



*Submission to*

**The Treasurer of Victoria for the  
2013-14 Victorian State Budget**

**A Focus on Victoria's Strengths**

*November 2012*

## **The Victorian Farmers Federation**

The Victorian Farmers Federation (VFF), Australia's largest state farmer organisation and only recognised consistent voice on issues affecting rural Victoria, welcomes the opportunity to comment on small business in Victoria.

Victoria is home to 25 per cent of the nation's farms. They attract neither government export subsidies nor tariff support. Despite farming on only three per cent of Australia's available agricultural land, Victorians produce 30 per cent of the nation's agricultural product. The VFF represents the interests of our State's dairy, livestock, grains, horticulture, flowers, chicken meat, pigs and egg producers.

The VFF consists of a nine person Board of Directors, with seven elected members and two appointed directors, a member representative General Council to set policy and eight commodity groups representing dairy, grains, livestock, horticulture, chicken meat, pigs, flowers and egg industries.

Farmers are elected by their peers to direct each of the commodity groups and are supported by Melbourne-based staff.

Each VFF member is represented locally by one of the 230 VFF branches across the state and through their commodity representatives at local, district, state and national levels. The VFF also represents farmers' views on hundreds of industry and government forums.



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# VFF Pre-Budget Submission Summary

## Departmental Policies and Expenditures

### Department of Primary Industries

*Provide \$250,000 in funding for Agriculture New Entrants / Succession Program*

*Maintain wild dog control as a high priority with a focus on: a) aerial baiting, b) ground baiting program, and c) the develop a program to allow for on-site injection of meat with 1080*

*Fund and resource Queensland Fruit Fly control in the Greater Sunraysia Pest Free Area*

*Develop a pilot electronic Interstate Certification Assurance (ICA) program to reduce regulatory burden on growers.*

### Department of Sustainability and the Environment

*Development of a state-wide groundwater advisory committee*

*Allow greater flexibility in Native vegetation rules*

*\$5 million for a pilot project for funding environmental outcomes on Private land*

### Department of Treasury and Finance

*Increase the Payroll tax threshold for businesses in regional Victoria*

*Removal of automatic indexation on Government charges*

*Fire Service Property Levy alterations*

### Victoria Police Department

*Ensure the Livestock and Farm Crime Specialists Group is adequately funded*

## Non-Departmental Policies and Expenditures

### Energy

*Improve consultation and information on the future for energy supply and demand in Victoria.*

*Immediately discontinue the VEET Scheme*

*Support the VFF bid for federal funding to provide subsidised on-farm energy efficiency audits*

*Support the Victorian Farmers Federation request for federal energy efficiency grants for use on-farm.*

### Infrastructure

*Funding for Irrigation system upgrades infrastructure*

*Commitment to a staged standardisation of the rail network on an industry needs basis*

*Commit to the development of a detailed scoping evaluation of the development of the North East Link*

### Local Government

*Commitment to a parliamentary inquiry into the fairness and equity of the current shire rating system.*

*Commitment to pursue greater Federal funding for local government, with a larger portion going to rural councils*

# 1 Introduction

Agriculture has once again proven to be the shining light of Victoria's economy. Food and fibre exports surged to a record \$8.1bn in 2010-11 and rose another 11% last financial year. This is a major achievement and is testament to the perseverance, ingenuity, and innovation of farmers and the regional workforce and processors that rely on them.

Victoria, unlike some Australian States, does not have large mining investment and activity to prop up the economy and mask some underperforming areas of the local economy.<sup>1</sup> The much publicised "end" of the mining boom has highlighted the dependence of the Federal Government and the resource states on mining royalties and taxes.

The lack of mining investment in Victoria has forced the state to find clever and flexible means of boosting regional growth and exports. It is for this reason the VFF's annual budget submission is entitled, "A Focus on Victoria's Strengths". It is clear that agriculture is one of these strengths and must remain a government priority.

This submission, similar to our 2011/12 and 2010/11 submissions, calls on the state to adopt a number of key investment and policy priorities that will boost farm productivity and profitability.

The VFF does not take our role as a contributor to the public policy debate lightly. The priorities listed in this submission have been developed in consultation with our policy and commodity groups representing 10,000 members operating 7000 of the largest and most productive farms in the state.

We support the government's efforts in returning to a surplus budget and its responsible management of the state's finances. As farmers, we recognise the need to tighten our belts during tough times and make prudent investment decisions during the good times.

With that said, it is clear agriculture is not only undergoing major growth, but is becoming increasingly important to the state's economy. Food and fibre continues to be the biggest export out of the Port of Melbourne. Given the Government's goal of doubling our Food and Fibre exports by 2030, it's crucial that the VFF works in partnership with the government on developing an investment strategy that delivers on that goal.

