

**Briefing Paper**

***2011/12 Federal Budget***

**110510**

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## **Introduction**

Prior to the release of the annual Budget, a lock-up is conducted for key stakeholder groups at the Federal Treasury offices. NSWIC requested and was granted access to the lock-up.

Full Budget documents are provided to attendees, as are individual portfolio statements and media releases. Obviously, all information is embargoed until the commencement of the Treasurer's speech at 7.30pm.

Departmental representatives from the DAFF were present to answer questions.

## **This Briefing**

This document does not purport to be a full summary of the entire Budget.

This Briefing Note is in three sections – consideration of matters directly relevant to irrigation (primarily activity within water and related areas), consideration of matters more broadly of relevance within agriculture and a brief consideration of wider Budgetary matters that have relevance to the irrigation sector more generally.

## **Water and Irrigation Specific Matters**

### *State Net Costs of MDB Reform<sup>1</sup>*

Contained within the Statement of Risks is reference to the agreement between the Commonwealth and States that no State will incur net costs as a consequence of agreement to implement the *Water Act* 2007. This remains listed as an unquantified (unquantifiable) liability, although it discloses that “a methodology has been developed for agreement with the Basin States that enables the ... governments to agree and the activities undertaken by a State that are relevant to the implementation of reforms agreed...”

That is, the State and Commonwealth have agreed on a method to determine what activities are relevant for Commonwealth funding. The method isn't disclosed.

### *Risk Assignment<sup>2</sup>*

Risk assignment has been listed as unquantified liability in previous Budgets. Given that the Basin Plan has not yet been determined, it remains as such.

A significant policy change occurred prior to the 2010 Federal Election such that any gap between current diversions and SDLs would be met with purchase. That is reflected in the Budget.

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<sup>1</sup> Paper 1, 8-24

<sup>2</sup> Paper 1, 8-24

Whilst quantification of risk assignment remains a key part of the Basin Plan (and a part pursuant to the *Act* that the Minister cannot unilaterally alter), the Budget now details how additional purchases will be made to deter any requirement to impact yield. Some \$310m per annum from 2014-15 will be made available to:

*“bridge any remaining gap between the level of water ... under existing ... initiatives and the level required under the final Basin Plan. The additional funding will be used to continue buying back water entitlements each year beyond 2014, **subject to the availability of water for purchase from willing sellers** (emphasis added).”*

The final part of this paragraph (emphasised) is of significant concern, although not unexpected. In essence, alternate measures to obtain water where vendors are not available are being considered.

As anticipated, “the total cost of this commitment is not able to be quantified until the Basin Plan is finalised.”

#### *Reallocation of “Driving Reform in the MDB” Funds<sup>3</sup>*

SEWPAC has had control of a significant portion of *Water for the Future* funds under the title Driving Reform in the Murray Darling Basin. Some \$9.8m of those funds over two years (11/12 and 12/13) will be diverted to the ACCC (\$3.5m) and the National Water Commission (\$6.3m) to “enable these agencies to continue to meet their responsibilities under the IGA on MDB Reform.”

#### *Tax Treatment of Sustainable Rural Water Use and Infrastructure Program<sup>4</sup>*

This measure was announced by Minister Burke at the last Irrigation Stakeholders Round Table. It may have been assumed by those present that the effective tax exemption granted by the move would result in a greater quantum of dollars being available for distribution.

The Budget reveals that this is not the case as a total of \$90m is removed over the estimates period (4 years) from the Departmental Budget. The move is actually revenue neutral to the Commonwealth, as had those funds been allocated they would merely have been collected by the Taxation Office.

#### *National Food Plan<sup>5</sup>*

\$1.5m was previously allocated to the development of a national food plan over four years.

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<sup>3</sup> Paper 2, page 313

<sup>4</sup> Paper 2, page 48

<sup>5</sup> Budget Paper “Investing in Regional Australia”, page 44

No further Budget allocation has been made against this election promise. DAFF staff in the lockup advise that an Issues Paper will be distributed in the near future, with a strategy to be developed subsequent to that.

### *Ministerial Media Release*

The Media Release from Minister Burke in the Water portfolio contains no new initiatives, but notes that some \$845m is to be spent in Financial year 2011-12.

