
B Income support for rural families

Farm families and small business owners in financial need in drought affected areas have access to the broad social security measures available to others in financial need in the community such as the unemployed, the disabled and the aged. They also have access to a number of assistance programs that are specifically targeted at the rural sector. Some of these latter programs, including Exceptional Circumstances Relief Payments, Small Business Income Support and Interim Income Support, are triggered by government declarations of drought within a region. There are also programs such as Transitional Income Support and Farm Help Income Support, which provide income support and adjustment assistance to farmers in financial difficulty for reasons not necessarily related to drought. The community sector also provides emergency financial assistance to individuals and small groups in rural areas.

In this appendix, the main features of these programs and the eligibility criteria that farmers or small rural businesses must satisfy to receive financial assistance are outlined. Characteristics of recipients under each program are discussed and an assessment is made of the appropriateness of the programs, the effectiveness with which each program operates, including its accessibility to rural families and the efficiency with which it is delivered.

B.1 EC Relief Payments

Drought related family income support has been in place for farmers since 1994 as ‘Drought Relief Payments’, and was renamed the EC Relief Payment (ECRP) in 1997. ECRP is the primary avenue by which the Commonwealth Government provides income support to eligible farm families in drought declared areas. The payment is intended to assist with day to day family and personal living expenses, rather than farm business operation expenses.

The ECRP is paid fortnightly by Centrelink according to guidelines set by, and with funding provided through, the Commonwealth Government Department of Agriculture, Fisheries and Forestry (DAFF). Payment of ECRP is at a rate equivalent to the Newstart allowance (that is, currently a maximum of \$810.80 per fortnight for a couple), and is taxable. In addition to the basic income support,

ECRP recipients and their families receive a Health Care Card and may also be eligible for concessions under the Youth Allowance and Austudy means test for dependent children.

ECRP can be received for up to two years from the time that EC is declared in a region, although extensions for subsequent years may be made. The initial two year period is inclusive of any income support paid under the Interim Income Support program (see section C.2). Continued eligibility for ECRP is reviewed by Centrelink on a six monthly basis.

Eligibility for ECRP

To be eligible for ECRP, a farm family must demonstrate that they:

- are farmers, when under ‘normal’ conditions
- contribute a significant part of their labour and capital to the farm enterprise
- derive a significant part of their income from the farm enterprise
- are Australian residents located in Australia
- are located in an EC region (this can be demonstrated by obtaining an EC certificate from Centrelink, but with the large increase in the coverage of EC areas in recent years, these certificates are no longer consistently used).

What constitutes a ‘significant’ contribution of labour, capital and income is determined largely at the discretion of Centrelink.

Receipt of ECRP is also subject to assets and income tests that are a modified version of the general Newstart allowance tests (table B.1):

- Certain assets — the principal home (and up to 2 hectares surrounding the home on the same title), formal superannuation (even when over pension age), life insurance (of the farmer only), and essential farm assets (such as farm land and machinery) — are excluded from the assets test for ECRP.
- Furthermore, proceeds from the forced disposal of livestock due to drought are excluded from the ECRP income test, but farmers are required to deposit the proceeds from the forced sale into either a Farm Management Deposit (FMD) or a financial institution term deposit of at least 3 months duration.
- From 25 September 2007 until 30 June 2009, ECRP recipients can also earn an additional \$20 000 in off-farm salary and wages each financial year and still retain their ECRP in full. The additional allowance on off-farm salary and wages may continue to be available beyond 30 June 2009 for current recipients in areas that remain EC declared (Primary Industries Ministerial Forum 2008b).

- In contrast to Newstart allowance, there is no activity test (such as job seeking or training) or other formal mutual obligation required of ECRP recipients.

Table B.1 Comparison of Newstart and ECRP eligibility criteria^a

	<i>Newstart</i>	<i>ECRP</i>
<i>Mutual responsibility</i>	Must be unemployed (not underemployed) Activity test — must look for job and/or undertake training or an approved activity	Must be a fulltime farmer in EC area Activity test — none
<i>Income test</i>	Where claimant earns above \$62 per fortnight or their partner earns above \$769 per fortnight, payments are reduced ^{bc}	Based on Newstart income test but an additional \$20 000 off-farm wage and salary income per annum per couple exempt ^d , proceeds from forced disposal of livestock are exempt ^e
<i>Assets test (combined assets with partner)</i>	Must have combined assets under \$243 500. Principal home and superannuation (if under age pension age) are not included ^f	No total asset limit. Off-farm asset limit of \$243 500. Principal home, life insurance, superannuation of farmer (even where over pension age) are not included
<i>Liquid asset test</i>	Payment may be deferred where liquid assets exceed \$5000 (couple or single with dependants).	Not applicable
<i>Hardship provisions</i>	In severe financial hardship and have unrealisable, non-income producing assets ^g	Not applicable
<i>Payment to individual or couple</i>	Individual	Couple
<i>Maximum fortnightly payment^a</i>	\$405 (each)	\$405 (each)
<i>Additional payments^h</i>	Payable if eligible	Payable if eligible

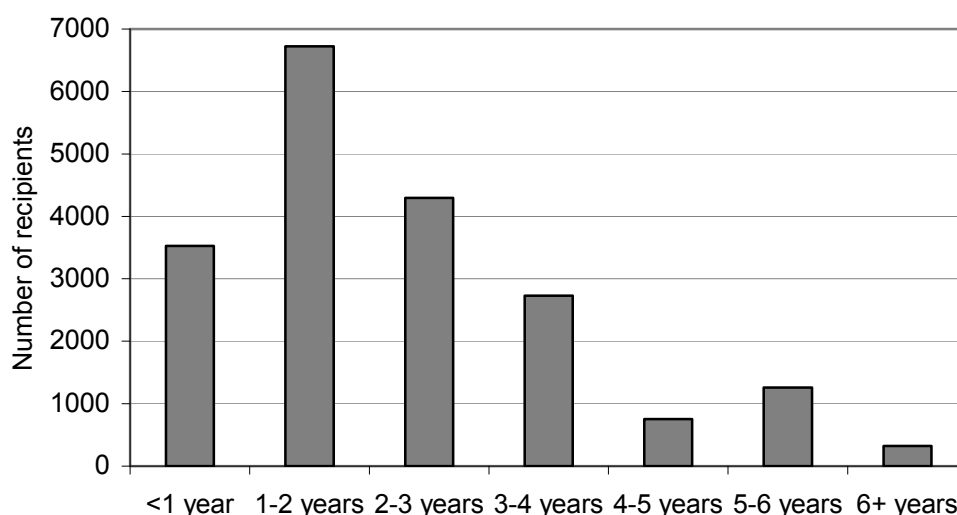
^a Comparison is for a couple who are home owners. ^b Income for the recipient of \$62 to \$250 per fortnight reduces payments by 50 cents in the dollar, each dollar of income over \$250 per fortnight reduces payments by 60 cents in the dollar. As at September 2008, partner income above \$769 reduces the customer's payment by 60 cents in the dollar. ^c Practical effect is maximum allowable income (after working credit) of \$769 per fortnight for the recipient or \$1445 for the recipient's partner. ^d Payment is reduced after earning \$769 per fortnight per couple in off-farm income (this \$769 is proportioned between the two depending on the amount of off-farm income earned by each spouse, plus \$62 each in either off-farm or on-farm income. Assumes application is made at beginning of financial year — higher earnings may be possible if application is made later in financial year. ^e Where the proceeds go into FMDs or a term deposit of at least 3 months duration. ^f This asset test does not include the principal home and permanent fixtures, it does include household contents, cars, boats and surrender value of any life insurance. ^g That is, cannot derive income or borrow from assets or asset is currently for sale or unable to be sold due to legal restriction. ^h Rent assistance, Pharmaceutical, Telephone, Zone Allowances.

Source: Centrelink (2008 unpublished).

ECRP recipients

At the beginning of 2009, there were around 20 000 farm families across Australia in receipt of ECRPs. This equates to around 30 000 individuals who are receiving support under ECRP (as approximately two thirds of recipient farm families receive ECRP payments for two adults). While most families have received assistance continuously for 1 to 2 years (figure B.1), around half have been supported for longer, with the earliest current recipients having received ECRP assistance continuously since late 2002 (Centrelink 2009 unpublished). Since 2002-03, a total of \$1.23 billion in ECRP has been paid to farm families across Australia. The average amount received by each farm family is now around \$13 000 per year (compared with a maximum possible \$21 080 per year), more than double that received in 2002-03.

Figure B.1 **Length of time in continuous receipt of ECRP^a**
Recipients current at 9 January 2009



^a In addition to those who have received assistance continuously, each group may also include families who ceased to receive assistance for a short period and then recommenced receipt.

