
E State and territory drought policies and measures

Many state and territory governments have drought policies that operate along side the National Drought Policy (NDP) and deliver a wide array of drought assistance measures to farmers, farm households and small businesses in rural areas. While this appendix does not provide a comprehensive catalogue or assessment of all measures delivered to drought affected businesses, household and consumers, details of the main drought related policies and measures are analysed. Many of the measures delivered by state and territory governments involve small amounts of funding, have limited coverage and operate over relatively short time frames. Other measures also delivered in part by state and territory governments such as the Exceptional Circumstances (EC) Interest Rate Subsidy (ECIRS) and the Rural Financial Counselling Service are discussed in appendixes C and D respectively.

E.1 State and territory government drought policy platforms, objectives and measures

A number of state and territory governments have drought policies and measures directed at assisting farmers and rural communities experiencing hardship caused by drought. Some of these policies repeat the objectives of the NDP while others have their own objectives.

Under these policies are a vast array of assistance measures that vary in generosity, coverage and purpose. They can be broadly categorised into seven main groups:

- transport and other transaction subsidies — payments made to farmers to reduce production costs during drought events
- business subsidies and grants — direct government outlays to support farmers or businesses within rural towns
- waivers of rates and other government charges — exemptions for farmers and businesses in rural areas from normal government fees and charges, which reduce government revenues

-
- environmental measures — measures aimed at preventing the degradation (or improving the quality) of natural assets during drought
 - concessional business loans — financial assistance to farmers and small businesses in rural areas involving some mutual responsibility
 - household and community support measures — measures aimed at providing support to farming families experiencing hardship due to drought conditions and to maintain the fabric of rural communities under stress due to drought
 - drought related training, research, development and extension — activities to improve the ability of the farming sector to prepare for and cope with drought.

As well as drought assistance policies and measures, each state and territory government provides a range of programs and initiatives to facilitate sustainable economic, social and environmental outcomes for regional Australia. These include business investment and development programs, regional economic development schemes, community economic development and the payroll tax incentive scheme. For example, Regional Development Victoria provides the ‘Small Towns Development Fund’, the Queensland Department of Tourism, Regional Development and Industry provides a program for ‘Building Rural Leaders’ and the South Australian Department of Trade and Economic Development has a ‘Regional Development Infrastructure Fund’ and ‘Rural Town Development Fund’.

Similarly, local governments often have an economic development role and undertake measures to promote communities, provide infrastructure, protect rural environments, and conserve or manage cultural heritage through a variety of mechanisms.

New South Wales

New South Wales does not have a documented drought policy beyond the NDP. Despite this, the state has implemented a range of additional government support programs in response to drought (box E.1). Some programs were of limited timeframe and are no longer operating. Since 2002, \$396 million in drought assistance has been provided including:

- \$131 million in transport subsidies
- \$90 million for the state share of ECIRS
- \$40 million in fee waivers
- \$21 million in services to farmers
- \$29 million on town water supply problems

-
- \$11 million in payroll tax waivers (NSW Government, sub. 90).

Box E.1 New South Wales drought assistance measures

Transport and other transaction subsidies

- Transport subsidies — available for stock, water and fodder movements to farmers in state drought declared areas.

Business subsidies and grants

- Drought feedlot grant — A grant of \$10 000 was made available by some Catchment Management Authorities for the establishment of drought feedlots. This grant is not currently offered.
- Business Improvement and Recovery Strategies — grant of up to \$3000 for small businesses in regional areas dependent on agriculture sector and affected by drought to sustain their operations.

Waivers of rates and other government charges

- Since 2002, \$40 million in fees has been waived. Includes fees such as western land lease fees, wild dog and pest insect levies, apiary site fees and some irrigation fees.
- Payroll tax concessions — available to eligible businesses with less than 200 employees. There have been 108 recipients since 2002 with concessions totalling \$11 million.

Concessional business loans

- Special conservation scheme — low interest loans to undertake conservation works, including upgrading of water/irrigation infrastructure and fodder/grain storage. Expenditure on the scheme has totalled \$55 million since 2002.

Household and community support measures

- Drought support workers — drought support workers provide support to families during drought, including providing information on available services and assisting in application processes. There are 10 drought support workers across the state.
- Farm family gatherings — organised community social events. Access to information and services is incorporated into the events. Up to June 2008, 2092 gatherings were conducted. An average of around \$700 in additional cash costs were incurred by the NSW Government per event.
- Grant for tank water — up to \$400 for low income rural households dependent on tank water.
- Department of Community Services (DoCS) Drought relief payment — up to \$2000. Available to those unable to access Centrelink provided income support.

Sources: DPI (New South Wales) (2008); NSW Government (sub. 90).