This submission lists investment opportunities that will drive supply chain efficiencies, increase the quality and quantity of agricultural outputs, as well as policy reforms that remove needless red tape and regulatory barriers that get in the way of farmers doing what they do best – producing food for the world.

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<sup>1</sup> Victoria has a budgeted \$46m in royalties compared to \$201m in Queensland, \$180m in Northern Territory and 4,871m in Western Australia

## 2 Support for Current Programs

The VFF welcomes the Government's prudent management of the state's finances and looks forward to continued support for the following programs, which facilitate food and fibre production.

**Agricultural Research and Development** - At a time when many governments are cutting expenditure the VFF encourages this government to continue its commitment to investing in farm, food and fibre R&D.

**Continuation of Primary Producer registration** - Primary producer registration delivers a \$40m benefit to farmers annually. The Primary Producer Registration recognises farm heavy vehicles travel less than 10,000km a year on the state's roads and should therefore receive a discount on the component of registration that goes towards funding road repairs and maintenance costs. It would be unfair for farmers to be charged the same amount as commercial operators that travel hundreds of thousands of kilometres a year on our roads.

**Local Government Direct Funding** - The VFF would like to support the continued commitment of this government to allocate \$1m a year to each of Victoria's 40 rural councils for 4 years to assist them rebuild and maintain roads and bridges. The VFF is keenly aware of the major backlog of rural infrastructure in need of funding, so we're grateful the government has decided to make a direct injection of funding to help address this problem.

**Roadside pests and Weeds funding** - For too long responsibility and funding for roadside weed and pest control has been ill defined, poorly managed and underfunded. We welcome the Government's decision to more clearly define who is responsible for roadside weed control and deliver \$7.8m over three years towards the problem (announced at the 2012/13 budget). We request that this funding is continued.

**Removal of the Fire Service Levy (FSL) on Insurance** – The VFF strongly supports the removal of the FSL on insurance. We have been harsh critics of the tax on insurance and the resulting disincentive to insure. This is not an easy reform and the Government's dedication to this major reform is commendable.

**Stamp Duty exemption for young farmers** – The VFF commends the State Government for raising the threshold for the stamp duty exemption to \$600k from the previous \$300k level. The 12 month review (for the July 1, 2011 to June 30, 2012 period), completed in November 2012, made it clear the uptake has been less than expected. We welcome the change to the rules, which come into effect in 2013-14.

## 3 Departmental Policies and Expenditures

### 3.1 Department of Primary Industries

#### 3.1.1 Assisting New Entrants / Succession Planning Program

*Provide \$250,000 in funding for YAPs New Entrants / Succession Program*

The VFF's Young Agribusiness Professionals (YAPs) group launched its highly successful Gen F campaign in 2012.

The *Generation F campaign: securing the next generation of food and fibre production* has captured the imagination of students, farmers and those young professionals who service, help and process the state's food and fibre.

Launched in May using online and social media, the campaign has already captured the imagination of people working in food production in Victoria, Australia and as far afield as Pakistan.

The campaign has focussed on issues identified by young delegates at YAPs' 2011 conference, which include:

- How to attract people to agriculture
- How to best promote the agriculture industry and its career pathways
- Overcoming higher entry costs for farm ownership
- How to foster better understanding between producers and consumers

One of the major recommendations from the recent *Inquiry into the capacity of the farming sector to attract and retain young people and respond to an aging workforce* was the need for agriculture to promote itself as a career of choice for young people.

At the same time, Victorian Minister for Agriculture Peter Walsh has set a challenge for Victoria to double its food production in the next 20 years.

Now is the time to get young people involved in determining the best way forward and Generation F is doing just that.

The Generation F campaign has focussed on delivering a series of 10 forums and social events in regional Victoria with representatives from across the agricultural sector.

To date seven events have been held at St Arnaud, Horsham, Wangaratta, the University of Melbourne, Marcus Oldham College, La Trobe University and another near Longerenong College.

It is clear, even half way through the current program of events that urgent action is needed to bring young people into farming and its allied industries. We need to assist young people in taking the next step by creating a positive image of agriculture.

To this end the VFF has developed strategy to rebuild the image of agriculture and rebuild the links between farmers, their rural communities and the next generation – whether they be in regional schools or cities, universities or TAFE campuses.

