



**Parliament of Australia**  
**Parliamentary Budget Office**

**Phil Bowen PSM FCPA**  
**Parliamentary Budget Officer**

Senator Christine Milne  
Leader of the Australian Greens  
Parliament House  
CANBERRA ACT 2600

Dear Senator Milne

Please find attached a response to your costing request, *Increasing R&D in agriculture* (letter of 14 August 2013).

The response to this request will be released on the PBO website ([www.aph.gov.au/pbo](http://www.aph.gov.au/pbo)).

If you have any queries about this costing, please do not hesitate to contact Colin Brown on (02) 6277 9530.

Yours sincerely

Phil Bowen

21 August 2013

## COSTING – ELECTION CARETAKER PERIOD

| Name of proposal to be costed:                | Increasing research and development (R&D) in agriculture                                                                                                                                                                                                                                                                                                                      |
|-----------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Summary of proposal:                          | <p>The proposal would:</p> <ul style="list-style-type: none"><li>• increase Commonwealth funding for agricultural research and development by 7 per cent per year</li><li>• create a new Centre for Sustainable Agriculture, and</li><li>• fund a national network of 180 agricultural extension officers.</li></ul> <p>This proposal would have effect from 1 July 2014.</p> |
| Person/party requesting costing:              | Senator Christine Milne, Australian Greens                                                                                                                                                                                                                                                                                                                                    |
| Date costing request received:                | 14 August 2013                                                                                                                                                                                                                                                                                                                                                                |
| Date costing completed:                       | 21 August 2013                                                                                                                                                                                                                                                                                                                                                                |
| Date of public release of policy:             | 8 August 2013                                                                                                                                                                                                                                                                                                                                                                 |
| Agencies from which information was obtained: | Not applicable                                                                                                                                                                                                                                                                                                                                                                |

### Costing overview

This proposal is expected to decrease both the underlying cash balance and fiscal balance by \$360.5 million over the 2013-14 Budget forward estimates period. This impact is entirely due to increased expenses. This proposal would have an ongoing impact that extends beyond the forward estimates period.

The estimates in the costing differ from those presented in the costing request because parameters and data have been updated for the *Pre-Election Economic and Fiscal Outlook* report.

This costing includes the following components:

- increase overall Commonwealth funding by 7 per cent per year, and
- fund an additional 180 agricultural R&D agricultural extension officers.

In addition, the costing includes the estimated cost of an uncapped contribution of 20 cents for each dollar committed by an RDC, consistent with the policy statement Agricultural R&D Initiative released on 8 August 2013, and referred to in the costing request.

The financial implications of these components are included at [Attachment A](#).

## POLICY COSTING – ELECTION CARETAKER PERIOD

The PBO does not expect departmental expenses associated with this proposal to be significant. The costing assumes departmental expenses are to be accommodated within existing departmental resources except for an amount of administrative expenses associated with providing the extension officer network component of this costing request as detailed at Attachment A.

This costing is considered to be of medium reliability as it is based on several assumptions and aggregate data.

**Table 1: Financial implications (outturn prices)<sup>(a)</sup>**

| Impact on                     | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|-------------------------------|---------|---------|---------|---------|
| Underlying cash balance (\$m) | -       | -116.0  | -122.0  | -122.5  |
| Fiscal balance (\$m)          | -       | -116.0  | -122.0  | -122.5  |

(a) A negative number for the fiscal balance indicates an increase in expenses in accrual terms. A negative number for the underlying cash balance indicates an increase in expenditure in cash terms.

### Key assumptions

The PBO has made the following assumptions in calculating the estimated impact of this proposal:

- Commonwealth agricultural R&D spending is assumed to grow over the 2013-14 Budget forward estimates period in line with the average historical growth rate observed over the period 2000-01 to 2008-09. This includes the most up to date information from ABS catalogue no. 8112, *Research and Experimental Development*, as the last outcome published is for 2008-09.
- It is assumed that around 55 per cent of RDC contributions would be from private sector agricultural levies, based on a *2009 Evaluation Report* published on the Rural R&D corporation's website (<http://www.ruralrdc.com.au/Page/Home.aspx>).
- Total annual spending by RDCs is assumed to grow in line with the economy over the 2013-14 Budget forward estimates period.

### Methodology

The increased funding for Commonwealth agricultural R&D was calculated by estimating the level of agricultural R&D over the 2013-14 forward estimates period including the 7 per cent per annum increased funding and subtracting the amounts that are currently expected to be spent over this period.

The provision of an uncapped contribution of 20 cents for each dollar committed by an RDC that was raised from agricultural levies was costed by multiplying the estimated amount of RDC contributions from levies each year by 20 per cent.

### Data sources

- ABS catalogue no. 8112 - Gross expenditure on R&D, by sector–by field of research
- [http://www.daff.gov.au/agriculture-food/innovation/research\\_and\\_development\\_corporations\\_and\\_companies](http://www.daff.gov.au/agriculture-food/innovation/research_and_development_corporations_and_companies)
- <http://www.ruralrdc.com.au/Page/Home.aspx>

## ATTACHMENT A: DETAILED BREAKDOWN OF THE COSTING

### *Increasing overall Commonwealth funding for agricultural R&D by 7 per cent per year*

This proposal is estimated to have the following financial implications.

| Impact on (outturn prices) <sup>(a)</sup> | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|-------------------------------------------|---------|---------|---------|---------|
| Underlying cash balance (\$m)             | -       | -30.0   | -30.0   | -30.0   |
| Fiscal balance (\$m)                      | -       | -30.0   | -30.0   | -30.0   |

(a) A negative number for the fiscal balance indicates an increase in expenses in accrual terms. A negative number for the underlying cash balance indicates an increase in expenditure in cash terms. Estimates have been rounded to \$5 million.

### *Create a new Centre for Sustainable Agriculture as part of the new funding*

This proposal is estimated to be revenue neutral over the Budget 2013-14 forward estimates period because the current Commonwealth contribution to RDCs would be redirected to a new Centre for Sustainable Agriculture as outlined in the policy statement Agriculture R&D Initiative released on 8 August 2013.

### *Providing an uncapped contribution of 20 cents for each dollar committed by a RDC*

This proposal is estimated to have the following financial implications.

| Impact on (outturn prices) <sup>(a)</sup> | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|-------------------------------------------|---------|---------|---------|---------|
| Underlying cash balance (\$m)             | -       | -60.0   | -65.0   | -65.0   |
| Fiscal balance (\$m)                      | -       | -60.0   | -65.0   | -65.0   |

(a) A negative number for the fiscal balance indicates an increase in expenses in accrual terms. A negative number for the underlying cash balance indicates an increase in expenditure in cash terms. Estimates have been rounded to \$5 million.

### *Funding an additional 180 agricultural extension officers*

The PBO assumes that the 180 practitioners would be full-time equivalent employees which would cost around \$24.0 million in 2014-15, \$25.0 million in 2015-16 and \$25.5 million in 2016-17. Administrative costs of \$2 million per annum were included from 2014-15 to provide for the cost of the extension officer network.

| Impact on (outturn prices) <sup>(a)</sup> | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|-------------------------------------------|---------|---------|---------|---------|
| Underlying cash balance (\$m)             | -       | -26.0   | -27.0   | -27.5   |
| Fiscal balance (\$m)                      | -       | -26.0   | -27.0   | -27.5   |

(a) A negative number for the fiscal balance indicates an increase in expenses in accrual terms. A negative number for the underlying cash balance indicates an increase in expenditure in cash terms. Estimates have been rounded to \$0.5 million.