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Briefing Paper

2017/18 Federal Budget

170509

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Introduction

Prior to the release of the annual Budget, a lock-up was conducted for key stakeholder groups at the Hyatt Hotel, Canberra. 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 Budget Papers are embargoed until the commencement of the Treasurer's speech at 7.30pm and all Portfolio Budget Statements are embargoed until 8.15pm.

Richard Hyett 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 water and energy and a brief outline of matters relevant to agriculture 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 \$37.6 billion in 2016-17 followed by an estimated deficit of \$29.4 billion in 2017-18 and \$21.4 billion in 2018-19. The projects assume a significant reduction in the deficit by 2020-21 (to only \$2.5 billion). Based on the net operating balance, this year's Federal Budget Papers project a surplus of \$7.4 billion in the last year of the forward estimate.

The budget aggregates are captured in the diagram below¹:

Table 1: Budget aggregates

	Actual	Estimates		Projections		Total(a)	
	2015-16	2016-17	2017-18	2018-19	2019-20		2020-21
Underlying cash balance (\$b)(b)	-39.6	-37.6	-29.4	-21.4	-2.5	7.4	-45.9
Per cent of GDP	-2.4	-2.1	-1.6	-1.1	-0.1	0.4	
Net operating balance(\$b)	-33.6	-38.7	-19.8	-10.8	7.6	17.5	-5.5
Per cent of GDP	-2.0	-2.2	-1.1	-0.6	0.4	0.8	

(a) Total is equal to the sum of amounts from 2017-18 to 2020-21.

(b) Excludes expected net Future Fund earnings before 2020-21.

This year's Federal budget has also revised the key economic parameters as per the table below².

Table 2: Major economic parameters^(a)

	Outcomes	Forecasts			Projections	
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Real GDP	2.6	1 3/4	2 3/4	3	3	3
Employment	1.9	1	1 1/2	1 1/2	1 1/2	1 1/2
Unemployment rate	5.7	5 3/4	5 3/4	5 1/2	5 1/2	5 1/4
Consumer price index	1.0	2	2	2 1/4	2 1/2	2 1/2
Wage price index	2.1	2	2 1/2	3	3 1/2	3 3/4
Nominal GDP	2.3	6	4	4	4 1/2	4 3/4

Overall, only small revisions compared to last year's budget.

The message of the 2017-18 continues to be economic growth and jobs through the creation of more opportunities for small businesses. In addition, cost pressures on households and businesses feature prominent in this year's budget.

Compared to the Mid-Year-Economic and Financial Outlook (MYEFO), payments as a proportion of GDP are forecast to fall to 25 per cent by the end of the forward estimates (slight lower than forecast at the 2016-17 MYEFO, before expected to rise again over the medium term. Receipts (as a proportion of GDP) are expected to increase across the forward estimates (broadly in line with forecasts at the 2016-17 MYEFO).

¹ Budget Paper 1

² Budget Paper 1

Matters Specific to Water

Regional Investment Corporation

The Federal Government has announced the establishment of a Regional Investment Corporation (RIC) to streamline the delivery of up to \$4 billion in concessional loans. These loans are targeted at economic growth and investment in rural and regional communities in NSW.

The RIC will administer the Government's \$2 billion farm business concessional loans from 2018-19, as well as the \$2 billion National Water Infrastructure Loan Facility (which was announced in last year's budget). In order to establish the RIC, the Federal Government will provide \$28.5 million over four years from 2017-18.

Ongoing expenses are outlined in Budget Paper 2:

Expense (\$m)	2016-17	2017-18	2018-19	2019-20	2020-21
Department of Agriculture and Water Resources	-	8.2	32.5	31.1	31.6
<i>Related revenue (\$m)</i>					
Department of Agriculture and Water Resources	-	-	3.2	8.8	13.1
<i>Related capital (\$m)</i>					
Department of Agriculture and Water Resources	-	3.1	-	-	-

The RIC will be established as a Corporate Commonwealth Entity with a CEO and an independent board consisting of three part-time members. The RIC will be guided by an investment mandate issued by the Minister for Agriculture and Water Resources and the Minister for Finance which will set out the Government's expectations for the RIC, including the framework for the operation of the RIC board.

Through the RIC, the Federal Government will be making concessional loans available to farm businesses that are experiencing hardship but are want to expand their business and boost long term profitability. The RIC will also assist in fast-track the construction of dams and priority water infrastructure projects needed to stimulate investment, economic growth and increased agricultural productivity in rural and regional communities.