The VFF is seeking \$250,000 to:

- Facilitate employment opportunities and attract entrants to the industry, by providing a network of organisations to ensure a co-ordinated strategy is developed to attract young people into agriculture.
- Develop local mentors and champions for the agriculture cause. These ‘champions of agriculture’ will nurture a positive image of agriculture by putting faces to the food we produce.
- Building a link between farmers and students. This strategy would focus directly on school visits to farms. Working with established organisations, such as the Primary Industries Education Foundation and Farm Day events to give students of all ages the opportunity to meet the farmers who feed them and discover the values of rural life.

### **3.1.2 Pest Plant and Animal Control**

Vigilance in pest and weed control is imperative for the food and fibre sector. As stated earlier in the submission, the VFF has already mentioned our support for the 3-year funding commitment to roadside pest and weed control. Sustained funding for pest and animal control is an important and worthwhile investment.

A concern has been raised within the VFF with the movement of staff from pest and animal control to deal with emergency matters. This movement of responsibilities often leaves their previous work unattended. While we realise this would be part of low cost staffing options there should be consideration on how to ensure continuity with DPI activities in the face of events requiring an emergency response.

We also believe there needs to be consideration given to some other specific pest and weed funding options as outlined below.

#### **Wild Dogs**

*Maintain wild dog control as a high priority with a focus on: a) Continuing to work with the Federal Minister to begin an aerial baiting program, b) Continuation of the ground baiting program, and c) developing a program to allow on-site injection of meat for 1080 baiting.*

Wild dogs continue to have a devastating impact upon livestock and farmer livelihoods in East Gippsland, North East Victoria and the Mallee. It is important resources be allocated to this issue to ensure a full range of tools are available to control this pest.

The VFF calls, as a matter of urgency, on the State Agriculture Minister and Federal Environment Minister to negotiate an agreement on allowing aerial baiting in Victoria. Active aerial baiting already occurs in New South Wales and Victorian farmers cannot understand why the same rules don't apply in their state.

Victoria's Wild Dog Advisory group is also calling for Government support in allowing on-site injection of fresh meat baits with 1080, which is identified as national best practice.

Currently fresh meat baits are only available from 2 licensed operators, one in Bairnsdale and the other in Melbourne. The baits are processed under strict factory conditions and are relatively expensive.

As the baits are not necessarily fresh meat, in the true sense, they can be unattractive to cunning wild dogs. It would be far cheaper for farmers if locally donated meat was injected by qualified and responsible persons. Obviously, there would have to be steps taken to ensure potential for mistakes do not happen as it is in no one's interest for abuse of the system risking the future use of 1080 baits. The on-site injections should be organised through local VFF or Landcare committees.

### **Fruit Fly**

*The horticulture sector seeks government funding to support the retention of the Greater Sunraysia Pest Free Area.*

DPI needs to fund and resource Queensland Fruit Fly control in the Greater Sunraysia Pest Free Area to ensure growers' continued access to key markets.

### **On-farm red tape**

*The VFF seeks government support to develop a pilot electronic Interstate Certification Assurance (ICA) program to reduce regulatory burden on growers.*

Under current rules farmers must fill out Interstate Certification Assurance (ICAs) by hand on every consignment of fruit that passes through the farm gate. An electronic version of the ICA would dramatically reduce the time and cost to farmers of completing these forms.

## **3.2 Department of Sustainability and the Environment**

### **3.2.1 State groundwater Committee**

*Establish a state-wide groundwater advisory committee*

State groundwater users feel disconnected from the development of state groundwater resource policy. The VFF strongly believes there is a demonstrated need for a state-wide groundwater

committee to provide a clear linkage between users, policy developers and regulators and to enable constructive discussions between each of these groups.

The state of Victoria has the capacity to significantly increase agricultural production. However water is a limiting resource in some regions - especially southern Victoria. Groundwater offers some opportunity for growth in these regions.

By bringing water users, policy developers and regulators into shared discussions, the VFF firmly believes a platform can be developed where the potential of our groundwater systems can be fully investigated and assessed.

Agricultural groundwater users must also be given a greater voice in the face increased competition for access from urban users wanting to secure their supplies. The reality is security of supply is just as crucial to agricultural water users.

A state-wide groundwater advisory committee could bring transparency to the groundwater debate, help deliver a coordinated strategy and reduce the duplication of work undertaken in this field.

### **3.2.2 Native vegetation Regulation flexibility**

*Allow greater flexibility in Native vegetation rules which will lead to greater farm productivity and better environmental and biodiversity outcomes.*

The VFF recognises the efforts the government has made in developing the discussion paper 'Future Directions' on native vegetation regulation. However the VFF believes 'Future Directions' does not present an approach that will significantly reduce red tape and drive productivity on farm.<sup>2</sup>

The VFF opposes the regulation of native vegetation clearing on private land.