Victoria

Victoria's drought-related initiatives pre-date its recently announced agricultural policy Future Farming. While the Future Farming policy has a broader focus which may encompass drought-related policies, it is unclear whether the current suite of drought-related initiatives will become part of this policy.

While no formal drought policy exists, the Victorian Government is reported to have two key objectives for its drought assistance. These are to provide:

- short term support to help families and communities cope with the temporary impact of exceptional circumstances
- longer term assistance for structural adjustment for farming and other businesses whose ongoing viability is threatened by adverse climatic conditions (SACES 2008b).

In recognition of the nexus between short-term emergency support and the incentives for preparing for future droughts and the management of natural resources by farmers, the Victorian Government has developed four drought assistance principles in designing measures:

- drought should be treated as a legitimate business risk that farmers and other businesses should prepare for
- drought relief measures should be environmentally sustainable
- drought related assistance should target household welfare and community resilience through support for social and economic infrastructure
- drought policy should aim to manage the long term structural adjustment process.

Despite this, a number of drought measures (box E.2) do not appear to be designed with these principles in mind. For example, some payments are targeted directly at farm business costs that should have been planned for if drought was viewed as a legitimate business risk. Further, Victorian drought policy is directly targeted at managing structural adjustment despite drought being only one factor that places pressure on farm businesses and rural communities.

Box E.2 **Victoria drought assistance measures and costs, 2006-07**

Business subsidies and grants (\$7.3 million)

- Regional Infrastructure Development Fund 'Water for Industry' program — subsidies for public water businesses and private firms to reduce potable water use, costing \$1.9 million.
- Water tank rebate — a one-off rebate on water storage infrastructure for household and livestock use in the Grampians Wimmera Mallee during 2006-07, costing \$1.836 million.
- Pumping of the Waranga Basin — 87 billion litres of water was pumped from the Waranga Basin for use in the Goulburn system at a cost of \$2.52 million (\$30/ML).
- Drought apprenticeship retention bonus — \$1500 cash grant for businesses in EC areas to retain apprentices (total cost of \$1.02 million).
- Regional Industry Investment Program — support for businesses relocating to, or expanding capital works in, EC areas. No uptake of the allocated \$5 million.
- On-farm productivity grants — grants of up to \$3000 to assist farmers to undertake on-farm works that will improve productivity and mitigate the future impacts of drought (allocated funding of \$10 million in 2007-08).

Waivers of rates and other government charges (\$44 million)

- Rebates on fixed water rates — rebates of up to \$5500 on the fixed component of water bills for those receiving less than 50 per cent of their allocation (total cost of \$34.5 million).
- Municipal and family shire rate rebate — 50 per cent rate subsidy for farmers receiving the EC Relief Payment, costing \$9.5 million.

Environmental measures (\$10.5 million)

- Drought employment program — Catchment Management Authorities provide employment on projects to restore natural assets on private land, costing \$10 million.
- Stock containment facilities — subsidies to farmers to build stock containment infrastructure to minimise soil erosion, costing \$0.5 million.

Household and community support measures (\$35.76 million)

- Communication strategy — information provided to rural communities on how to manage drought and what programs are available to assist them (allocated funding of \$1.5 million in 2007-08).
- Small town development fund — grants of up to \$250 000 for projects in regional towns in EC areas, costing \$2.9 million.

(Continued on next page)

Box E.2 (continued)

Household and community support measures (continued)

- Local Infrastructure Works Program — grants to local councils and shires in EC areas to undertake minor works and local infrastructure projects, costing \$16.8 million.
- Roads projects — fast track the upgrade of six roads in EC areas, costing \$5.358 million.
- Rural skills connect — funding for 10 pilot projects aimed at finding workers for businesses experiencing skill shortages, through engaging farmers and workers laid-off due to drought (allocated funding of \$3.25 million in 2007-08).
- Tourism marketing campaign — grants to drought-affected regional tourism campaign committees (allocated funding of \$0.3 million in 2007-08).
- Drought relief for community and country sport and recreation (various programs) — grants to maintain sport and recreation-related infrastructure costing \$4.652 million.
- Tackling rural poverty and supporting families through drought initiatives — funding grants to kindergartens in drought-affected regions for Christmas hampers and toys, assistance for back to school costs and the development and enhancement of local information and referral networks, costing \$1.241 million.
- Mental health and drought counselling — to improve early intervention, coverage and outcomes from mental health programs, costing \$3.225 million.
- School and kindergarten fee relief packages — fee subsidies and grants to schools in drought-affected regions (\$0.834 million spent on kindergarten fee relief).
- Building resilient communities — grants for community events and programs to assist drought-affected communities with drought recovery and to build community resilience, costing \$0.75 million.
- Planning for change — grants provided to local councils in drought-affected areas to assist community engagement in planning and regional adjustment (allocated funding of \$0.6 million in 2007-08).
- Sustainable farm families — workshops and information to improve awareness of health, wellbeing and safety issues facing farm families (allocated funding of \$1.35 million in 2007-08).