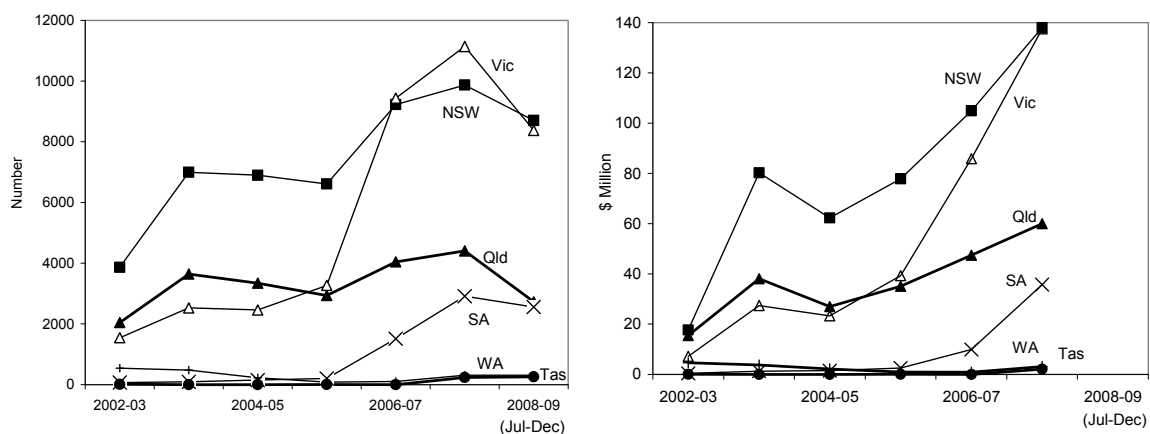
Data source: Centrelink (2009 unpublished).

Farmers in New South Wales and Victoria received just over 70 per cent of Australia's ECRP payments over the period from 2002-03 to the end of 2008, with most of the remainder being in Queensland (figure B.2). Use of the program has escalated in all states in recent years. In 2008-09 to date, the total number of recipients has declined due to a number of EC areas expiring. Within the areas that remain in EC, the number of recipients has gradually risen over recent months with slightly more new applicants for ECRP than there are recipients leaving the program (Centrelink pers. comm. 2009).

The most common reason for claimants no longer receiving ECRP in the first half of 2008-09 is that the drought end date has been reached in the relevant area (nearly 40 per cent of claimants). The end of EC was also associated with a reduction in claimants in earlier years (18 per cent of cancelled claims in 2007-08). However, income levels that precluded entitlement to assistance (25 per cent of claimants) and failure of the claimant to reply to Centrelink correspondence (18 per cent of claimants) were also common reasons for cessation of ECRP in 2007-08.

There were also approximately 104 farms (19 per cent of cancelled claims) in the first half of 2008-09, 284 farms (3 per cent of cancelled claims) in 2007-08 and 184 farms (8 per cent) in 2006-07 reporting that they had left farming or the farm business, and therefore ceased to receive ECRP. The majority of those ECRP recipients who left farming were irrigated dairy farms in the Goulburn-Loddon, Campaspe and Victorian Murray regions; or dryland grazing and mixed farms in South Western Victoria.

Figure B.2 ECRP recipients and payments by state, 2002-03 to 2008-09^{ab}



^a The number of recipients and total payments in the ACT and Northern Territory are omitted but are very small (fewer than 15 recipients per year and total payment over the 6 year period of less than \$500 000).

^b Recipient numbers for 2008-09 represent the number of farm families receiving ECRP at end November 2008. Payment estimates for July to November 2008 are not comparable with estimates for previous complete financial years and are therefore not presented.

Data source: Centrelink (2008 unpublished).

Given how widespread Australia's drought declarations have been in recent years, farmers in all industry groups have received ECRP, albeit to varying extent. The number of ECRP recipients and the total amount paid is highest in the mixed crops and livestock industry (table B.2). Approximately two thirds of all farms in this industry group are estimated to have received ECRP assistance in 2007-08. A high proportion of farms in the dairy, cropping and sheep-beef industries also received assistance. Centrelink (2008 unpublished) indicated that the majority of long term recipients of ECRP (those who have received assistance continuously since

2002-03) are sheep and mixed sheep–beef producers in western NSW, which may partly reflect early EC declarations in this part of Australia (see chapter 5).

Table B.2 ECRP recipients and payments by industry, 2007-08

	<i>Number of recipients</i>	<i>Proportion of all farms in industry^a</i>	<i>Average gross receipts</i>	<i>Total gross receipts</i>
	Number	%	\$	\$ million
Beef	4 659	10	12 999	60.6
Dairy	3 940	44	13 109	51.6
Cropping	2 369	21	12 718	30.1
Mixed crops & livestock	9 121	66	13 222	120.6
Sheep–beef	2 003	24	13 193	26.4
Sheep	1 678	14	12 488	21.0
Other livestock	413	9	12 333	5.1
Fruit & viticulture	1 876	14	11 945	22.4
Other crops ^b	732	5	12 957	9.5
Other ^c	2 096	na	14 082	29.5
Total ^d	28 887	na	13 045	376.8

na Not available. ^a There may be some differences in the industry reported by ECRP recipients compared with the classification given to their farm by the ABS on the basis of production. ^b Includes vegetables, flowers, nursery, rice, cotton and sugar. ^c Most of this group is reported to be 'other non-irrigated', although 'aquaculture' and 'not stated' are also included in the aggregate. ^d Total includes all recipient farm households during 2007-08 (both ongoing recipients and those who received payments for only a part of the year).

Sources: ABS (2008b); Centrelink (2008 unpublished).

There have been several surveys of ECRP recipients in recent years that shed some light on the similarities and differences in the farms of recipients and non recipients. The South Australian Centre for Economic Studies (SACES 2008a) reported the characteristics of 263 recipients of ECRP in 2007. Boero Rodriguez, Watson and Mues (2006) provided information on 320 farms that received ECRP and ABARE (2008 unpublished) provided information based on 1435 recipients of ECRP over the period 2002-03 to 2007-08.

During this period, ECRP recipients had farms that were smaller, on average, than those of non recipients. SACES (2008a) reported that 20 per cent of ECRP recipients had farms of less than 200 hectares, but 37 per cent had farms that were greater than 1000 hectares (non recipients in EC areas have, on average, farms of around 5000 hectares). ABARE estimates indicate that amongst surveyed broadacre and dairy farms, those of ECRP recipients are smaller in both land area and scale of operation (table B.3). On average, ECRP recipients tend to have lower sheep numbers, lower wool production and lower beef cattle numbers, than non-recipients within EC areas. There is no evidence of a significant downsizing having occurred on the farms of ECRP recipients over the survey period, suggesting that these farms were smaller than average prior to the drought.

Table B.3 ECRP recipients and non recipients: physical and short term financial position of farms

Average annual data per farm for the period 2002-03 to 2007-08^a

	<i>Farms in EC declared areas</i>		<i>Farms in</i>	
	<i>Recipients</i>	<i>Non recipients</i>	<i>non EC areas</i>	
Physical				
Area of land operated	ha	3 262	5 655	7 320
Area irrigated	ha	5	8	5
Scale of operations	sheep equiv.	5 994	7 063	10 710
Wheat yield per hectare sown	tonnes	1.0	1.4	1.7
Barley yield per hectare sown	tonnes	1.0	1.6	1.9
Sorghum yield per hectare sown	tonnes	2.3	2.8	3.0
Sheep numbers at end June	no.	1 010	1 138	1 660
Change in sheep numbers	%	-4.3	-3.5	0.8
Wool cut per sheep shorn	kg	4.2	4.4	4.3
Beef cattle numbers at end June	no.	169	299	327
Change in beef cattle numbers	%	1.0	0.5	0.5
Dairy cattle numbers at end June	no.	54	31	45
Milk production	litres	166 248	103 407	144 791
Stocking rate (sheep equiv.)	per ha	1.0	0.7	0.8
Receipts				
Total cash receipts	\$	267 545	355 566	444 748
Cash receipts per sheep equiv.	\$	45	50	42
Costs				
Sheep and lamb purchases	\$	7 099	6 489	8 440
Beef cattle purchases	\$	15 122	37 807	16 826
Other livestock purchases	\$	1 574	821	1 189
Seed	\$	3 320	3 729	3 626
Fodder	\$	33 251	30 580	22 026
Agistment	\$	3 850	2 483	1 695
Fertilizer and sprays	\$	25 348	33 549	69 254
Fuel, oil and lubricants	\$	17 890	18 954	23 800
Repairs and maintenance	\$	21 443	23 327	30 982
Livestock materials & expenses	\$	8 669	11 238	15 509
Administration expenses	\$	8 872	9 569	11 882
Freight, handling and marketing	\$	11 554	16 992	24 590
Rent and rates	\$	12 695	13 613	15 600
Interest payments	\$	29 516	23 915	31 926
Hired labour	\$	6 784	13 508	15 453
Payments to sharefarmers	\$	846	3 076	3 041
Other cash costs	\$	30 475	42 732	48 380
Total cash costs	\$	238 308	292 383	344 222
Cash costs per sheep equiv.	\$	40	41	32
Fodder expenditure per sheep equiv.	\$	11	8	4
Farm financial performance				
Farm cash income	\$	29 237	63 184	100 527
Farms with negative cash income	%	33	30	26

^a All estimates, except those italicised, have a relative standard error of less than the estimate.