Native vegetation regulation (NVR):

- Substantially impinges on private property rights. It has resulted in the effective acquisition of freehold land for public benefit with no compensation.
- Has not created incentives for landholders to maintain and improve native vegetation on private land, resulting in a net decline in quality and extent. In fact NVR creates perverse disincentives for natural resource management.

Improvements in native vegetation quality and extent can be more readily achieved by encouraging landholder and community activities that improve and manage native vegetation, rather than through regulation of clearing. Permitted clearing regulations should be replaced with a more comprehensive system of incentive-based mechanisms and greater support for community groups involved in natural resource management.

The greater use of incentive based mechanisms such as bush tender and environmental stewardship would secure the highest value native vegetation and ensure it is actively managed rather than allowed to degrade. Greater support for natural resource management groups such as Landcare would result in greater management of threats to native vegetation such as invasive species and more revegetation efforts.

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<sup>2</sup> The detailed VFF submission to 'Future Directions' can be found at [www.vff.org.au](http://www.vff.org.au).

### 3.2.3 Native vegetation Management

*\$5 million for a pilot project to fund stewardship activities targeted at environmental outcomes on private land*

Farmers rightly view themselves as environmental managers and continually undertake works that deliver substantial environmental outcomes that provide public as well as private benefits. The private benefit may include many factors other than purely financial considerations and will vary from farmer to farmer. While these non-financial considerations can be significant there will be a limit to the levels of works that provide undertake that also deliver public benefits. Generally the private benefit equals the private cost.

The Australian community is increasingly demanding greater protections and improvements in the quality and extent of native vegetation. However farmers, who own 65 per cent of the Victoria's land, cannot afford bear the cost of these demands. If the wider community wants to improve bio-diversity on private land then they need to pay for the public benefit it delivers.

The VFF's overriding principle on Native Vegetation is - ***any improvements to native vegetation quality and extent desired by the community must be achieved through utilising an incentives and market-based approach.***

The VFF supports this approach and suggests the government invest \$5 million on a pilot stewardship program. This can be an effective approach, but once the principles of a program are established it is important to for trial through a pilot project to assess the effectiveness in Victoria.

## 3.3 Department of Treasury and Finance

### 3.3.1 Payroll tax reduction for Regional Victorian Businesses

*Increase the Payroll tax threshold for businesses in regional Victoria*

Food production, processing and packaging have faced some challenging times in recent years. Often the processing and packaging of food, particularly fresh fruit and vegetables is done close to the areas productions. These activities provide much needed employment in regional Victoria and strengthen the case for regional development and provision of important social services such as healthcare and education.

Currently, Victoria has a relatively low payroll tax rate, but the threshold is also the lowest in Australia. The payroll threshold determines the point at which an employer is obligated to pay the payroll tax. In Victoria, any business that has a total payroll of less than \$550,000 is exempt from payroll tax, but organisations with payrolls greater than \$550,000 must pay the tax, which is a percentage of the total payroll.

A low threshold means more smaller employers must pay the payroll tax. In Victoria the threshold is \$550,000 compared \$1.1m in Queensland (see figure below).

Payroll tax								
	Victoria	South Australia	New South Wales	Western Australia	Tasmania	Queensland	Northern territory	Australian Capital Territory
<b>Payroll tax Rate</b>	4.9%	5.0%	5.5%	5.5%	6.1%	4.8%	5.5%	6.9%
<b>Threshold</b>	\$ 550,000.00	\$ 600,000.00	\$ 689,000.00	\$ 750,000.00	\$ 1,010,000.00	\$ 1,100,000.00	\$ 1,500,000.00	\$ 1,750,000.00

The Henry Tax review pointed out many shortcomings of the payroll tax system and recommended it be replaced by a tax that better captures the value-add of labour.

The VFF is of the view that increasing the payroll tax threshold, particularly for regional areas, would provide relief for those businesses that operate in extremely competitive industries. They also often pay higher transport costs and operate in export markets where they must compete with countries that have much lower labour and regulatory costs.

### 3.3.2 Removal of automatic indexation on Gov't charges

#### *Removal of automatic indexation on Government charges*

It is State Government policy that rises in its taxes and charges are linked to the Consumer Price Index (CPI). The VFF urges the State Government to replace this automatic indexation with a system that allows taxpayers to scrutinise and demand the government justify these increases to ensure government accountability. Further, the VFF wishes to highlight that previous federal governments have reversed their policies on some automatic CPI increases. The VFF argues that indexation of taxes and charges do not provide any incentives for improving productivity or efficiency of State Government service delivery.

