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Briefing Paper

2016/17 Federal Budget

160503

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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 together with individual portfolio statements (if available) as well as media releases. All information is embargoed until the commencement of the Treasurer's speech at 7.30pm.

Richard Hyatt from Barnaby Joyce's' office attended the lock-up 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 - a broad summary of budgetary measures, a deeper analysis of budget 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 however in certain circumstances, estimates beyond the four years are provided.

Broad Summary of Budgetary Measures

The Budget Papers declare a deficit of \$39.9 billion in 2015-16 followed by a slightly smaller deficit of \$37.1 billion in 2016-17 and \$26.1 billion in 2017-18. In line with last year's Federal Budget, this year's Federal Budget Papers do not project a surplus over the forward estimates.

Predictions for real GDP growth have been revised from last year's budget. It is forecast that real GDP will increase from 2.5% in 2015-16 to 3% in 2017-20.

Overall receipts continue to be impacted by a weaker nominal GDP, weighted down by weaker wages and inflation. Downward revisions to forecast tax receipts since the 2015-16 MYEFO are \$13.5 billion over the four years to 2018-19. These revisions have been driven by lower taxes from individuals and superannuation funds, partly offset by upward revisions to indirect taxes such as GST. The underlying cash balance has deteriorated by \$3.4 billion in 2016-17 compared with the 2015-16 MYEFO.

Inflation (based on CPI) is predicted at 2.25% in 2015-16, with a slow increase to 3.5% by 2019-20. The unemployment rate has been revised downward from 6.1% in 2014-15 to 5.5% by 2019-20. Wage growth is expected to pick up slightly to 3.5% by 2019-20.

Matters Specific to Water

Departmental Funding – Water Reform

As we noted in our last Federal budget briefing in 2015, funding for Federal government agencies responsible for the Federal water reform process is dropping off significantly after 2016-17. While funding is guaranteed for 2016-17, it drops significantly from 2017-18 onwards (MDBA's funding drops from \$84,746 million to \$37.38). The next Federal budget will be critical to assess the future funding arrangement of the agencies responsible for water reform in the Murray-Darling Basin. It is our understanding that the Federal Government is intending to conduct a full review of the administrative functions across all Commonwealth water portfolios – including the MDBA - after the election. This is in line with the recently completed interagency review on duplication and overlap (as part of the Water Act Review).

Sustainable Rural Water Use and Infrastructure

 In line with the 2019 target to 'bridge the gap' and implement the Murray-Darling Basin Plan, funding for the Sustainable Rural Water Use and Infrastructure Program is allocated over the forward estimates. Funding in 2016-17 will be \$298,247 and then drops by around \$80 million in 2017-18 to \$217,437 million and another \$10 million the following year to \$208,339. Funding is for SRWUI is provided until 2019-20.

Adjustment Mechanism

• In line with the Water Act 2007 (Cth) funding for the Adjustment Mechanism is allocated over the forward estimates.

National Carp Control Plan

As announced earlier this week, \$15 million is allocated for the National Carp Control plan over three years to undertake scientific research, operational planning, community engagement and communications activities required to support a potential carp herpesvirus release and subsequent clean up. The funding will be targeted to ensure that the National Carp Control Plan enables maximum impact on carp populations, and minimum disruption to industries, communities and the environment. A national coordinator will be put in place and input from stakeholders will be sought.

National Water Infrastructure Loan Facilities

- From 2016-17, **\$2 billion** will be available over 10 years for water infrastructure projects (including public/private partnership). The loan facility is available to the construction of dams, pipelines and managed aquifer recharge projects that are economically viable and will generate affordable water to grow regional economies.
- The loan recipient will make interest-only payments for up to the first five years of the loan term, and will then have a further 10 years to repay the principle and additional interest.

National Water Infrastructure Development Fund

• The Government will provide an additional \$9.5 million in 2016-17 for the National Water Infrastructure Development Fund. It appears that it is mainly for further feasibility studies for northern Australia.

Bureau of Meteorology – improved data and services

 The Government will provide funding to improve the data and services supporting the Bureau of Meteorology supercomputer capability (improve forecasting capabilities and meet the changing information needs of government and the public). Funding against this budget item is commercial in confidence.

Commonwealth Environmental Water Office

- The Government has pulled \$8.7 million forward to 2016-17 to 'better align the funding of the Commonwealth Environmental Water Office with the other elements of Government's water functions'. This measure has been funded by re-profiling funds within the Environment Department.
- Once we have access to the portfolio budget statements, we will provide a more comprehensive update.

Staffing

- Department of Agriculture
 - Average staffing level increases by 267 ASL between 2015-16 and 2016-17
- Department of Environment

- Average staffing level drops by 72 ASL between 2015-16 and 2016-17.
 No separate breakdown is provided for the Commonwealth Environmental Water office
- o MDBA
 - Average staffing level <u>increases</u> by 18 ASL between 2015-16 and 2016-17
- o BOM
 - Average staffing level increases by 21 ASL between 2015-16 and 2016-17.