Source: ABARE (2008 unpublished).

In contrast, and reflecting the high dependence of the dairy industry on ECRPs, recipients tend to have significantly higher stocks of dairy cattle and higher milk production than either non recipients within EC areas or other farms in non-EC areas. Stocking rates (the number of animals per hectare of land) are also significantly higher, on average, on farms of ECRP recipients than non recipients.

There is little difference evident in the financial and business structure of ECRP recipients compared with other farms. Both SACES (2008a) and Boero Rodriguez, Watson and Mues (2006) reported that, in line with the majority of farms in Australia, sole trader and family partnerships are the dominant forms of farm ownership for ECRP recipients. Furthermore, one third of ECRP farm units had more than one family unit supported by the farm (SACES 2008a).

Farm income levels were found to be substantially lower for ECRP recipients than for other farms. ABARE estimated that farm cash income levels (cash receipts less cash costs) of ECRP recipients averaged around \$29 000 — about 46 per cent of the average farm cash income level of non recipients in EC areas and about 29 per cent of the average farm cash income level of those not in an EC area. The lower farm cash income is partly due to the smaller overall size of recipient farms but is also attributable to lower cash receipts — crop yields tend to be lower, on average, on the farms of ECRP recipients.

However, the cost structure of these farms also differs. Recipients tend to spend less on hired labour and payments to share-farmers, and a greater share of farm activities tends to be undertaken by the owner/manager and family members. Recipients also spend substantially less on fertilisers and sprays, and freight, handling and marketing expenses, but more on agistment and fodder. ECRP recipients spend significantly more on fodder per animal (on a sheep equivalent basis), on average, than do non recipients. It is not clear whether the cost structure of ECRP recipients, compared with non recipients, reflects receipt of government subsidies for fodder transport in some states or retention of greater numbers of stock (in particular, dairy cattle) on lower quality pastures.

One immediate implication of the lower farm cash income levels of ECRP recipients is a substantially lower level of liquid assets and reduced capacity to meet debt payments. While the absolute level of debt for recipients is marginally lower, on average, than that of farms not in EC areas, the liquidity to debt ratio is around 11 per cent for recipients, compared with 52 per cent for farms in EC areas but not receiving assistance and 37 per cent for farms not in EC areas (table B.4). Another implication of lower farm cash income levels is that the balance held in FMDs and the proportion of farms increasing their FMD balance is lower amongst ECRP recipients than non recipients.

There is evidence that some farmers, particularly those with smaller operations, have offset lower farm income with off-farm earnings. ABARE (2008 unpublished) estimated that 42 per cent of small ECRP recipients (on the basis of the scale of operations), 36 per cent of medium and 32 per cent of larger ECRP recipients earned some off-farm income. SACES (2008a) reported that the number earning off-farm income was highest amongst irrigators, which may reflect the proximity of many of Australia's irrigation areas to towns and opportunities for off-farm employment.

Off-farm income from investments, wages and salaries was, on average, around \$12 300 for ECRP recipients over the period 2002-03 to 2007-08 (ABARE 2008 unpublished). This was less than half of recipient's total off-farm income, with the remainder sourced from the government. Income from government sources consists not just of ECRPs, but also assistance provided as Dairy Structural Adjustment Payments, ECIRS and 'other government sourced income'. It was estimated that 44 per cent of farms that get ECRP also received farm business support in the form of ECIRS. In contrast, non-recipients of ECRP within and outside of EC areas earned an average of around \$30 000 per year in off-farm income — almost all from investments, wages and salaries.

There is no evidence that age is a defining characteristic of ECRP recipients. Approximately 70 per cent of recipients are less than 60 years of age, and the median age of recipients (52 years in 2007-08) is equivalent to the median age of the wider farming community (Centrelink 2008 unpublished and ABS 2008c).

While recipients generally have considerable experience in farming, their knowledge of best practices and other off-farm investments, and their capacity to consider alternative approaches, could be improved. SACES reported that 76 per cent of surveyed farmers had 10 years or more of farming experience. However, they also noted that little more than half of ECRP recipients had a written business plan and 60 per cent had not had a financial assessment of their farm in the last two years. It was also found that about 80 per cent of recipients had not undertaken any courses or training while on ECRP, although those ECRP farmers who had participated in training found the courses 'very helpful'. Amongst the 30 per cent of recipients aged over 60 years, most did not have a retirement or succession plan in place.

Table B.4 ECRP recipients and non recipients: capital, debt and liquidity position of farms

Average annual data per farm for the period 2002-03 to 2007-08^a

	<i>Farms in EC declared areas</i>		<i>Farms in</i>	
	<i>Recipients</i>	<i>Non recipients</i>	<i>non EC areas</i>	
Farm profit and return				
Farm business profit	\$	-55 396	-19 769	16 432
Profit at full equity	\$	-19 971	10 117	56 928
Rate of return excl. capital apprec.	%	-0.9	0.3	1.6
Rate of return incl. capital apprec.	%	4.7	6.5	8.6
Farm capital and debt				
Capital value of livestock	\$	240 057	316 106	406 708
Capital value plant & equipment	\$	238 454	270 139	354 454
Capital value land & improvements	\$	2 009 511	2 572 538	3 065 687
Total capital value	\$	2 499 593	3 173 753	3 841 776
Farm business debt at 30 June	\$	401 165	304 636	422 156
Change in farm debt within year	%	8.5	9.2	10.8
Net farm assets	\$	2 157 991	3 034 151	3 581 209
Equity ratio at 30 June	%	83	90	88
Capital additions and disposals				
Net capital additions	\$	26 073	34 783	51 085
Farms acquiring land	%	4.1	5.1	6.1
Farms selling land	%	4.3	3.9	5.5
Farm liquid assets				
Liquid assets	\$	43 567	159 150	154 572
Farms with liquid assets < \$20 000	%	58	39	39
Liquid assets to debt ratio	%	10.9	52.2	36.6
FMDs at 30 June	\$	8 173	27 434	31 130
Change in FMDs within year	%	5.0	2.9	15.8
Farms with increasing FMDs	%	5.1	8.2	9.5
Off-farm income				
Investment income	\$	4 112	12 527	11 251
Wage and salary income	\$	8 207	20 411	16 232
ECRP	\$	14 668		
Dairy structural adjustment payment	\$	2 004	1 259	1 750
Other govt household support	\$	2 592	1 594	1 348
Total off-farm income	\$	29 578	34 532	28 830
Farms with off-farm wages	%	36.5	39.1	36.8
Government assistance to farm business				
Total govt business assistance	\$	15 551	1 443	1 084
ECIRS	\$	10 944	0	0
Other govt business assistance	\$	4 264	1 282	1 005
Farms receiving ECRP & ECIRS	%	44.2	0	0
Survey sample details				
Estimated population	no.	11 879	34 843	21 095
Sample of farms contributing	no.	1 435	4 274	3 394

^a All estimates, except those italicised, have a relative standard error of less than the estimate.

Source: ABARE (2008 unpublished).

Evaluation of the ECRP program

Appropriateness of ECRP

A widespread acceptance of the need for income support as a safety net measure to ensure that the standard of living for farm families is maintained at a community accepted level was confirmed by the Commission's initial consultations with farming groups, industry and government representatives.

Although the NDP objectives do not provide for a particular family welfare outcome, household income support (through ECRP) is one of the main programs under the NDP. Provision of income support by the government is appropriate in the interests of maintaining a socially acceptable standard of living in rural communities. In times of drought there is the potential for living standards to fall and for households to experience extreme hardship as otherwise productive assets controlled by the household become unproductive — as noted in chapter 3 and in the Expert Social Panel's report (Kenny et al. 2008). ECRP potentially maintains individual households as part of the agricultural resource base.

Farming families may also have difficulty in accessing broader safety net payments (those available to other Australians more generally) due to the value of their farm assets, despite these assets being currently unproductive due to drought. To the extent that broader income support programs are inaccessible to farm households, it is appropriate on an equity basis for the government to provide ECRP as an accessible income support program for this group.

Effectiveness of ECRP — accessibility issues

A key consideration in the effectiveness of income support is the accessibility of assistance. That is, are those families which are most in need of financial assistance receiving income support? From data presented in the previous section, it is apparent that ECRP recipients have lower farm and off-farm income levels than non recipients, on average, which indicates that ECRP is well targeted.