The media release by Minister Joyce also outlined that the RIC water infrastructure loans will provide an incentive to states and territories to 'break ground on priority water infrastructure projects that will generate local jobs (...) and help agricultural industries expand'.

Farm Business Concessional Loans Scheme – Extension of Eligibility

In 2017-2018, the Australian Government will extend the eligibility of the existing Farm Business Concessional Loans Scheme to include Farm Household Allowance recipients.

Snowy Hydro Limited

In line with the Prime Minister's announcement in March 2017, Budget Paper 1 outlines the projected increases in generation capacity through an expansion of the Snowy Hydro Mountain Scheme. The budget paper states that 'in order to facilitate the expansion of the scheme, the Australian Government has informed the New South Wales and Victorian State Governments that the Commonwealth is open to acquiring a larger share or outright ownership of Snowy Hydro'. Further discussions with NSW and VIC will occur (based on a set of key principles):

1. All funds received by the States would need to be reinvested into priority infrastructure projects.
2. Snowy Hydro's obligations under its water licence would be reaffirmed and the parties would commit to work together to expedite and streamline environmental and planning processes associated with Snowy Hydro 2., without compromising any standards or controls.
3. Snowy Hydro would remain in public hands.

Should there be a greater share held by the Commonwealth, attention need to be focused on SHL water licence.

In addition, the Australian, NSW and Victorian Government have indemnified Snowy Hydro Limited for liabilities arising from water releases in the Snowy River below Jindabyne Dam, where these releases are in accordance with the water licence and related regulatory arrangements agreed between the three governments. The indemnity applies to liabilities for which a claim is notified within 20 years from 28 June 2002.

Departmental Funding – Water Reform

Compared to last year's Federal Budget briefing [[HERE](#)] where funding for Federal governmental agencies responsible for the Federal water reform process dropped off significantly after 2016-17, the Mid-Year Economic and Fiscal Outlook (MYEFO - December 2016) ensured operational funding for the Commonwealth Environmental Water Office, the Murray-Darling Basin Authority, the Bureau of Meteorology and the Department of Agriculture and Water Resources for the next three years. In total, the MYEFO provided \$398 million in funding until 2019 - 2020.

A specific breakdown of the funding at the MYEFO was:

- continuous funding of \$136.3 million for the operations of the Commonwealth Environmental Water Office;
- continuous funding of \$91.8 million to extend the Bureau of Meteorology Water Information Program;
- ongoing funding of \$101.2 million for the Murray-Darling Basin Authority.

In addition, \$69.6 million was earmarked for the water policy functions of the Federal Department of Agriculture and water Resources over the 7 years from 2017-2018, to continue water reform and the implementation of the National Water Initiative, the Murray-Darling Basin Plan and responsibilities under the Water Act.

According to this year's Budget portfolio statements, funding for the Commonwealth agencies are allocated as such:

- Commonwealth Environmental Water Office: \$16,568 million in 2017-18; \$33,292 million in 2018-19; \$41,216 million in 2019-2020; and \$43,142 million in 2020-2021. The funding reflects the increase in Commonwealth Government's water holdings and the necessary funding to enable the payment of fees and charges.
- Bureau of Meteorology: as per MYEFO
- Murray-Darling Basin Authority: as per MYEFO except, estimates for 2020-2021 were included (\$31.3 million)

ACCC Funding - Agriculture

The Australian Competition and Consumer Commission will have received additional funding for a range of programs. This year's budget has allocated funding to the national regulator to conduct a study into the gas market (\$6.6 million over three years), a study into financial system competition issues (\$13.2 million over four years) and retail electricity prices (\$7.9 million).

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 was \$329.9 million (compared to \$298.24 million estimated in last year's budget). Funding across the Basin in 2017-18 is estimated to be \$434 million (compared to \$217 million in last year's budget). Funding in 2018-19 is estimated to be \$336.5 million, \$75.3 million in 2019-20, \$19.5 million in 2020-21. Funding for SRWUI is provided until 2019-2020.

The funding under SRWUI is provided under a number of arrangements, such as the National Partnership on Water for the Future, the Water Management Partnership under the Intergovernmental Agreement on Implementing Water Reform in the Murray-Darling Basin.

Adjustment Mechanism

In line with the Water Act 2007 (Cth), s86AG, funding for the Water for the Environment Special Account is allocated over the forward estimates.

<u>Special appropriations</u>					
<i>Water Act 2007, s. 86AG – amounts credited to the Water for the Environment Special Account</i>	110,000	430,000	320,000	350,000	315,000
<i>Transfer to special account</i>	(110,000)	(430,000)	(320,000)	(350,000)	(315,000)

Pest and Disease

After last year's announcement of \$15 million for the National Carp Control plan over three years, Deputy Prime Minister and Minister for Agriculture and Water Resources has announced \$50 million for emergency pest and disease eradication funding until 2019-2020.