Competitive pressures force private enterprise to increase productivity and reduce the costs of production as they cannot automatically apply a CPI rise to their prices. It is reasonable to expect the Government sector to subject to the same drivers for productivity.

Taxes and charges applied on an *ad valorem* basis increase over time as the price of goods or incomes rise. These rises should not be magnified by any increase in the rate of the tax or charge.

If taxes and charges are to be linked to CPI it should be on the basis of CPI minus a percentage, in order to drive increases in productivity.

The current budget processes applied at levels of Government, particularly establishing local government municipal rates, works from a premise of establishing an expenditure level and then allocating this across the rate base. In Victoria these rises have been on a CPI plus basis for some years.

The alternative and more appropriate process method for CPI calculations would be to index the previous budget to CPI minus some percentage. This method would ingrain the need for productivity gains in government service delivery.

Allowing Governments to increase taxes and charges in line with CPI is not conducive to obtaining a more efficient Government sector. The private sector has reduced costs, increased productivity and improved services without the privilege of being able to automatically increase prices. The Government sector should be under the same pressures.

### 3.3.3 Alterations to the Fire Service property levy

Adopt a Variable charge of \$0.20/\$1,000 for both the residential and agricultural properties.

The VFF is supportive of the fire services funding reform. We provided a clearly articulated policy position, based on a charge on building asset value, that we felt provided for a fair collection system and a fair distribution of the burden of funding the fire protection services.

The model adopted by government has a fixed charge and a variable charge based on the CIV of a property type. It was clear the overriding principle adopted when determining the fixed and variable charges was to continue the levels of contributions by each sector under the 'tax on insurance' currently used (as determined by insurance companies) into the new system. The VFF does not agree with this principle. We feel that agriculture is already overpaying towards the fire services and this reform was an opportunity to rectify this imbalance.

VFF research has found there will be extremely large variances on FSPL contributions within the farm sector under the proposed model. The VFF have canvassed a number of members to determine how the new model will affect their contribution to the fire services. We have found that farms within two hours of Melbourne, particularly those with few buildings and high land values, will be paying considerably more under the FSPL model than they are under the current Fire Service Levy scheme on insurance premiums. We also found that there will be very large variations in a cost per ha. For example through the survey results, we found the minimum charge faced is \$0.44/ha, with the average just over \$14/ha. Worryingly, the highest charge is over \$100/ha.

The following table provides information on the proposed model for Fire Services Property Levy.<sup>3</sup> It shows that the residential sector is underpaying compared to their CIV values and agriculture is overpaying.

VFF analysis shows that if a variable rate of \$0.20/\$1,000 for both residential and agriculture properties would have a minimal effect on the average residential charge and a significant reduction in the average assessment charge for farmers.

It is important to note that most farmers will receive more than one assessment. VFF Survey data has revealed that the average farmers receive between 3 and 4 municipal rates assessments, so this will place the average cost of fire services at over \$1,200 per farm family under the currently proposed system.

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<sup>3</sup> The data in the model is based on 2008 information, which will provide an accurate relative comparison but may not be accurate in absolute terms.

<b>Fire Service Property Levy - Sensitivity Analysis</b>				
	Residential	Commercial	Industrial	Rural
Assessments (With Building)	1,074,445	64,539	30,619	113,542
Assessments (without building)	100,912	2,975	5,429	46,292
Total Assessments	1,175,357	67,514	36,048	159,834
Fixed Charge	\$ 100.00	\$ 200.00	\$ 200.00	\$ 200.00
Total Fixed Charge collection	\$ 117,535,700.00	\$ 13,502,800.00	\$ 7,209,600.00	\$ 27,337,600.00
Total CIV	\$ 330,906,032,625.00	\$ 33,702,632,063.00	\$ 22,159,476,658.00	\$ 81,843,330,281.00
Proportion of CIV	70.4%	7.2%	4.7%	17.4%
<b>Currently Proposed Model</b>				
FSPL rate - Current Model	\$ 0.12	\$ 1.29	\$ 2.58	\$ 0.52
Total Variable collection	\$ 39,708,723.92	\$ 43,476,395.36	\$ 57,171,449.78	\$ 42,558,531.75
Total Collection from each sector	\$ 157,244,423.92	\$ 56,979,195.36	\$ 64,381,049.78	\$ 69,896,131.75
<b>Average Charge - Current Model</b>	<b>\$ 133.78</b>	<b>\$ 843.96</b>	<b>\$ 1,785.98</b>	<b>\$ 437.30</b>
<b>VFF Proposed Model (\$0.20/\$1,000)</b>				
FSPL rate - VFF Proposed Model	\$ 0.20	\$ 1.29	\$ 2.58	\$ 0.20
Total Variable collection	\$ 65,898,589.60	\$ 43,476,395.36	\$ 57,171,449.78	\$ 16,368,666.06
Total Collection from each sector	\$ 183,434,289.60	\$ 56,979,195.36	\$ 64,381,049.78	\$ 43,706,266.06
<b>Average Charge - New Scenario</b>	<b>\$ 156.07</b>	<b>\$ 843.96</b>	<b>\$ 1,785.98</b>	<b>\$ 273.45</b>