However, a number of inquiry participants argued that eligibility for ECRP is too limiting and families who need assistance are not able to access support. For example:

Wafarmers understands that eligibility tests have deterred many families from applying for assistance. (sub. 26, p. 6)

Some criticisms of ECRP accessibility are related to the farm income and off-farm income threshold levels. These threshold levels are generally considered by farming groups to be too low and result in some drought affected farmers not receiving income support. For example, the Coonamble Shire Council claimed that:

The level of combined farm and off-farm income that is used by Centrelink to limit eligibility for relief payments is too low. No consideration is given to the cost of travel to work or the cost of childcare ... (sub. 63, p. 10)

However, the off-farm income threshold for ECRP is up to 12 times that applicable in eligibility tests for other income support such as Newstart or disability allowances. On the one hand, a generous off-farm income threshold may enable some ECRP recipients to maintain off-farm income bearing assets or off-farm employment necessary for the farm family to move toward financial self-reliance in the future. On the other hand, generous access criteria for income support could also discourage farm families from becoming financially self-reliant. ECRP is intended to assist those families in EC areas who are having difficulty in meeting basic living expenses and those who exceed the income or asset thresholds could be considered to have sufficient resources to meet their living requirements.

The necessity for an area to be EC declared before income support is available has also been criticised. The 'lines on maps' used to narrow the scope of those who can apply for EC support may be a useful means of targeting assistance, but only if it reflects the actual scope of drought affected areas or of those in need of income support (chapter 5 also discusses EC boundaries and issues that have arisen in their application). For example, drought can contribute to a widespread increase in some input prices (such as feed grain) which can potentially impact on farming businesses well beyond EC declared regions. L. Botterill and B. Chapman noted that:

Basing access to the welfare safety net on geographical boundaries creates inequities and the causes of low farm incomes should not be relevant if farmers do not have the resources to meet basic family needs. (sub. 52, p. 4)

Similarly, the Australian Landcare Management Group suggested that:

... policies and programs should be aligned to the ongoing and widespread social needs of farmers irrespective of whether these needs arise because of drought or other factors. (sub. 24, p. 6)

For the most part, these criticisms of the accessibility of ECRP relate not so much to access issues of those in EC areas, but rather, to there being farmers outside of EC areas who are nevertheless in need of income support.

Effectiveness of ECRP — self reliance and preparedness issues

The distinction between support for the farm family and support for the farm business has become blurred in recent years. For example, an increase in the off-farm income threshold level in September 2007 to 12 times that applicable to Newstart applicants, was part recognition that off-farm earnings are used by farmers to support their business. The Queensland Government indicate that ‘it is not unusual for producers to indicate that ECRP has been used to feed livestock’ (sub.77, p. 19). To the extent that household support is used to subsidise farm business operations, ECRP may be reducing incentives for business risk management and undermining the risk management objectives of NDP.

While there is little direct evidence that the availability of ECRP alters incentives of farmers to prepare for drought, there is some indication of differences (that have likely arisen for a variety of reasons) in the capacity of recipients and non recipients to cope with variability in farm income. For example, ECRP recipients and non-recipients were equally likely to use seasonal climate forecasts as a farm management tool, but strategies to deal with drought differ considerably between recipients and non recipients. In particular, Boero Rodriguez, Watson and Mues (2006) estimated that the proportion of ECRP recipients using short term debt to cope with drought impacts is more than double the proportion of non recipients. This was also evident from the analysis of ECRP recipients in the previous section.

To some extent, these actions may reflect the lack of alternatives available to ECRP recipients as they also tend to have lower farm cash income than non recipients and lower levels of off-farm wages and salaries and investments. However, a lack of alternative sources of income to meet debt repayments when farm income is very low does not suggest a high level of preparedness for drought.

Along these lines, several participants in this inquiry have indicated that financial preparedness is crucial and that off-farm assets and income from wages, salaries or investments is a necessary part of becoming self-reliant and able to cope with a highly variable farm income (J. Cooper, sub. 10 and H. Loller, sub. 49). However, SACES (2008a) indicated that in response to the current drought, less than 4 per cent of surveyed ECRP recipients had earned *additional* off-farm income. To some extent, this may reflect a lack of employment opportunities in the more remote rural areas. Nevertheless, a lack of diversification of income sources prior to and during drought may have increased the vulnerability of some ECRP recipients to variations in farm income. DoTRS (2005, p.10) noted that this is a source of considerable tension within some communities:

... farmers who ‘do the right thing’, diversifying the business base of their farms and households, are ineligible, and resent seeing neighbours who have ‘done nothing’ sit

back and access government assistance. This has been described as an incentive to not diversify, which if true would exacerbate drought impacts in communities.

These sentiments were also evident in inquiry submissions, with J. Cooper, a farmer on Flinders Island, claiming:

It is disconcerting to see a number of 'inefficient' graziers on Flinders Island receiving drought assistance when they have done little to plan and manage the risks of drought, or other production or market risks for that matter. (sub. 10, p. 2)

The Riverland Drought Taskforce also indicated that:

There are many enterprises which are too small to sustain the farmer and family without income support. This was a factor before the drought. In effect these farmers are using a scarce resource to provide negative income and are using Centrelink payments to support their lifestyle. (sub. 56, p. 12)

Farmers who received ECRP were more likely to also have received assistance under other government support programs including ECIRS, FarmBis and the Rural Financial Counselling Service (Boero Rodriguez, Watson and Mues 2006). This may indicate a continued reliance on government assistance over a number of years, rather than a temporary use of assistance to improve preparedness for long term self-reliance.

From a survey of the 100 longest term recipients of ECRP, Centrelink reported that while nearly all intended to continue farming, only 60 per cent considered that they will be 'self sufficient' post EC and the remainder considered that they will require further support. Over half of the longest term ECRP recipients are currently accessing assistance in addition to ECRP and some current measures available that could further enhance self sufficiency are not widely adopted — only 4 per cent have FMDs and just over half have a business plan (Centrelink 2008c).

One way that other social security programs (such as Newstart) attempt to limit long term dependence is through the inclusion of activity conditions that accompanies receipt of assistance. There are no such conditions with ECRP receipt, although as do all farmers, recipients have ongoing responsibilities for the welfare of their animals and for farm maintenance.

On the other hand, there is evidence that some ECRP recipients are aware that they could have done more to prepare for drought and have subsequently attempted preparations for greater self-reliance in the future. SACES (2008a) found that 26 per cent of ECRP survey respondents indicated that they could have been better prepared for drought and that only 7 per cent claimed that they 'can't make changes' to their current practices. In response to the drought, the main areas that were being improved were more rapid destocking, improved water storage and

transmission and better fodder storage. Specifically, 25 per cent of survey respondents indicated that they had undertaken water management (such as dam deepening and irrigation measures) and 23 per cent reported destocking or stock containment. (There are no data on how these drought responses compare with preparations of those farms not receiving assistance.)

Implications of ECRP provision for the condition of the environmental resource base are not conclusive. Higher stocking rates and fodder expenditure per animal on farms of ECRP recipients suggest that income support may have been provided, on average, to those who have attempted to retain higher numbers of animals on lower quality pastures. It is also apparent that expenditure on improving land, capital and equipment is lower for ECRP recipients than non-recipients, which may indicate that even if ECRP is freeing up funds that would otherwise be directed to household maintenance, the outcome is not necessarily maintenance or improvements in the natural resource base. Nevertheless, Boero Rodriguez, Watson and Mues (2006) report similar land degradation issues for both recipients and non recipients and ABARE (2008 unpublished) report no significant difference between recipients and non recipients in terms of seeking advice on and managing land and resources. Overall, there is little conclusive evidence to assess whether ECRP contributes to the NDP objective of maintaining the environmental resource base.

Efficiency of ECRP delivery

Centrelink has actively delivered ECRP assistance to those rural areas experiencing drought with several ‘drought buses’ and the creation of ‘Rural Support Officers’. Inquiry participants were generally supportive of these measures and the efficiency with which Centrelink has delivered ECRP. For example, Lexo Pty Ltd, a merino wool, meat and breeding enterprise, indicated that:

Centrelink and the RAA have been very efficient and friendly when dealing with support issues ... (sub. 54, p. 4)

There are a number of areas in which income support provided by Centrelink to farm families differs from that provided to other parts of the community (as detailed in table B.1). Some of these differences may simply be a consequence of ECRP being instigated under legislation other than the Social Security Act 1991. While these differences generally favour ECRP recipients, they may nevertheless be a source of confusion for farm families, raise equity issues within communities, necessitate additional resources in program implementation, and reduce the efficiency with which programs can be delivered.

A further point of inconsistency is that while eligibility for ECRP is based on the income and assets of the farm family, the payment is made (at double the Newstart partner rate) to one member of a couple. As ECRP is assessed as taxable income, this can create issues with regard to structure of the farm business and marginal tax rates paid. Some other Centrelink payments, such as Newstart, are assessed separately and paid to each member of a couple.

