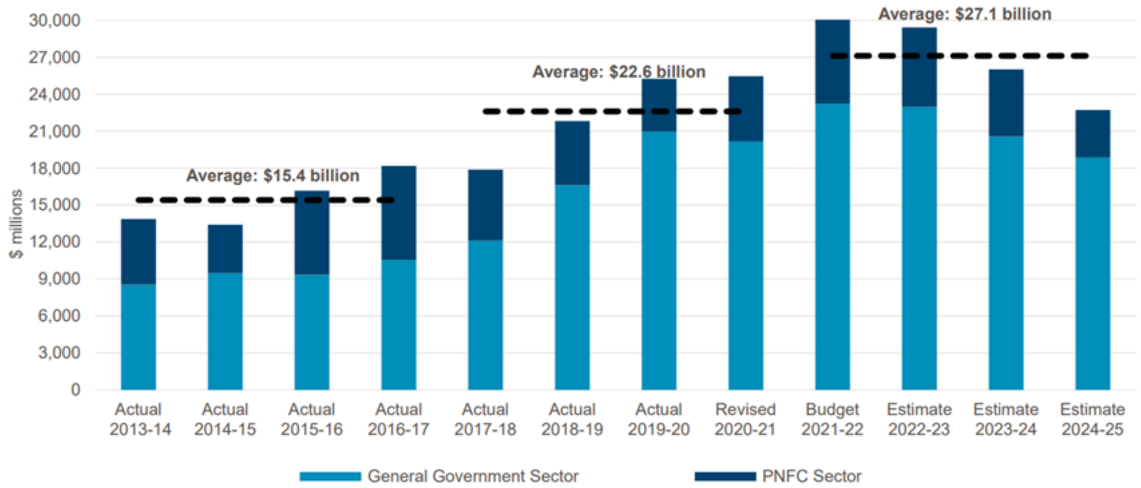
Has the government continued its investment boom and put in place the vital reforms to set the state up for the future?

We believe the budget has broadly delivered on those ambitions, with a few exceptions. Here is a summary of the highlights, and some lowlights, from this year's budget.

THINGS WE REALLY LIKE

Continued record infrastructure investment

This year's budget continues the state's infrastructure boom. The government has committed to another record infrastructure spend over the next four years — $108.5 billion (up from $107.2 billion from the half-yearly review).



Infrastructure program from 2013-14 to 2024-25, source [Budget Paper No. 3]

Projects we're particularly excited about include:

- $2.9 billion ($12 billion over 4 years) to progress construction of Sydney Metro West
- $943 million ($8 billion over 4 years) for planning and construction of the Western Sydney Airport metro line
- $627 million for the construction of Parramatta Light Rail Stage 1
- $50 million for planning and development works for Parramatta Light Rail Stage 2

Making electric cars a viable option

The centrepiece of this year's budget is the government's almost half a billion dollar Electric Vehicle Strategy. This package will finally make EVs a viable option for people across the state. It also offers true tax reform by beginning the process of phasing out stamp duty on EVs and transitioning to a per-kilometre road user charge.

Here are the highlights of the $490 million package:

- Waive stamp duty for battery and hydrogen fuel cell vehicles priced under $78,000 purchased from 1 September 2021
- Offer rebates of $3000 on the first 25,000 cars under $68,750 sold in NSW from 1 September 2021
- $171 million for new charging infrastructure
- $33 million to help transition the NSW government passenger fleet to EVs where feasible, with the target of a fully electric fleet by 2030. As the government points out, these vehicles typically are on-sold after three to five years, providing availability for private buyers in the second hand market.

This package is a major public health win for all Sydneysiders. It will reduce the cost barriers of electric cars and will help reduce the air pollution around our streets and roads. Sydney will finally catch up to other developed countries where EVs are a cost effective alternative to petrol and diesel cars. And as the government points out, new cars stay on the road 15 years on average. This means the vast majority of new cars sold in NSW need to be EVs by 2035 to achieve net zero emissions by 2050.