One minor, but galling, note is the paragraph;

*“...the \$5.8b set aside to increase water efficiency in rural communities goes towards projects that drive sustainable water use and management.”<sup>6</sup>*

Of course, some \$59m of this was redirected in the midyear Budget update to the MDBA.

### **Matters of Relevance to Agriculture**

#### *Drought Support<sup>7</sup>*

\$21.3m is set aside for Exceptional Circumstances funding to the end of 11/12. No funds are provided subsequent to that.

Both income support and interest rates subsidies are retained. The off-farm income exemption of \$20,000 is retained. From 1 July this year, the off-farm net asset exemption will be realigned to Newstart at \$258,000.

Exceptional Circumstances assistance from small businesses (no farm) is maintained for the same time period.

Reestablishment assistance under EC arrangements – the \$150,000 to exit together with \$10,000 in advice and retraining and \$10,000 in relocation assistance – are maintained for the same time period.. The transitional income support (payment equivalent to Newstart after leaving farming) is continued for the same time period.

The new drought support system being trialled in Western Australia is to be continued under a significantly expanded (doubled) approach for a further 12 months at a cost of \$44.1m

In essence, current arrangements will continue for a further 12 months whilst the WA trial is continued and evaluated before a new system is designed and implemented in the next Budget. The review panel is to be chaired by the Australian Farm Institute’s Mick Keogh.

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<sup>6</sup> Press Release, Minister Burke, 10 May 2011

<sup>7</sup> Paper 2, page 87

### *Biosecurity<sup>8</sup>*

Biosecurity will be a headline issue from the Budget for the agriculture sector. Minister Ludwig has issued a media release spruiking a “smarter biosecurity system”.

The Papers note no additional money appropriated for the measures. It appears that it is money applied from existing appropriations to support the system. The commitment, nevertheless, is positive.

### *DAFF Budget<sup>9</sup>*

All Departments have been required to deliver and “efficiency dividend” delivering some \$1.05b across the four year forward estimates.<sup>10</sup>

The Department of Agriculture does not escape that dividend requirement. Some \$32.8m over four years will come off the bottom line of Departmental expenditure. The Papers state that this will come from “rationalisation of corporate functions.” Departmental officers in the lockup confirm this, saying that service amalgamation will deliver the savings.

Interestingly, achieving this saving will actually have a cost of \$800,000 in 11/12 that are listed as “implementation costs.”

### *Research and Development<sup>11</sup>*

No new funds are made available for research and development, but all of the existing Research and Develop Corporations are maintained. Note, of course, that Government provides matching funds against industry research and development levies and hence government funding will increase significantly as production recovers.

The Budget predicts a significant change to agricultural production levies collected and passed through. From \$10.5m across all industries in 10/11, the Papers predict a more than doubling for 11/12 (\$21.9m) with annual increases in each subsequent year of the estimates period; \$22.3m in 12/13, \$22.7m in 13/14 and \$23m in 14/15.

Changes are noted to the Nashi levy, the Ginger levy and the Mushroom levy, all at industry initiation.

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<sup>8</sup> Paper 2, page 92

<sup>9</sup> Paper 2, page 86

<sup>10</sup> Budget Overview, Appendix F, page 45

<sup>11</sup> Paper 2, page 8

### *Environmental Stewardship*<sup>12</sup>

Some \$84.2m over the estimates period (weighted marginally to 14/15) is appropriated to continue the Environmental Stewardship Program in which private land owners receive long term (15) year contracted payments to project high value conservation assets.

### *Carbon Farming Initiative and Carbon More Generally*<sup>13</sup>

The Investing in Australia's Regions paper that accompanies the Budget notes a Carbon Farming Initiative valued at some \$45.6m over the estimates period. No indication of this program can be found in the Budget Papers, although it is a program that has potentially been appropriated and announced previously. Questions of Treasury representatives and NFF personnel in the lockup were unable to resolve this issue.

The majority of carbon mentions within the Budget are removal or deferral of carbon initiatives commenced under then-prime Minister Rudd; the Australian Centre for Renewable Energy, Carbon Capture and Storage Flagships and the Global Carbon Capture and Storage Institute.