In their applications for ECRP, farmers are required to estimate their net farm income level for the coming year, with their estimate affecting the rate at which the relief payment will be paid. This is similar to requirements of some other programs, such as the Family Tax Benefit. But expecting a farmer in the middle of extreme drought to be able to accurately estimate income for the coming year is unrealistic. More problematically, unlike these other programs, there is no routine reconciliation at the end of the financial year. This means that if a recipient's income is higher than estimated, there is little action that can be taken by Centrelink to recover benefits paid out. If income is lower than estimated by the farmer, then there is no revision to the rate paid. This provides a significant incentive for farmers to underestimate their income in order to meet ECRP eligibility criteria and is not an adequate way of dealing with a group that potentially has highly variable incomes. It is in contrast to the reporting responsibilities and treatment of all other groups in the community that receive income support.

Summing up on ECRP

Provision of income support to farm households in EC areas under the ECRP program is:

- appropriate in its intent to address the potential for living standards to decline during drought and the difficulties that farm households have in accessing the community's broader income support programs
- accessible, but the program is more generous than other income support programs in the community and there is evidence that some farmers have become dependent on the availability of government income support
- efficiently delivered, but the overall efficiency of the program is reduced by inconsistencies with other income support programs in the community and the absence of a regular reconciliation of payments with income actually earned.

B.2 Interim income support

Interim income support (IIS) provides short term financial support to farmers and small businesses that are in regions not yet EC declared, but are believed to be

experiencing financial difficulties as a result of drought. IIS was introduced in September 2002 after the Commonwealth Government announced early assistance would be provided to farmers in the central north/north western region of New South Wales where a prima facie case for EC assistance had been demonstrated. With the announcement of the Commonwealth Government's drought package in September 2007, IIS also became available to farmers and small businesses in selected areas for which a case for EC assistance had not yet been established:

- IIS in *Prima Facie areas* — Once it is announced by the Minister for Agriculture, Fisheries and Forestry that an EC application has demonstrated a prima facie case for a full EC declaration, the application is referred to NRAC for advice and IIS is available. In this situation, the duration of support is for a period up to six months from when it is announced that an EC application has demonstrated a prima facie case, or until EC is declared (whichever occurs earlier).
- IIS in *Interim Assistance Areas* — Alternatively, if the Commonwealth Government declares an area to be an Interim Assistance Area, then IIS is available in that area for a period specified by the Government. The purpose of Interim Assistance Areas is to provide short term relief while state governments, farming organisations and communities consider the development of an EC application.

Centrelink delivers IIS on behalf of DAFF. Payments under IIS are at an equivalent rate to those of ECRP and SBIS and are subject to the same asset and income tests, although no ancillary benefits (such as health care card or youth allowance concessions) are available. The duration of any subsequent payments received under ECRP or SBIS is reduced by the number of months for which Interim Income Support has been received. However, for areas that have had their EC declaration extended well beyond two years, a reduction in the duration of ECRP or SBIS (with up to 6 months of IIS) is not likely to be of any practical consequence.

IIS applicants

After early October 2008, there were no longer any areas in Australia that were eligible to receive IIS. During 2007-08 there were around 30 Prima Facie areas that received IIS, but these have since been assessed by NRAC and have been declared EC areas. In addition, there were 14 Interim Assistance Areas declared in Australia by the then government in September 2007 and all received IIS for the twelve months to the end of September 2008, even though these end dates did not necessarily match production and income cycles for some farms. Six of these Interim Assistance Areas were in Western Australia, four in South Australia, three in Tasmania and one in New South Wales. As no applications were made for EC

consideration of an Interim Assistance Area, farmers and small businesses in these areas are no longer receiving assistance.

A total of \$7.6 million was provided for Interim Income Support to farmers across Australia in 2007-08. \$4.8 million of this was for 1562 farmers in Prima Facie areas and \$2.7 million was for 338 farmers in Interim Assistance Areas (table B.5). A further \$1.3 million was provided for IIS in Interim Assistance Areas from July to October 2008. Even though these areas did not progress to EC status, recipient farmers in these areas are not required to repay the \$4 million in support that they received.

The number of small businesses receiving IIS was much smaller. In the three years that support has been available to small businesses, fewer than 150 businesses received a total of \$560 000 in interim support.

Table B.5 Interim income support, 2002-03 to 2008-09^a

		2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09 Jul-Oct
Farmers in prima facie areas								
Claimants	no.	3 401	6 477	417	187	3 698	1 562	
Average amount	\$'000	2.49	2.39	2.20	1.67	3.11	3.00	
Total amount	\$'000	8 461	15 508	919	312	11 517	4 823	
Farmers in interim assistance areas								
Claimants	no.						338	312
Average amount	\$'000						8.12	4.13
Total amount	\$'000						2 745	1 289
Small businesses in prima facie areas								
Claimants	no.					69	34	
Average amount	\$'000					2.77	3.11	
Total amount	\$'000					191	106	
Small businesses in interim assistance areas								
Claimants	no.						24	20
Average amount	\$'000						7.98	3.63
Total amount	\$'000						191	72
Total IIS paid	\$'000	8 461	15 508	919	312	11 708	7 865	1 362

^a At the date of finalisation of this report, no areas had received IIS beyond October 2008.

Source: Centrelink (2008 unpublished).

Evaluation of IIS

A number of participants in this inquiry have indicated that the process of getting a region EC declared can be cumbersome and time consuming (chapter 5). To the extent that this is the case, IIS potentially enables government income support to be

provided to farmers and small business families with a considerable degree of flexibility and responsiveness and could minimise the cost to recipients of ‘red tape’. Early access to formal income support may also enable access to other training and community support programs and could prevent family financial problems from escalating.

However, the provision of IIS could reinforce an impression that recipients are ‘entitled’ to support or create the expectation within the recipient communities that EC status will ultimately be confirmed. Such a view could be further supported by the continued availability of IIS for 6 months, even if the region is rejected for EC status. IIS also raises the potential for political intervention in the provision of EC support as assistance can be provided without due consideration of eligibility through the EC process. For example, none of the Interim Assistance Areas declared by the government in September 2007, were subsequently considered for EC status, and the Tasmanian Minister for Primary Industries and Water described the interim assistance areas in that state as an ‘election stunt’ (Llewellyn 2008).

B.3 Farm Help income support

Farm Help was established under the Agriculture – Advancing Australia package in 1997. The training and redevelopment aspects of the Farm Help program are discussed in appendix D. Farm Help also has an income support program that is intended to provide short term financial support to farm families who are experiencing severe financial difficulties meeting living expenses and are unlikely to obtain a loan from a financial institution. The assistance aims to help farmers while they take action to improve their long term financial prospects, either by improving the financial performance of their farm enterprise, finding alternative sources of off-farm income or re-establishing outside farming. Importantly, the availability of Farm Help income support is not linked to the existence of drought.

Farm Help income support is paid at the same rate as the Newstart Allowance for up to 12 months. Support is subject to income and assets tests and, as for Newstart allowance, the amount received starts to decline once total (farm and non farm) income exceeds \$62 per fortnight. Unlike Newstart allowance, farmers do not have to satisfy an ‘activity test’ and farm assets are excluded from the asset test. Recipients are required to attend an initial professional advice session and develop a ‘Pathways plan’ (a plan to best position the farm family for a financially secure future) in conjunction with a Centrelink Rural Services Officer.

Applications for Farm Help income support closed on 30 June 2008, but some farmers may still be receiving payments until 30 June 2009.

Eligibility for Farm Help income support

To be eligible for Farm Help income support, the applicant must:

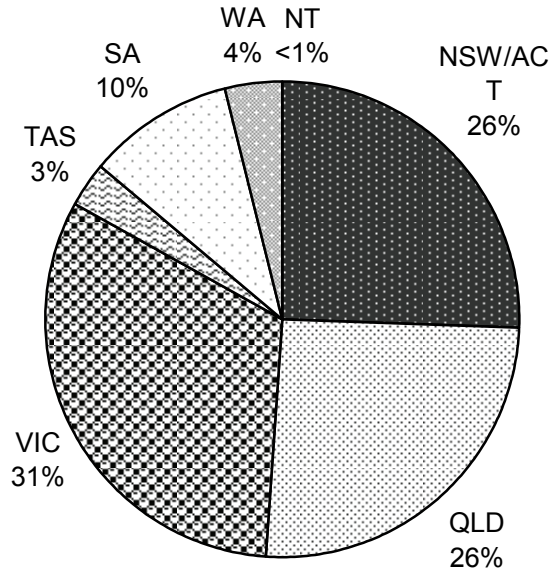
- for a continuous period of at least two years immediately before applying for the program
 - have been a farmer
 - have derived more than 50 per cent of gross income from the farm enterprise
 - have contributed more than 50 per cent of capital and working hours to the farm enterprise
- be unable to borrow against their assets
- be at least 18 years of age, an Australian resident living in Australia
- not, in any way, have lost management control of their farm (for example, through bankruptcy)
- satisfy the Farm Help income test (same as for Newstart) and assets test (same as for Newstart but applies to non farm assets only).