According to Budget Paper three, funding for NSW under the National Partnership will be provided for:

- Pest animal / weed in drought areas: \$0.5 million in 2016-17; \$4 million in 2017-18 (unallocated) and \$2 million in 2018-19 (unallocated).
- Management of established pest and weeds: \$1.1 million each year between 2016-2019.
- Preparedness against pest animals / weed: \$0.3 million each year between 2016 – 2021.

National Partnership Funding³

- Funding for the development of business cases for constraints measures are **still subject to negotiations**. Compared to the last Federal budget, \$10 million is allocated for 2017-18, followed by \$20 million in 2018-19, \$30 million in 2019-20 and \$60 million allocated in 2020-21.
- As per the previous Federal Budget, \$9.4 million is allocated to NSW for the National Partnership on implementing water reform in the Murray-Darling Basin 2017-18 to 2019-2020.
- **\$17 million** is allocated to NSW under the National Partnership on Natural Disaster Resilience. This funding is provided to the states to strengthen community resilience and minimise the impact of a range of natural disasters in Australia. In budget paper 3, it is stated that the 'Commonwealth and States' have a mutual interest in reducing the impact of, and increasing resilience to, natural disaster.
- Compared to last year's budget, funding under the Sustainable Rural Water Use and Infrastructure Program has been revised. In 2016-17 funding to NSW was **\$56.5 million** (compared to \$134.1 million in last year's budget). In 2017-18, funding is estimated to be **\$109.3 million**, followed by \$144.8 million in 2018-19 and \$45.3 million in 2019-20.
- \$1.3 million is allocated to NSW under the National Partnership on the Water Infrastructure Development Fund in 2017-18 (an increase by \$1.2 million from last year). A further \$1 million is allocated to NSW in 2018-19. The National Partnership on the Water Infrastructure Development Fund facilitates long-term economic and regional development by enhancing the knowledge base underpinning water infrastructure planning and decision making.

In addition, the Commonwealth will provide funding of up to \$220 million partially fund the capital construction cost of a 'small number of high priority water infrastructure projects'. The current (unallocated) funding amounts are: \$15 million in 2017-18, \$45 million in 2018-19, \$80 million in 2019-2020 and 2020-21.

³ Budget Paper 3

Great Artesian Basin

There were rumours that the Federal Government would make an announcement on future Great Artesian Basin funding in this year's Federal Budget. While there has not been a specific announcement, the Deputy Prime Minister and Minister for Agriculture and Water Resources outlined in his media release that he is 'looking forward to making additional announcements about funding for water infrastructure in the Great Artesian Basin in the coming days'.

- **Staffing**

- Department of Agriculture
 - Average staffing level decrease 43 ASL to 4,488 between 2016-17 and 2017-18.
- Department of Environment and Energy
 - Average staffing level increase by 25 ASL to 1,972 between 2016-17 and 2017-18. No separate breakdown is provided for the Commonwealth Environmental Water office.
- MDBA
 - Average staffing level decrease by 6 ASL to 288 between 2016-17 and 2017-18
- BOM
 - Average staffing level decrease by 37 ASL to 1,565 between 2016-17 and 2017-18.

Matters specific to Energy

A \$265 million energy package has been announced in the 2017 Federal Budget of which a large amount is related to further gas.

- \$86.3 million over four years is allocated to increase gas production to support affordable prices for households and industries
- \$5.2 million is allocated for a cost benefit analysis on the construction of a gas pipeline through Moomba.
- \$30.4 million is allocated for Bioregional Assessment to assess the impact on waterways, aquifers from unconventional gas projects.
- \$28.7 million is allocated to support the development of onshore gas development
- \$19.6 million is allocated to a gas market reform group to facilitate gas markets.
- \$2 million is allocated to the Australian Energy Market Operator
- \$500,000 is allocated for further studies into regulatory barriers in the energy market.
- \$13.4 million is allocated for an Energy Use Data Model
- \$110 million is allocated for a solar thermal plant in Port Augusta
- \$7.96 million is allocated to the Australian Energy Regulator.

The budget papers also mentioned the ongoing Finkel Review.

Matters Specific to Agriculture

We will refer to the NFF budget briefing in Friday's update for a specific overview of matters related to agriculture, including the \$1 billion for Landcare, the continuation of the instant \$20,000 depreciation for businesses, railway infrastructure, \$180 million funding for research and development (for profit) and changes to a range of agricultural levies.