The government's aim is to increase EV sales to more than half of new cars sold in NSW by 2030 and for EVs to be the vast majority of new cars sold in the State by 2035.

A road user charge of 2.5c/km in today's dollars (or 2c/km for plug-in hybrid EVs) will be deferred to start on the earlier of 1 July 2027 or when EVs make up at least 30 per cent of new car sales. This will replace stamp duty, as well as partially replacing fuel excise, which EV drivers do not pay.

While we have been advocating for this charge to be put in place immediately, the clear timeline set here will provide clarity to EV users and reduce the risk of a shock to the market when EVs make up a significantly larger part of the market.

Starting construction on the aerotropolis

The government has spent the last few years outlining its vision of an advanced manufacturing city around the future Western Sydney Airport. This year's budget helps make that a reality.

More than $1 billion has been committed to enabling work on the Bradfield city centre.

Whatever you think of the aerotropolis, it has been a centrepiece of this government's planning and economic agenda for years, and this budget marks a key moment when the first set of enabling public infrastructure will go into construction.

The funding will also establish a four-year pilot of the New Education and Training Model (NETM). This new model of tertiary education aims to help advanced industries access skilled labour and will offer more than 7000 courses for almost 3000 students.

Boosting cultural facilities and tourism

We are pleased to see significant cultural investments including:

- A $60 million Creative Capital program to deliver new cultural infrastructure projects to boost community participation in the arts along with cultural tourism
- $200 million over four years to secure future major events and rejuvenate the visitor economy, promoting NSW as the premier state to visit and do business
- $156 million for the new Powerhouse Museum in Parramatta, as part of an $840 million total government contribution
- $4.8 million ($168.2 million over four years) for the transformation of the Ultimo Powerhouse Museum, featuring Australia's first dedicated design and fashion museum.

Backing women's economic participation

This budget commits to a number of key reforms that will help support women's participation in the workforce:

- $150 million for the Free Preschool program to continue until the end of 2022, as part of a broader $725 million investment in early childhood education
- New leave provisions for public sector employees, allowing for paid special miscarriage and pre-term birth leave.

STEPS IN THE RIGHT DIRECTION

Macquarie Street renewal

A commitment of $119 million will go towards transforming Sydney's historic Macquarie Street into a more significant cultural hub. This includes $10 million in 2021/22 to support the adaptive reuse of the Registrar General's Building.

This builds on the NSW government-commissioned precinct review of Macquarie Street East, led by former Prime Minister Paul Keating and former Committee for Sydney Chair and Greater Sydney Commission Chief Commissioner, Lucy Turnbull. The review outlined a vision of an enhanced Macquarie Street, connecting from the Opera House to Hyde Park: arguably the most significant collection of historic buildings in Australia, with the potential to do a lot more good for Sydney.

The Committee has been highly supportive of the plan, although we believe it needs to go further in terms of rethinking Macquarie Street itself, with a more ambitious and transformative public realm plan. We view today's announcement as a welcome first step.

Fast rail

The government has committed $298 million over next four years to continue planning for fast rail - meaning upgraded rail connections between Sydney and the cities in our surrounding Sandstone Mega-region (Newcastle, the Central Coast, the Central West, and potentially Canberra).

We believe the strongest case for early investment is the rail line between Sydney and Newcastle. Indeed, the budget allocates $12.7 million in 2021/22 to continue planning for a new rail alignment between Woy Woy and Northern Sydney, to improve travel times between Sydney, Newcastle and Port Macquarie.

While these are modest commitments, they are a step in the right direction for what will be a game changing project for Sydney and the state. Fast rail will help realise the Committee's vision of the Sandstone Mega-region connecting Newcastle, the Central Coast, Sydney and Wollongong. These regions make up more than 70 per cent of the NSW population and nearly a quarter of the national population. Connecting the cities of the megaregion together with upgraded rail links is one of the most important long-term investments we can make -- with benefits for the economy, the environment and housing supply.

