

Briefing Paper

2012/13 Federal Budget

120508

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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 Building. NSWIC requested – and was granted – access to the lock-up.

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

Departmental representatives from DAFF attended the lock-up to answer questions. No representatives of SEWPAC attended the lock-up.

This Briefing

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

This Briefing Note is in three sections – a broad summary of budgetary measures, a deeper analysis of budgetary measures relevant to agriculture and a detailed consideration of budgetary measures directly relevant to the irrigation sector in NSW.

Note that the forward estimates period is four years. Specific quantification outside this period is rarely provided. As such, consideration of water programs relevant to the Basin Plan need to be considered in those parameters.

Broad Summary of Budgetary Measures

Much is made of returning the Budget to surplus. The forecasts are based on bold assertions of both revenue and savings to produce a modest \$1.5b surplus for 12/13 rising to \$7.5b in 15/16 (the forward estimates period).

Receipts predictions include an increase of \$38.8b between 11/12 (\$330b) and 12/13 (\$368.8b) rising to \$438.4b by 15/16 (an overall increase of \$108.4b).

Payments are predicted to grow significantly over forward estimates, but will drop next year to create the surplus. Payments go from \$364.2b in 12/13 (it was \$371.3b in 10/11) up to \$427.3b in 15/16.

The reduction in payments (the savings) include;

- \$4.75b through not proceeding with the company tax rate reduction;
- \$5.4b through "efficiency and reprogramming" in Defence';
- \$700m in heavy vehicle road user charging additional revenue; and
- "Other" at \$7.4b.

Inflation (based on CPI) is predicted at 3.25% in 12/13 and then 2.5% over the following 3 years of the forward estimates.

Employment is predicted to grow at 1.25% in 12/13 and then 1.5% each year in the following 3 years of the forward estimates. That will see unemployment rates at 5.5% falling to 5%.

GDP is expected to grow at 3.25% in 12/13 and 3% in each of the forward estimates years.

These macro-economic figures suggest upward pressure on interest rates as reflected by inflation (reflected in CPI), wage pressure (a factor of inflation and low unemployment) and the Australian Dollar (although offshore influences are more relevant here).

Carbon Tax

The carbon price is “not expected to have an impact on the domestic economic outlook with real GDP growth and employment growth expected to be reduced by less than .25% in 12/13 with no discernible impact on the forecast unemployment rate.”

Tax Free Threshold

The threshold will rise from \$6k to \$18.2k from 1 July 2012.

Tax Loss Carry Back for Business

Up to \$1m of tax loss can be carried back by business in 12/13, rising to a 2 year carry back from 13/14.

Small Business Asset Write Off

For businesses with less than \$2m turnover, an instant write-off will be available for assets up to \$6.5k as of 1 July 2012 (regardless of business structure). Assets over \$6.5k can have 15% written off in year one and then be placed into a single pool at 30% per annum

Matters Specific to Agriculture

Caring for Our Country

This program has been refunded with \$2.2b over 5 years from 13/14. It has been split into two streams focusing on environmental measures (called “sustainability”) and agricultural measures.

Full details on the new programme will be available at www.nrm.gov.au “shortly”. It will contain \$95.9m over 7 years to address animal and plant pests and disease eradication.

Australia's Farming Future

This program has not been continued. It funded a range of programs undertaken by NSWIC (Sharing the Knowledge, Young Irrigators Forum) and hence this is a disappointing outcome.

Wine Industry Funding

\$2.9m over 2 years is devoted to the wine industry. \$2.1m goes to Wine Australia Corporation for marketing.

Food and Agriculture Organisation of the United Nations

A reduction in contribution to UNFAO of \$2.9m is written in.

Biosecurity

\$144.3m over 4 years is devoted to biosecurity.

Foreign Ownership

\$1.7m over four years is provided to the Australian Bureau of Statistics to collect and analyse data on foreign ownership of Australian agricultural assets.

Heavy Vehicle Road User Charge

For vehicles over 4.5 tonnes, the road user charge will increase from 23.1 cents per litre to 25.5 cents per litres. That is, the fuel tax credit reduces. This will effectively "save" the Government \$698m over four years – or add nearly \$700m to the cost of heavy vehicle usage.