Notes: This assumes 1 fixed charge per rural assessment(with building) and 1 fixed charge for every 2 rural assessment (without a building).

### **3.4 Victoria Police department**

#### **3.4.1 Additional funding for the already established rural crime initiative**

*Ensure the Livestock and Farm Crime Specialists Group is adequately funded*

In the last financial year alone the estimated cost of reported stolen livestock was more than \$500,000 and the theft of sheep jumped 129%. There were also 27 tractors reported stolen from Victorian farms last year. These sorts of losses are not only a burden to the industry but also have a devastating effect on individual farm businesses. Also, it must be noted that farm theft often goes unreported.

Based on reports from VFF members we have seen stock thefts increasing in recent years. It seems that one downside of the recent excellent livestock prices that we have been receiving is that it has also made stock theft, particularly sheep, a more attractive target for thieves.

We are clearly very supportive of the establishment of the Specialist Rural Crime Group. The Victorian Government is to be congratulated on delivering on its election promise to set up this Specialist Group, for too long the theft of stock was a crime not taken seriously.

The success of this group will ultimately be determined by the resources made available for the initiative. The VFF would like to ensure that the Specialist group is adequately funded into the future.

## 4 Non-Departmental Expenditures

### 4.1 Energy Supply and Demand in Victoria

Energy prices are a major concern for many primary producers. In particular, dairy producers and horticulture producers are large users of energy. The VFF would like to see significant changes in the communication and transparency from the government for 'Victoria's energy plan' and also a reconsideration of the current approach.

#### 4.1.1 Planning for the future

*The State Government consult with businesses on future energy supply and demand in Victoria, in a bid to deliver a state energy strategy.*

When consulting with members in preparation for this pre-budget submission there was a common theme of concern about the future of electricity in Victoria. As a representative of a significant number of medium electricity demand businesses and some large demand users, the overriding concern has been the increase in electricity prices, but that has not been the only concern raised. There was also concern on the current electricity generation capacity and if that is sufficient for future needs.

While researching for this pre-budget submission the VFF found the DPI energy website to be significantly out-dated with many pages not updated in several years.

The VFF feels that more can be done to explain to energy users in Victoria what the Government's approach to the energy market from a holistic approach. Often electricity programs are explained from a single program/policy perspective (for example smart meters, VEET, etc.), but this does not create comfort that the future needs of business are being considered. With this in mind better dialogue with business is recommended.

#### 4.1.2 Removal of the VEET Scheme

*Immediately discontinue the VEET Scheme*

The VFF is concerned with the impact of the Victorian Energy Efficiency Target (VEET) program on the cost of energy to farms in Victoria and request the program be discontinued as soon as possible.

We do not believe the program delivers network wide benefits and there are very few activities under the program that can reduce energy use by farms directly. Therefore, the VEET program will raise the cost of electricity for farms and not deliver any benefits for food producers.

According to the ESC, who is administering the program, the cost of a Victorian Energy Efficiency Credit (VEEC) to retailers in the first two years was between \$3 and \$12. In the third year, while the program was still only for households the VEECs were between \$28 and \$38. During these years the

total pool of credits was 2.7m annually. If we assume that the average price for a VEEC in its third year was \$33 then the total program increase energy cost to households by \$89.1m in 2011.

The expansion of the VEET program to business in 2012 accompanied by the increase in required VEECs to 5.4m will further increase the price of electricity to users. Latest information from the ESC place the average cost per VEEC at approximately \$22 which will add \$114m to the cost of energy for Victoria's homes and businesses.

Recently, the Productivity Commissions report entitled, "COAG's Regulatory and Competition reform Agenda: A high level assessment of the gains". The Report (pg. 23) stated the following:

*The introduction of the carbon pricing mechanism on 1 July 2012 brings into sharp relief the status and contribution of pre-existing policies that also aim to reduce greenhouse gas emissions and/or improve energy efficiency. The Commission identified around 230 such policies at the Australian, State and Territory government level in 2011 (PC 2011b). Many of these policies impose material costs on the community for little or no benefit.*

The report went on to classify the programs as either a) Policies that could deliver abatement in addition to what would have been achieved through the carbon price, but at a higher cost than the permit price; b) Policies that will deliver no additional abatement, but will change the mix of abatement and impose additional costs.; or c) Policies that may complement the effects of the price mechanism.