Pushing ahead with planning reforms

The government is using budget day to push ahead with modest reforms to the state's infrastructure contributions system. These reforms should provide more certainty for developers and councils, and will, according to the government, generate up to $12 billion in net benefits for the NSW economy.

We welcome more certainty for these contributions and any moves to ensure collected levies are quickly turned into work on the ground, ideally before new homes are built.

We also like the $139 million put towards the second tranche of the Accelerated Infrastructure Fund. This will provide funding to councils in high growth areas to support construction activity and the release of new homes and employment areas in key greenfield sites. This will be available for high growth councils in western Sydney, including Liverpool, Camden, Wollondilly, Campbelltown and Hawkesbury.

Stamp duty reform

Earlier this month, the government released a [progress report] on its plan to replace stamp duty on property purchases with a broad-based annual land tax.

The Committee has strongly advocated for the abolition of this regressive and outdated tax. We hope the government continues on its path to switch to a fairer annual tax.

Our national productivity would be significantly boosted should this reform be adopted. The reform could lead to a 3 to 4 per cent reduction in house prices in NSW, and a 6 per cent rise in owner-occupier home ownership, according to Treasury analysis.

Eliminating stamp duty should help facilitate better matching between households and houses, making it easier for workers to relocate, and for families to downsize after kids leave home.

NSW collected almost $7 billion in stamp duty on property purchases last financial year. This year, that has risen to $9.4 billion, and it is expected to jump to an estimated $11.4 billion in 2021/22.

Moves to abolish this tax will pose significant immediate revenue challenges for NSW, and the best path forward is for the Federal Government to step in and support the change by offering payments to the states to encourage these productivity boosting reforms to be adopted.

Another option would be for the NSW government to design the annual land tax to be revenue-positive, and even to borrow against future receipts - so there is the power to enact this reform independently.

The risk is that as we get closer to the next state election, this goes into the “too hard” bucket. We hope the government makes good use of the extra time it is giving itself and instead charges ahead to implement what now stands as the only major tax reform it is considering.

TAFE reform

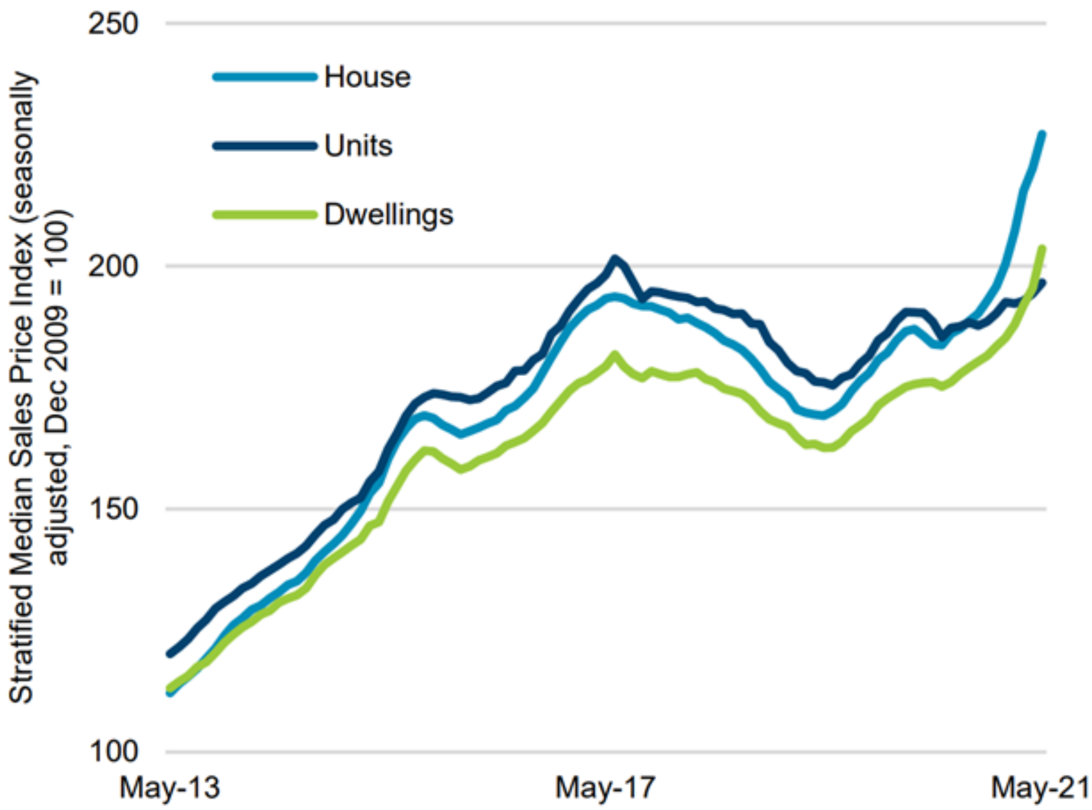
A $2.6 billion recurrent investment will go towards fee-free training, better pathways from high schools to the workforce, piloting a new model for skills training and investing in a dedicated careers service. This includes an initial $24.6 million to begin implementing reforms recommended in the Gonski Shergold Review of the NSW VET sector.