Farm Help income support recipients

Over the 12 years that the program operated, a total of about \$107 million was provided in income support to 10 463 farmers (that is, an average of about \$10 000 each). 31 per cent of recipients were located in Victoria and 26 per cent in each of New South Wales and Queensland (figure B.3). Use of the program has largely declined since the late 1990s, with increased use of other income support programs, such as ECRP (figure B.4).

SACES (2008a) reported that the demographic profile and length of farming experience of most Farm Help recipients is not dissimilar to ECRP recipients. One key difference between the two groups is that Farm Help recipients tend to operate smaller farms than ECRP recipients (who also had smaller farms than non recipients in EC declared areas). Boero Rodriguez, Watson and Mues (2006) similarly estimated that Farm Help recipients operate farms that are generally smaller and have a significantly lower market value than those of non-recipients (although only 2 per cent of farms within the scope of the ABARE survey received Farm Help).

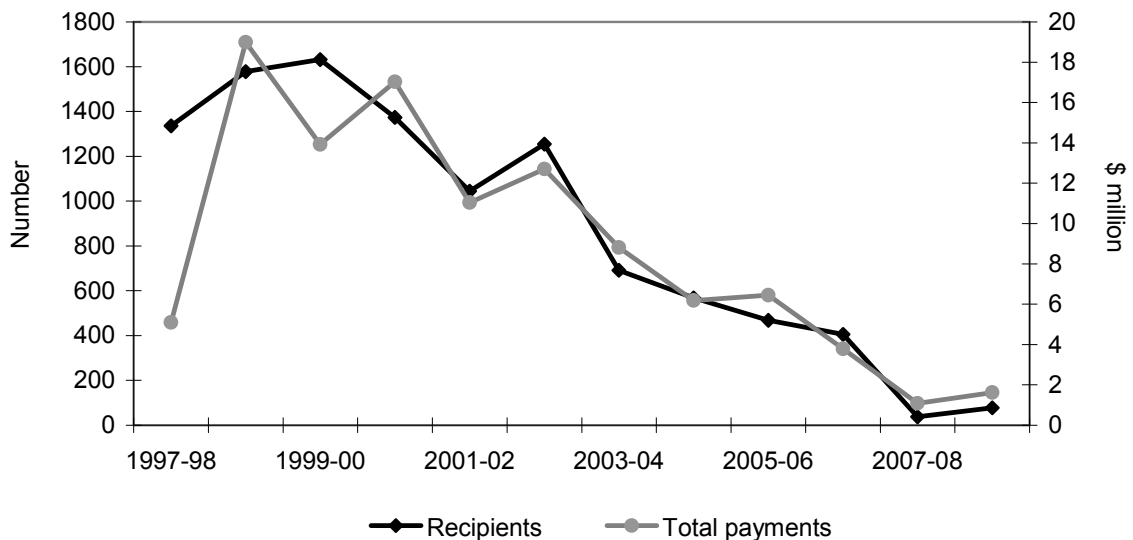
Figure B.3 Farm help income support recipients by state, 1997-98 to 2008-09^a



^a Figures for 2008-09 are based on recipient numbers at end November 2008; no new recipients could join the program after June 2008.

Data source: DAFF (2008 unpublished).

Figure B.4 Farm help income support recipients and payments, 1997-98 to 2008-09^a



^a Figures for 2008-09 are estimates based on expected numbers for the full financial year with clients expending their full entitlements.

Data source: DAFF (2008 unpublished).

The majority of farm families who have received Farm Help assistance do not have off-farm income or off-farm investments, and are therefore less likely to include off-farm income as a risk management strategy than non-recipients (Boero Rodriguez, Watson and Mues 2006). Furthermore, Farm Help recipients were more likely to have accessed other forms of government assistance (such as rural financial counsellors, ECIRS and the sugar industry reform package) than those farmers who did not receive Farm Help.

Evaluation of Farm Help income support

Given the eligibility criteria for Farm Help income support, the program is clearly aimed at helping the smallest, most vulnerable farms. Of particular concern is that the program targets those who are unable to borrow against their assets from commercial lenders. This means that the government is supporting families on farms which are commercially unviable in the long term and thereby making adjustment in the industry more costly to achieve.

A further shortcoming of Farm Help income support is that (in contrast to Newstart) there is no end of year ‘reconciliation’ to check that those farmers who received income support had income and asset levels during the year that were consistent with the eligibility criteria.

The necessity for recipients to complete a ‘Pathway Plan’ is one of the more beneficial aspects of the Farm Help income support program. SACES (2007) found that Pathways Planning prompted families to consider whether their financial position could be improved if they were to earn off-farm income. As a result, 22 per cent of survey respondents increased their reliance on off-farm income within a year and half of leaving the program. The sources of off-farm income were evenly divided between rural and non rural occupations. SACES (2008a) also noted that after participation in the Farm Help program, most recipients improved their financial position and increased their self-reliance.

B.4 Transitional income support

The Transitional Income Support (TIS) program was introduced under the government’s Climate Change Adjustment Program in June 2008. TIS assists farm families to manage the impacts of climate change on their farm business by providing short term income support and advice and training opportunities. While there are some differences in eligibility criteria, TIS effectively replaces the income support and advice that was available under Farm Help. As is the case for Farm Help, provision of TIS is not related to drought.

TIS is taxable and is paid fortnightly by Centrelink at a rate equivalent to the Newstart allowance. Support is available for up to twelve months from 16 June 2008 to 30 June 2009.

Eligibility for transitional income support

Unlike ECRP, application for TIS is not conditional on the farm being located within an EC declared area — it is available to farmers Australia-wide. Income support under TIS can be back-dated for farmers in areas that are coming out of EC (if the application is made within 28 days of the end of EC) so that income support is continuous from the day the EC declaration ceases. To be eligible for TIS, a farmer must demonstrate that they have been, for a continuous period of at least two years immediately before applying:

- a farmer in Australia
- derived a significant amount of their gross income from farming and have contributed a significant amount of their labour and capital to the farm enterprise
- not received assistance from the Farm Help Advice and Training Scheme or Advice and Planning Grant after June 2008.

Assessment of eligibility for TIS requires several steps. Applicants who have total net assets (which includes both farm and non farm assets, debt and the principal residence) of more than \$1.5 million or liquid assets (including FMDs) of more than \$20 000 are immediately ineligible for income support. For applicants with assets below these thresholds, a financial assessment is then required.

The financial assessment is a determination of the financial circumstances of the applicant and farm business and takes into account non-farm assets, liquidity, debt to equity ratios and total net assets. Specifically:

- the farming family's estimated total income (farm and off-farm) for the next 12 months must be less than \$39 988 (consistent with the personal income test for Newstart allowance); and
- the value of off-farm assets of the applicant and partner (including FMDs), less debt on these assets, must be below \$243 500; and either
- the balance of cash held is less than current liabilities; or
- the farmer has a debt level that exceeds the level of equity in the farm.

The financial assessment forms a part of the required Farm Business Analysis and Financial Assessment. This assessment provides the farmer with an independent appraisal of their farm business and is intended to assist the farmer to decide what is

best for the future of the farm business and their family. Farm Business Analysis and Financial Assessments must be completed by a professional financial advisor. After successful completion of the Farm Business Analysis and Financial Assessment, the TIS applicant is directed to a rural financial counsellor to develop a Climate Change Adjustment Program (CCAP) Action Plan for their farm. The CCAP Action Plan maps out the process that the farm family will follow to adjust to the impacts of climate change and improve the family's long term financial security. The plan will establish goals, actions, timelines and expected outcomes. TIS recipients are provided with an advice and training grant of \$5500 to access professional advice to assist them in developing the action plan.

Once the CCAP Action Plan is certified by a rural financial counsellor, payment of TIS commences (but can be back dated to the end of the EC period) and recipients become eligible for assistance to receive further advice or training pursuant to their Action Plan.

Farmers deemed by Centrelink to be in severe financial hardship will immediately receive TIS payments. The farmer then has three months to obtain the Farm Business Analysis and Financial Assessment and complete a CCAP Action Plan.

All farmers in receipt of TIS are obliged to take action to achieve financial self-reliance and increase preparedness for changing economic and climatic conditions. Rural financial counsellors have an ongoing role of case management of TIS recipients.

Transitional income support applicants

At mid December 2008, Centrelink had received almost 650 applications for TIS. There were 96 farmers receiving TIS payments and a further 154 farmers were approved to receive TIS, subject to the outcome of their Farm Business Analysis and Financial Assessment. The remaining 400 farmers were unsuccessful in their applications to obtain TIS. The main reasons for rejection of TIS applications were a failure to supply documentation, withdrawal of the customer (often following an EC extension decision), and liquid assets exceeding threshold levels for receipt of support (Centrelink 2008 unpublished). Amongst those who were unsuccessful in obtaining TIS, around 260 were nevertheless found to be eligible for advice and training grants under the CCAP (DAFF 2008 unpublished).