Agricultural Production Levies

NSWIC understands that commodity levies are agreed by commodity groups. For those relevant to irrigation, the following are budgeted:

- Rice is maintained at \$3/tonne;
- Dairy increases from 2.6075 cents/kilo milk fat to 2.8683 cents/litre of milk fat and from 6.3558 cents/kilo of protein to 6.9914 cents/kilo of protein; and
- Wheat export charges drop from 22 cents/tonne to zero with effect from 18 May 2012.

The Government matched funding (up to a cap amount) is continued.

Matters Specific to Irrigation in NSW

Funding for irrigation programs has largely been appropriated previously. The Budget Papers provide an indication as to how those appropriated funds will be acquitted across the forward estimates period.

NSWIC has paid particular attention over several years to the contingent liabilities listed outside the forward estimates period as the Murray-Darling Basin Plan implementation period progresses.

On Farm Irrigation Efficiency Program

A further \$150m over six years is to be acquitted in this program as follows;

12/13	13/14	14/15	15/16	16/17	17/18
\$4m	\$25m	\$75m	\$29m	\$10m	\$7m

These are not new funds. They are drawn from the Sustainable Rural Water Use and Infrastructure Program (SRWUIP), or the “infrastructure fund” as it is known.

Strategic Sub System Reconfiguration Pilot Program

\$200m will be made available over 4 years as follows;

12/13	13/14	14/15	15/16
\$25m	\$50m	\$75m	\$50m

These are not new funds. They will be drawn from *both* SRWUIP and Restoring the Balance (RTB – more commonly known as “buyback”). No indication as to percentages from each fund is provided.

This is a significant measure as it signals a “mixing” of the “buckets” of funding.

Risk Assignment Contingent Liability

In each year, NSWIC looks specifically to the contingent liability for risk assignment, the process written into the *Water Act* for compensation to be paid to irrigators in the event of reliability decreases pursuant to the Basin Plan. Whilst it was largely superseded by the “buy the gap” policy (held by both parties), the contingent liability indicates the intent of the Government in the event that funds under Water for the Future are exhausted.

The Budget papers note some \$310m per year from 14/15 to continue purchasing, *subject to willing sellers* (emphasis added). This “subject to” should continue to serve as a warning flag to the irrigation sector.

The papers further provide that “total cost (if any) of Risk Assignment ... depends on recoveries”. NSWIC will continue to monitor this closely, as reversion to Risk Assignment is tantamount to rejecting “purchase the gap”.

Sustainable Rural Water Use and Infrastructure Program

SRWUIP is largely achieved through partnerships with State Governments both inside and outside the Murray-Darling Basin. Whilst NSWIC has been aware of tensions between NSW and the Commonwealth in respect of these “State Priority

Programs”, the papers reveal that our State is at considerable risk vis a viz interstate counterparts. The following table reveals budgeted expenditures;

	NSW	VIC	QLD	SA	TAS
11/12	69.4	174.3	18.6	40.4	27.6
12/13	90.9	50.8	14.6	49	44.9
13/14	3.6	142.8	22.2	19.8	14.5
14/15	3.6	201.8	22.2	22.6	15.4
15/16	2.3	182.8	41.9	9.6	14.8

This is a clear indication that the NSW Government needs to work with – or, possibly, against – the Commonwealth Government to ensure that infrastructure funds are committed to our State. The fact that 13/14 – 15/16 funds committed are significantly below other States – *including Tasmania* – is clearly unacceptable.

Departmental Funding – Driving Reform in the Murray-Darling Basin

A reduction of \$61.2m over two years (\$22.2m in 15/16, \$39m in 16/17) is projected within the Department. This suggests that the Commonwealth expects a significant majority of the work to be completed on Basin reform in the next 3 years.

National Water Commission

The Commission is extended with \$35.6m over four years (which is a decrease of \$4.7m made up of a \$5.9m operating expenses decrease and a \$1.2m capital expenditure increase).

Commonwealth Environmental Water Office

The CEWO sees a significant decrease in operating budget – some \$13.2m over 7 years made up of \$1.8m in 12/13, \$2.7m in each of 13/14 and 14/15, \$2.3m in 15/16, \$1.6m in 16/17, \$1.3m in 17/18 and \$0.7m in 18/19.

Some \$126.1m remains in the program – equating to a cut of around 10%. No reason is given for this significant reduction other than noting that the funds will be “redirected to support other Government priorities.”

North Queensland Irrigated Agriculture Strategy

\$6.1m has been provided for a north Queensland Irrigated Agriculture Strategy.

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