MISSED OPPORTUNITIES

The most significant missed opportunities lie in the realm of housing policy.

Housing supply

The budget notes a solid labour market has combined with low interest rates to drive up house prices, despite the absence of new migration.



Sydney house prices, source CoreLogic and NSW Treasury - [Budget Paper No. 1]

While the budget included a welcome $20 million for rezonings to unlock 20,000 new homes across Greater Sydney, this will only touch the sides of the state's housing affordability crisis. As Treasury's own Intergenerational Report pointed out earlier this month, NSW needs 1.7 million more homes by 2060, equivalent to one new home for every two existing homes, and 42,000 new homes every year.

We believe the government needs to unlock a significantly higher number of new homes in and around where people live and work currently. That means having a discussion about more density above and near train stations and future Metro stations. We acknowledge this is politically harder than building predominantly on greenfield sites but it is a crucial missing link in the housing affordability discussion.

This budget does not give us any reason to believe the larger dynamics of housing supply, whether for infill locations or greenfield locations, will change.

Social and affordable housing

This year's budget mostly commits funding towards the government's existing $812 million social housing stimulus package. This funding will unlock 800 new houses and will upgrade around 16,500 existing properties over 2020/21 and 2021/22.

Contrast that with Victoria's recent $5.3 billion commitment and Queensland's $2.9 billion package.

While the primary solution for housing affordability lies on the supply side, there are many households that need more support. Major world cities like London provide around 20 per cent of the housing stock in various types of social and affordable housing, compared to just over 4 per cent in Sydney. This needs to change, which requires a significant investment from government over many years.

This budget will not move the dial on social and affordable housing. With around 100,000 people on the social housing waiting list, more urgent action is needed to unlock new homes.

THE BIG PICTURE

Today's numbers reveal a remarkable bounce back in our state's economic fortunes — even without the boost that will come from vaccinating the population and reopening borders.

NSW was a global leader in managing the pandemic, and that has resulted in today's remarkable budget success.

This is no longer an emergency budget. Now the task is to become a leader in economic reform.

Budgets are partly about spending priorities, and here the news is excellent. Sydneysiders can be proud to see major investments in new metro lines, public health, the creative sector, early work for the Bradfield aerotropolis.

But budgets are also about policy reform. Good progress has been made on adopting a road user charge on electric vehicles and we look forward to hearing more about replacing stamp duty on property purchases with an annual charge.

We fully support the government's commitment to borrowing now, on low interest rates, to build for the future. This will improve the standard of living for Sydneysiders and will further support our economic growth prospects. But we do need to start thinking about paying back the money eventually. Real fiscal repair may have to wait until after the 2023 election, with the government preparing for a final pre-election budget next year.

Today's impressive budget numbers and continued investment into infrastructure positions our city and state up well until tougher decisions are made down the track.