The report stated that the policies and programs that fit in the first two categories should be discontinued (Page 24).

*Based on this taxonomy, there would appear to be material benefits from terminating schemes such as:*

- *mandatory renewable energy targets (RETs)*
- *feed-in tariffs*
- *support for low-emissions technology demonstration plants*
- *mandating minimum energy performance standards for products*
- *subsidies, incentives or mandates for investment in energy efficiency*
- *energy efficiency target schemes*
- *requirements for reporting energy use and energy efficiency opportunities (PC 2008d).*

The VEET program and the requirement to purchase VEECs is an example of "subsidies, incentives or mandates for investing in energy efficiency". In light of this report by the Productivity Commission, we ask that the State Government reconsider its position in maintaining the VEET program that we feel inflates the already inflated electricity price due to the carbon price.

The VFF recommends the VEET program is discontinued.

### **4.1.3 Primary producer energy efficiency support**

*Support the VFF bid for federal funding to provide subsidised on-farm energy efficiency audits*

As mentioned earlier, electricity can be a significant input cost for many farms. While we do not support the VEET scheme, largely because it has an inflationary effect on electricity prices and does not offer assistance for farms, we do support on-farm assistance to deliver energy efficiency.

The NSW government offers a number of programs to improve energy for businesses. The approach taken by NSW has been to offer support through:

- Subsidised energy efficiency audits
- Technical support for energy efficiency projects
- And energy efficiency resources and training

The VFF would be very supportive of subsidised energy efficiency audits. These audits should do the similar function as the NSW audits, such as:

- investigate your past energy consumption to identify trends and anomalies
- analyse your tariff and energy bill
- break down your site's energy use
- identify numerous energy saving projects
- calculate the energy cost and consumption savings and a payback period for each of these projects
- detail an implementation plan and a measurement and verification plan

### **4.1.4 Energy Efficiency grants available for large energy users**

*Support the Victorian Farmers Federation request for federal energy efficiency grants for use on-farm.*

As a natural follow on from the subsidised energy audits for use on-farm, there should also be funding made available to implement the resulting recommendations. There is currently a program under the Federal Clean Energy Futures Program designed at assisting food processors through the Clean Technology Food and Foundries Investment program.

The VFF have been pursuing the Federal government to open the eligibility criteria under this program to allow primary producers to use the grants to improve energy efficiency. Across the dairy and horticulture industries in Victoria there are significant energy efficiency gains to be obtained, but these significant investments will need government support.

If the VEET program continues, there should be a focus on how that program can deliver on-farm benefits through improved efficiency.

## **4.2 Infrastructure**

### **4.2.1 Water Infrastructure**

#### *Funding for Irrigation system upgrades infrastructure*

The VFF request state government assistance for the maintenance of water delivery infrastructure within irrigation districts. Both Northern and Southern irrigation regions are in need of additional funding to continue to operate as cost effective and efficient irrigation systems. The VFF understands that some projects, namely system upgrades within the Lower Murray Water region are currently awaiting the availability of federal government funding. While these negotiations are underway, the burden of funding system upgrades is firmly placed on irrigators.

The VFF calls upon state government to provide for forward funding for irrigation system upgrades.

### **4.2.2 Standardisation of the Rail Network**

#### *Commitment to a staged standardisation of the rail network on an industry needs basis*

In addition to the container the bulk freight currently being moved on rail in the North West of the state, there are strong indications that there is the potential for guaranteed mineral sands freight from southern NSW if the standardisation of the Robinvale and Kulwin lines were completed by 2015.

A key part of the rail upgrades should be standardisation of the Victorian regional freight rail network which will reduce the complexity and cost of transporting freight both within the state and nationally. Standardisation will provide vastly improved flexibility of the use of rolling stock and therefore make it easier for new entrants to enter the market.

Industry estimates place the cost of standardisation of the freight network in Victoria at 250m. This is a relatively small investment considering the added ability to efficiently use the standard gauge rolling stock all along the eastern states as the demand dictates.

Standardisation of the freight lines should include connecting with the South Australian line between Murrayville and Pinnaroo. There are significant efficiency gains with this connection as Murrayville is 248km closer to Pt. Adelaide than Port of Geelong.<sup>4</sup> A standard gauge rail line from Murrayville to Adelaide could translate to significant supply chain savings for the farmers in that area.