In total, the government paid \$170 000 to farmers under the TIS program in the three months to the end of September 2008. There is no information available on the farm characteristics of TIS recipients, but virtually all TIS recipients were previously in receipt of ECRP (Centrelink 2008 unpublished).

Evaluation of transitional income support

Since its introduction in July 2008, there has been widespread criticism from farming groups of the accessibility of TIS. Of most focus is the \$1.5 million threshold level for the net assets test. With regard to Queensland horticultural producers, Growcom stated that:

... this test is totally unrealistic for horticultural producers. Just about any landholding in a horticultural production area would push growers over this limit — and it thus rules most growers out of eligibility for any assistance. (Growcom 2008, p. 1)

More generally, it was speculated by an agricultural consultant that:

... as few as 1000 farmers will qualify for the new payments because the value of their land and farm assets is too high. (Paton 2008, p. 1)

However, ABARE data (2009 unpublished) indicates that there were close to 10 000 broadacre and dairy farms across Australia that had less than \$1.5 million in farm net assets and less than \$20 000 in liquid assets in 2007-08, in addition to around 1500 vegetable growers and 800 sugar growers (and this does not include farms in other agricultural industries).

The Western Australia Pastoralists and Graziers Association believe the funding is:

... targeted at eastern states' farmers who are being phased out of years of dependency on federal assistance ... probably its not going to have a huge impact in WA. (ABC News 2008, p. 1)

Compared with asset tests for other household income support programs, the \$1.5 million threshold under the TIS is significantly higher, but recognises that farms may have high net assets but little or negative net income. Nevertheless, limiting assistance to manage climate change to farmers with smaller operations, could inadvertently delay a restructuring in farming industries that may be necessary to best adapt to climate change.

The necessity to undertake a financial assessment in order to be eligible for income support under TIS would potentially place considerable pressure on the applicant's financial advisor, who has the role of determining the extent of further support available to the applicant. The necessary skilled professional advice for the financial assessment may not be available in some parts of Australia.

As for Farm Help Income Support, TIS does not ensure that recipients operate farms which are commercially viable. However, and in contrast to Farm Help, the financial assessment in TIS does at least attempt to limit income support to those farm households which have insufficient liquid resources to support themselves or meet their immediate expenses.

A further shortcoming of TIS is that (as for Farm Help income support, and in contrast to Newstart) there is no end of year ‘reconciliation’ to check that those farmers who received TIS had income and asset levels during the year that were consistent with the eligibility criteria. This lack of reconciliation places additional importance on the accuracy of applicant’s initial income estimates and may also be a problem if there are TIS applicants who received immediate support under hardship provisions and were subsequently found to be ineligible for TIS.

B.5 Small business income support

Agriculture-dependent small business operators who are either based within, or dependent upon, an EC (or Prima Facie or Interim) declared region, have been eligible to apply for small business income support since 7 November 2006. The eligibility criteria for small businesses were expanded on 25 September 2007 to allow small business operators in EC (or Prima Facie or Interim) areas, other than those that are agriculture-dependent, to also apply for income support.

Small business income support (SBIS) is intended to assist with day to day family and personal living expenses of small business owners, rather than operating expenses of the business.

As for ECRP, SBIS is paid fortnightly by Centrelink according to guidelines set by, and with funding provided through DAFF. Payment is at a rate equivalent to the Newstart allowance and is taxable. In addition to the basic income support, SBIS recipients and their families receive a Health Care Card and may also be eligible for concessions under the Youth Allowance and Austudy means test for dependent children. However, an individual cannot receive SBIS, ECRP and other income support (such as Farm Help) at the same time.

SBIS can be received continuously until either the end of the EC declaration in the relevant area or 30 June 2009, whichever is earliest. The continued eligibility of SBIS recipients is reviewed every six months and those who are engaged in casual employment are required to report income earned to Centrelink every fortnight.

Eligibility criteria for SBIS

To be eligible to receive SBIS, small business operators must demonstrate that:

- they have a right or interest in a small business, a current Australian Business Number and carry out commercial activities

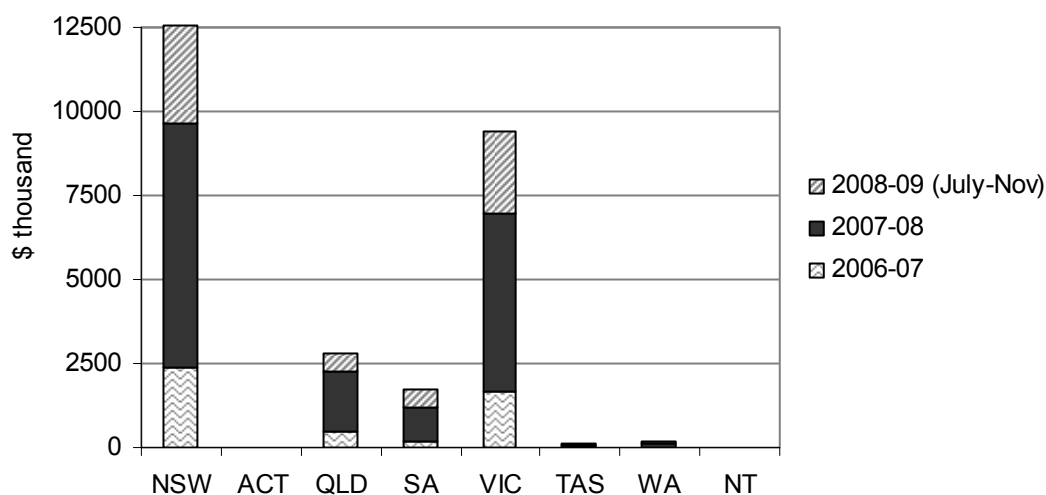
-
- are at least 18 years of age, are an Australian resident or have permission to permanently live in Australia
 - they employ up to 100 full time equivalent staff
 - under ‘normal’ circumstances, they contribute significant labour and capital to the small business and gain a significant part of their income from the small business
 - their business is dependent on income from farmers, farm workers and their families because they
 - derived (in an earlier period of ‘normal’ turnover) at least 70 per cent of their income from the provision of goods or services to farming activities in an EC (or Prima Facie or Interim) declared region; or
 - are located in a town that is substantially reliant on-farm incomes, has a population of 10 000 or less and is located in an EC (or Prima Facie or Interim) declared area
 - they have experienced a significant downturn in total business turnover as a result of the impact of drought on farms located in EC (or Prima Facie or Interim) declared areas
 - they (and their partner) have received less than \$20 000 from any non-business salary and wages during the financial year.

Income and assets tests similar to those for Newstart allowance apply, but assets essential to the running of the small business, superannuation and life insurance of the applicant, are not included.

SBIS applicants

The Commonwealth Government has provided income support of \$27 million to the family owners of almost 1500 businesses over the three years that the SBIS program has been in operation (figure B.5). Most of these businesses (over 80 per cent) have received assistance for more than a year. The majority of the assisted small businesses are located in New South Wales (Riverina, Central North-North West and South West Slopes and Plains) and in Victoria (Mallee – Northern Wimmera, South Western Victoria and North East Victoria).

Figure B.5 Small business income support payments by state, 2006-07 to 2008-09^a



^a Estimates for 2008-09 payments are for the period July to November 2008 only.

Data source: Centrelink (2008 unpublished).

In each year that assistance has been offered, the main type of small business that received income support was contractors (table B.6). This group could include a wide variety of professions such as fencing contractors, plumbers and shearers and could correspond with the reduction in expenditure on hired labour by ECRP recipients (discussed in section C.1). To a significant, but lesser extent, other businesses affected include ‘suppliers’, ‘other services and suppliers’ and ‘transport services’. DoTRS (2005) reported that these types of small businesses are most vulnerable to drought because they are not only dependent on farmers but also sell goods and services that can be ‘done without’ when funds are tight. In contrast, businesses such as financial services, accommodation services and manufacturing/wholesale, which received lower levels of support, could be expected to have a broader customer base and be less dependent on farm expenditure.

Since SBIS was introduced, a total of 743 recipients (50 per cent) have had their support cancelled. As for ECRP, the most common reason for cancellation of income support was that the EC end date in the relevant region had been reached, income precluded entitlement or that the customer failed to reply to correspondence from Centrelink. Most recipients have remained in operation during the past three years of drought with only 3 per cent of small business claimants having their assistance cancelled because they left or sold their business.