National Partnership Funding

- Funding for the development of business cases for constraints measures are still subject to negotiations. A total of \$5.1 million is allocated for 2016-17.
- \$12.6 million is allocated to NSW for the National Partnership for the Murray-Darling Basin regional economic diversification program in 2016-17.
- \$1.8 million is allocated to NSW for the support of drought affected communities program in 2016-17.
- \$9.4 million is allocated to NSW for the National Partnership on implementing water reform in the Murray-Darling Basin 2016-17.
- \$134.1 million is allocated to NSW for the Sustainable Rural Water Use and Infrastructure program. Funding in 2018-19 drops to only \$1.1 million.

Matters Specific to Agriculture

The 2016-17 Budget papers reference a number of initiatives from the Agriculture Competitiveness White Paper, however there has been a change to the funding for the 'Managing Farm Risk Program'. The budget papers announce a reduction of \$9.2 million over four years from 2015-16. This reduction is due to the implementation of a means test.

The Budget Papers are silent on the backpacker tax and announce \$80.7 million in 2016-17 for the Inland Rail Reconstruction work.

A number of tax measures and tax deductions have been announced of small businesses – including the continuation of last year's capital write offs arrangements for investment of less than \$20,000.

In addition, the following measures were announced:

Agricultural Levies

- The Government will make changes to the following agricultural levies and export charges:
 - Export fodder: From 1 July 2016, the Government will introduce a mandatory levy of \$0.5 per tonne on all hay and straw prepared for export.

The Government will provide matching contribution of \$400,000 per annum, consistent with the Agricultural Competitiveness White Paper.

 Citrus: From 1 July 2016, the Government will increase the citrus levy by \$1.5 per tonne. These increases are being made at the request of industry to address gaps in citrus industry research and development funding.

Additional Rural Financial Counsellors

 The Government will provide \$7.1 million over four years to fund additional rural financial counsellors to meet increased demands during period of drought. This measure was initially announced in the Agricultural Competitiveness White Paper as a once off measure.

Biosecurity Advanced Analytics Capabilities

 The Government will provide \$15.9 million over four years to build an advanced analytics capabilities within the Department of Agriculture and Water Resources, including dedicated data and analytics specialist to better support biosecurity decisions.

Rural Research and Development for Profit Program

• Through the announcement of the Agricultural Competitiveness White Paper, the Government extended to the funding program for the Rural Research and Development for Profit Program until 2021-22. As part of the 2016-17 Budget \$9.5 million from the Rural Research and Development for Profit Program has been allocated to fund high quality proposals to undertake feasibility studies for water infrastructure projects received a part of an expression of interest process under the national Water infrastructure development Fund program. Focus will be on northern Australia.

Drought Response (only an abstract)

- The Australian Government will also provide access to \$250 million each year in drought loans over the next 10 years starting in 2016-17.
- From 1 July 2016, farmers and their partners receiving the Farm Household Allowance will receive additional assistance in their third year of payment through an increase in case management and activity supplement.
- Three enhancements are being made to the Farm Management Deposit Scheme an increase the deposit limit to \$800,000, allowing Farm Management Deposit account to be used as a farm business loan offset, and farmers in drought will also be able to access their Farm Management Deposit when they need it, without losing their taxation concessions. These changes will all commence in 2016-17.
- A bill to implement these changes is currently before Parliament.

Landcare Program (ongoing issues about funding from next year)

 The National Landcare Program is investing \$1 billion over 4 years from 2014-15 to deliver projects that address sustainable agriculture and environmental issues and is administered collaboratively by the Department of Environment and the Department of Agriculture and Water Resources. • The Government will provide \$22.6 million over 3 years from 2016-17 to the National Heritage Trust component of the National Landcare Program to support activities under the Australian Government's Plan for a Cleaner Environment.

Export and Regional Wine Support Package

• The Government will provide \$50 million over four years to fund a range of initiatives to promote Australian wine and Australian wine tourism.

Agriculture and Vet Chemicals Regulation

• The Government will provide \$17.1 million over four years from 2016-17 to further reform agricultural and vet chemical regulation.

Environment Protection and Biodiversity Conservation – revised charging arrangements

 The Government will revise cost recovery arrangements for services provided by the Department of Environment in administering the Environmental Protection and Biodiversity Conservation Act 1999.

ACCC Funding - Agriculture

• The Australian Government is providing a total of \$11.4 million over four years (\$2.7 million in 2016-17) to boost the ACCC's engagement with the agricultural sector.

Agricultural White Paper - Knowledge Program

 The Government is allocating \$6.9 million in 2016-17 as part of a pilot program to provide farmers with knowledge and materials on co—operatives and other forms of collaboration. A total of \$13.8 million is dedicated for this initiate

Others (Energy)

Clean and Renewable Energy Innovation

The Government will retain the Clean Energy Finance Corporation and the Australian Renewable Energy Agency (ARENA) and refocus part of their activities towards the Government's innovation agenda. The CEFC's investment mandate will be revised to allocate \$1.0 billion in existing CEFC funding over 10 years to establish a Clean Energy Innovation Fund under the CEFC to be jointly managed by ARENA.