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<sup>4</sup> *Switchpoint: The template for Rail freight to revive and thrive!*, pg.64

### 4.2.3 Commitment to the North east Link

*Commit to the development of a detailed scoping evaluation of the development of the North East Link*

There is a need to conduct further work on the prospect of the North East link connecting the Western Ring Road and the Eastlink Tollway. The North East Link is estimated to carry around 100,000 vehicles a day, providing quicker and easier access for freight operators, particularly between the growing industrial areas around Ringwood, Dandenong, Campbellfield, the future freight-hub near Donnybrook and an upgraded Port of Hastings. North East link will form part of a major orbital road around Melbourne, serving growing employment hubs at employment localities, including Broadmeadows, Box Hill, Ringwood, Dandenong and Frankston.

To date there has not been a detail scoping document for the link and we believe this is an imperative first step to delivering the link.

Anecdotally there will be high demand within the agriculture sector for the link, considering the feed demands for the large dairy production region of Gippsland. In Gippsland, there are currently 1523 active dairy farms with an average herd size of 299. Based on average intake of feed and supplements there is an annual requirement of over 600kt annually. This equates to over 100 truck trips daily to ship feed from the north, northwest and west of the State to Gippsland. Considering these states do not include feed demand for pig and poultry farms.

In addition to the southeast flow of feed to Gippsland, the Northeast link would also facilitate the western flow of fresh produce and flowers from the eastern Melbourne Yarra Ranges area. Currently, over 25% of all buyers, growers, wholesalers and agents are from the Melbourne's east and southeast.<sup>5</sup>

Considering the growth of both the Gippsland dairy industry and the growth forecast for the Melbourne market after the move to Epping, even before the additional of other freight and passenger flows, the justification for the northeast link becomes compelling.

## 4.3 Local Government

### 4.3.1 Municipal Rates Inquiry

*We ask the state government to commit to a parliamentary inquiry in the equity of the current rating system and the long term sustainability of local government funding.*

The VFF is extremely concerned with the inequity within the current municipal rating system. The CIV based approach to taxing residents to fund local government is flawed as it does not consider capacity to pay and also taxes farmers' income producing asset.

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<sup>5</sup> There are over 56,000 participants on the market and over 14,000 conduct their business in the area East and Southeast of Melbourne.

Based on an analysis of the Rural and regional municipal budgets from 2010/11, we found that approximately \$345m of rate revenue is collected from business and all other non-residential sources, with \$170m collected from farmers and farmland – a staggering 49.34% of business rates. Considering the regional economy is approximately \$71bn and the farmgate value of agriculture production is approximately \$9.6bn, agriculture makes up 13.5% of the regional economy, it is clear that the current rating system disadvantages farmers, due to the land intensive nature of the business.

We ask the state government to commit to a parliamentary inquiry in the equity of the current rating system and the long term sustainability of local government funding.

### **4.3.2 Local Government grant distribution**

*Commitment to pursue greater Federal funding for local government, with a larger portion going to rural councils*

The VFF is of the view that a significant driver of the inequity faced by farmers in funding local government is a result of the current level of grants from the Federal Government.

This is one of several approaches that need to be taken to address the rating in balance. There is little doubt that there needs to be considerably more investment made into local infrastructure. A possible approach could be to alter the 'Standardised Revenue' portion of the State grants formula to assume a differential on farm land. Based on the 2010-11 annual report the assumed average revenue rate for farm land is approximately 2% higher than the average residential rate. If the standardised revenue assumed a differential for farm land, it would more accurately reflect the use of differentials in the local government budget process. An appropriate starting point would be to assume a differential of 85%.

However, additional steps should be taken to address Local Government funding. An approach that will have no impact on the State budget but will provide a more equitable system will be to amend the Local Government Act to remove the 20% limit on Municipal Charges and create a definition for fair and equitable rating system.

## **5 Conclusion**

The Victorian Farmers Federation looks forward to working with the Coalition government in developing a stronger agriculture industry and rural Victoria. We feel the \$1bn Regional Growth Fund will be the vessel that delivers the much needed investment into infrastructure and services into regional and rural areas.

As noted at the beginning of this submission, the coalition government has taken some important steps towards a more productive farm sector, but more needs to be done.

In this pre-budget submission, we have offered some relatively low cost programs that we feel will complement your outlined policies and invest priorities that will deliver benefits for the sector and the State.

We have also raised long held policies that require serious thought by the government over the next term, such as rail standardisation, the northeast link and an inquiry into the fairness and equity of municipal rating in Victoria.