Table B.6 Small business income support recipients and payments by industry, 2006-07 and 2008-09^a

	<i>Proportion of all recipients</i>			<i>Total gross payments</i>		
	<i>2006-07</i>	<i>2007-08</i>	<i>2008-09</i>	<i>2006-07</i>	<i>2007-08</i>	<i>2008-09</i>
	%	%	%	\$'000	\$'000	\$'000
Accommodation services	0	0	1	0	35	58
Contractors	52	39	33	2 515	6 504	2 221
Consultants	1	2	2	40	197	96
Construction	0	1	1	0	68	50
Financial services	0	0	0	0	5	25
Hospitality	0	2	3	0	227	243
Irrigation services	4	4	4	189	663	242
Manufacturing/wholesale	0	0	1	0	81	50
Other services & suppliers	17	15	14	735	2 474	982
Retail services	0	3	5	0	263	308
Retail goods	0	7	10	0	594	583
Rural services	0	2	2	0	201	153
Suppliers	13	12	11	625	2 010	732
Transport services	14	13	13	617	2 198	847
Total	100	100	100	4 721	15 521	6 589

^a Estimates for 2008-09 recipient numbers and payments are for the period July to November 2008 only.

Source: Centrelink (2008 unpublished).

Evaluation of SBIS

SBIS is evaluated here first from the perspective of how appropriate it is within the context of NDP, and second, by considering its effectiveness in terms of accessibility to the families of small businesses.

There may have been less need for assistance for small businesses during the latest drought (at least during the earlier years) than in previous droughts. From a survey of small businesses in drought areas, DoTRS (2005, p.2) reported that:

Many of our interviewees shared the view that the current drought is having less of an impact on non-farm small businesses and communities than the devastating 1994 drought. The key factors seem to be: lower interest rates ... higher land values ... better farm management in general and better farm financial management in particular ...

DoTRS (2005) indicated that EC support to farmers is filtering through to non farm small businesses and communities. They also reported that financial support for farmers on its own is 'not enough to mitigate all non-farm and community impacts'. In this respect it is not the purpose of government assistance to assume all the risks

of a particular change in the operating environment. If government assistance were to fill such a role then it could be expected that small businesses would have little incentive to act to mitigate the effect of drought on their business and families.

A related concern with the provision of SBIS is the extent to which longer term influences on business performance are labelled as ‘drought’ impacts. In its report on the social impacts of drought, the government’s Expert Social Panel provided evidence that a reduction in the number of skilled labourers and a loss of small businesses can have a devastating consequence for regional communities (Kenny et al. 2008). While these changes in communities can be exacerbated by drought, they can also be a symptom of longer term underlying changes taking place within the community — such as an aging population, lack of diversity in employment opportunities and high dependence on a single industry (farming).

Levantis (2001) noted that the smaller the town, the more important is farm expenditure to the town economy (farm expenditure was estimated to represent at least one third of the economy in towns with fewer than 1000 people). Somewhat problematically though, the greater was the reliance of a town’s economy on expenditure by farmers, the lower that town’s population growth was found to be over the 10 years to 1996. To the extent that such longer term changes within communities are occurring, drought based assistance is unlikely to be an appropriate or well targeted government tool to best facilitate community development.

The objective of SBIS is to be accessible to the families of those small businesses who, because of drought, are unable to meet their day to day family and personal living expenses. Whether the program is effective in achieving this outcome is difficult to determine. What is apparent from the analysis presented in the previous section is that most SBIS recipients are small businesses that are likely to be dependent on farm expenditure (such as contractors and suppliers). Further, businesses which could be expected to have a broader customer base within communities (such as accommodation and financial services) and therefore may be less directly impacted by drought, have received little SBIS.

This potentially raises an equity issue between businesses within and between communities — there may be factors other than drought which have significant negative impacts on businesses but for which no government assistance is available.

Finally, and as for ECRP, the lack of an end of year reconciliation of income estimates with income outcomes provides an incentive for small businesses to underestimate incomes in order to receive ECRP.

B.6 Other community assistance

There are a number of community organisations, church groups and charities which provide emergency assistance to rural families in financial difficulty. Commonwealth, state, territory and local governments also have a range of programs, exemptions and special facilities in place to assist rural and regional communities in managing issues that may arise from their isolation or lack of access to infrastructure and services.

Farmhand Foundation

The Farmhand Foundation, in association with Australian Red Cross, raised and distributed \$24.6 million to around 18 000 farm families between October 2002 to June 2003 (Farmhand nd). Most of these funds went to farmers in New South Wales (\$11 million) and Queensland (\$6.5 million) (ABC 2003). The intended uses of these funds were food, electricity and phone bills, vehicle maintenance, medical costs and stock feed.

Country Women's Association Emergency Drought Aid Fund

From November 2002 to June 2008, the Commonwealth Government provided funding support to the Country Women's Association (CWA) to establish an emergency drought aid fund. This funding was to enable grants to be made to rural families to help meet their household expenses and to assist community groups to run events that boost morale in drought declared regions.

Under the CWA scheme, farming families or local small businesses dependent on spending by farming families could apply for up to \$2000 for one-off emergency payments covering non-farm expenses such as dental or medical costs, utility accounts, school bills, car expenses. Community groups or other not-for-profit organisations wanting to hold gatherings, outings or information sessions for drought affected communities could apply for up to \$3000.

The CWA has also received funds for distribution to farmers from state governments and donations from the community and private companies (sub. 17, p. 1).

The initial Commonwealth Government donation of \$1 million in December 2002 was distributed to each state and territory based on an estimate of the number of people affected by the drought. Funding ran out in New South Wales, Western Australia, Victoria and Queensland between February and April 2003 and unspent

funds from the Northern Territory and Tasmania were reallocated to these States. Some 90 per cent of the \$1 million fund was spent between January and March 2003. This was much earlier than the expected 30 June 2004 end date (Australian National Audit Office 2005). A further \$15 million was donated by the Commonwealth Government to the CWA during 2005-06, 2006-07 and 2007-08 to enable continued provision of emergency aid to drought affected rural families and communities.

Other drought related community initiatives

The Commonwealth Government has a range of other drought related initiatives that primarily operate as concessions to existing broader programs for drought affected farmers and farm workers. Some of these include:

- Employment initiatives for redundant rural workers in drought affected areas, such as access to Job Search Support, early access to intensive support and job search training, the Drought Force program for skilled unemployed people in EC or prima facie declared areas, and flexible arrangements for access to Newstart allowance.
- Taxation initiatives relating to lodgement and payment of income tax and activity statements, treatment of farm management deposits, landcare operations and profit from forced disposal of livestock.
- Social support initiatives. The Expert Social Panel, in its assessment of the social impacts of drought, provide details of a range of health and counselling services introduced for those in drought affected communities.

Other Commonwealth Government sourced regional assistance

Australian governments, at all levels, offer a vast range of assistance programs targeted at rural and regional areas, not only in times of drought, but on an ongoing basis. These programs are broadly intended to offset higher costs of providing services of a socially acceptable standard in regional areas and satisfy the governments' commitments to equity in provision of key communication, education and health services in particular. Community assistance is generally narrow in scope but can have the advantage of being well targeted at those groups most in need at a particular point in time. However, in times of drought, a community's capacity to provide this support is likely to be at its weakest (DoTRS 2005).

Commonwealth Government initiatives

The Commonwealth Government (through DAFF) provides businesses with grants under the ‘International Agricultural Cooperation’ program to improve market access and trade. Other programs are directed at natural resource management such as the National Landcare Program (replaced in 2008 with Caring for our Country — Landcare), ‘Healthy Soils for Sustainable Farms’ Program, the Environmental Stewardship program and National Water Initiatives. The Commission estimates that over \$1.1 billion in non-EC assistance was provided to agricultural industries by the Commonwealth Government alone in 2006-07 — this does not include some major funding initiatives for irrigators (PC 2008b).

A number of regional development programs are also provided through the Commonwealth Government Department of Infrastructure, Transport, Regional Development and Local Government. For example, the \$176 million Better Regions Program provides community infrastructure to enhance the liveability of regions and regional towns. Other programs administered by the department include the Regional Partnerships program and the Foundation for Rural and Regional Renewal.

Education is a key area of government support in regional areas. The Commonwealth Government provides financial assistance to schools directly affected by drought. Rural and remote government and non-government (primary and secondary) schools located in EC declared areas, in towns with a population of less than 10 000, can apply for assistance of up to a maximum of \$10 000 per year for the duration of the EC declaration. The Commonwealth Government (through the Department of Education, Employment and Workplace Relations) also provides regional assistance through the ‘Assistance for Isolated Children Scheme’ (support for children in remote locations), the ‘Country Areas Program’ (additional funding for schools in geographically isolated areas), the Non-government School Term Hostels program (assists not-for-profit non-government school hostels to provide affordable alternatives to boarding schools), and regional and remote funding loading for non-government schools.

Regional health assistance is provided through the Department of Health and Ageing. As part of the 2008-09 Federal Budget, the Commonwealth Government announced the establishment of the National Rural and Remote Health Infrastructure Program. The program aims to improve access to health services by providing funding to rural and remote communities where the lack of infrastructure is a barrier to the establishment of new, or enhanced, health services. More than \$46 million has been allocated over the next four years to the program.