### *Regional Infrastructure*<sup>14</sup>

The Treasurer will make much of infrastructure investment in regions, particularly as a result of promises provided when negotiating support of independents.

Of some interest to NSWIC stakeholders in northern NSW is the \$1b set aside for duplication of the Pacific Highway between Brisbane and Sydney.

Various contributions in regional areas in health, Regional Development Australia, migration and job creation will undoubtedly be carried by major media sources in the next 72 hours.

## **Budgetary Matters More Generally**

### *Macroeconomic Matters*<sup>15</sup>

Tax receipts are expected to recover very quickly, with an estimate of \$342.4b in 11/12 (up from \$284.7b in 09/10) and growing to \$415.5b by 14/15. These increases are also shown as percentage GDP increases.

Expenditure is forecast to continue expansion, from \$365.8b in 11/12 to \$414.1b in 14/15, however this is projected as a decrease in expenditure when viewed as a

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<sup>12</sup> Paper 2, page 308

<sup>13</sup> Investing in Australia's Regions, Budget Paper and Paper 2, page 298 - 303

<sup>14</sup> Budget overview, page 17

<sup>15</sup> Budget Overview, page 1

percentage against GDP. That is, expenditure is expected to drop in GDP terms whilst receipts increase, leading to predicted surpluses from 12/13.

An underlying cash deficit of \$22.6b is projected for 11/12, with a series of modest surpluses across the estimates period (12/13 - \$3.5b, 13/14 - \$3.7b, 14/15 - \$5.8b).

Real GDP is forecast at 4% this year, 3.75% next year and 3% for the following two years.

The unemployment rate is anticipated at 4.75% next year, 4.5% the year after and 5% in the two years subsequent.

The CPI is expected to decrease next year to 2.75% (down from 3.25% this year), increase to 3% in 12/13 and then decrease to 2.5% in the outside two years.

These figures have implications for interest rates (the inflation figures suggested by CPI indicate upward pressure), wage pressure (a factor of both inflation and low unemployment) and the value of the Australian dollar (continued upward pressure, but more greatly affected by offshore issues).

### *Fiscal Savings<sup>16</sup>*

Some \$22b in savings are identified over the estimates period. Major contributions are a reduction in family payments (\$2b), an efficiency dividend from the public sector at an advanced rate (\$1.1b), rearrangement of vehicle fringe benefits (\$954m), phasing out of the dependent spouse rebate (\$755m) and removing the unearned income Low Income Tax Offset for minors (\$740m).

### *Agriculture Macroeconomics<sup>17</sup>*

The Papers note agricultural production losses as a result of natural disasters at some \$1.9b. Resultant price rises have contributed 0.5% to inflation over the March and June quarters of 2011, which tacitly suggests that inflation will decrease as the results wash through the economy.

### *Mining Boom Investment<sup>18</sup>*

Massive investment and return from mining is essentially what the Budget is predicated upon.

Of relevance to agriculture is the estimate of ABARES of some \$380b in the investment pipeline for resources investment.

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<sup>16</sup> Budget overview, page 9

<sup>17</sup> Budget Overview, page 2

<sup>18</sup> Budget Overview, page 5

### *Reform of Car Fringe Benefits Rules<sup>19</sup>*

Current rules allow a higher rate of rebate on the basis of greater kilometres used. That is, the further you drive a salary sacrificed or employer provided car, the greater the benefit once the threshold is reached.

The threshold is to be removed and all benefits will be at a single rate of 20% regardless of distance travelled. This change is effective as of this evening. The measure is expected to see a revenue gain of some \$970m over the estimates period together with a GST gain of \$50m.

This measure may have a disproportionate impact in regional and rural areas where employees need to drive greater distances to and from work.

### *Small Business Tax Reform<sup>20</sup>*

The Entrepreneurs Tax Office is to be scrapped. From 2012-13, subsequent to implementation of the mining tax, the tax rate for small business will be reduced from 30% to 29%.

Instant write off (rather than depreciation) of assets below \$5,000 will be implemented.

An immediate deduction of \$5,000 for the purchase of a motor vehicle will become available from 2012-13. The remainder will be depreciated at 30% (15% in year one).

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<sup>19</sup> Paper 2, page 23

<sup>20</sup> Budget overview, page 30