Drought related training, research, development and extension (\$2.9 million)

- One-to-one extension services — information and advice to farmers in drought 'hot-spots', costing \$0.5 million.
- Future farm planning — information and planning advice for farmers to improve decision making, costing \$0.65 million.

(Continued on next page)

Box E.2 (continued)

Drought related training, research, development and extension (continued)

- Rural futures forums — information for communities and industries to improve adjustment decisions (allocated funding of \$0.83 million in 2007-08).
- Goulburn and Murray Irrigation horticulture assistance — one-to-one advice for horticulturalists to improve decision making (allocated funding of \$1.2 million in 2007-08).
- Drought recovery program — advice to help farmers recover from drought through evaluating current circumstances, planning for the future and the implementation of plans (allocated funding of \$1.2 million in 2007-08).
- Business continuity program — information provided to farm and non-farm businesses in EC areas to improve business decision making, delivered through workshops, forums and one-to-one meetings, costing \$1.75 million.
- Business transitioning program — workshops, forums and one-to-one business counselling to drought-affected non-farm businesses (allocated funding of \$1 million in 2007-08).

Source: SACES (2008b).

Queensland

Queensland's drought policy, Drought — Managing for Self-Reliance, was adopted in 1992 and reiterates the objectives of the NDP. The primary aim of the policy is:

To achieve a level of self-reliance within Queensland's rural industries such that the risk of drought is adequately covered by sound property planning and management practices. (Queensland Government, sub. 77, p. 3)

The Queensland Department of Primary Industries and Fisheries (DPIF) delivers its drought assistance measures through the Drought Relief Assistance Scheme (DRAS). The DRAS, which has been in place since the 1960s, was to be phased out after the development of the NDP and Queensland's drought policy in 1992, but has instead been retained subject to annual review.

The main measure delivered under the DRAS is a transport subsidy — freight subsidies for fodder and water during drought, and freight subsidies for livestock returning from agistment, or for restocking properties recovering from drought.

A number of other drought assistance measures are also available from other departments and agencies within the Queensland Government (box E.3). These range from the provision of carry-on finance for drought-affected producers (Queensland Rural Adjustment Authority) to publicly funded research and development (Environmental Protection Agency).

Box E.3 Queensland drought assistance measures

Transport and other transaction subsidies

- Transport subsidy — freight subsidies paid to farmers in State drought-declared regions for: the transportation of fodder and water; stock going to and from agistment; and restocking.

Business subsidies and grants

- Small business emergency assistance scheme — an interest rate subsidy of up to 50 per cent (capped at \$10 000 per annum) on interest payments on new and existing loans incurred by locally owned small businesses in, dependent on, or adjacent to EC declared areas.

Waivers of rates and other government charges

- Irrigators fixed water charges rebate — a rebate of up to \$10 000 per financial year on fixed water charges incurred by producers over the period 1 July 2006 to 30 June 2008 in areas that have previously had, or currently have, low water availability.
- Hardship provisions for rent or lease instalments on state land — deferral allowances for those businesses experiencing hardship and unable to pay rent on lease instalments on state land.
- Transport concessions — concessions for primary producers such as payment options for vehicle inspection fees, drought road train permits and increased vehicle height limit when transporting machined baled hay.
- Electricity tariff concessions — concessions to primary producers declared as experiencing drought conditions (state-based declaration).

Concessional business loans

- Drought carry-on finance — provides subsidised finance for primary producers affected by drought (up to \$100 000). As at the financial year ending 2007-08, 150 loans were in place at a value of \$5.492 million with \$93 840 remaining to be repaid.
- Drought recovery loan scheme — formally the drought crop loan and drought restocking loan, the recovery loan allows producers to borrow amounts up to \$200 000 (capped at \$60 000 to purchase crop materials and \$100 000 for non-breeding stock purchases) at concessional rates. At the end of the 2007-08 financial year, 67 loans were in place, initially worth \$4.034 million with \$41 247 remaining to be repaid.

(Continued on next page)

Box E.3 (continued)

Household and community support measures

- Hardship provisions for rent or lease instalments on state land — reduced rent payments on state land for families experiencing hardship.
- Transport concessions — farming families in drought-affected areas that drive their children to school or connect with a school bus may be eligible for an increase in the school transport allowance.

Drought related training, research, development and extension

- ‘Long Paddock’ — decision-support information services to better manage climatic risks and opportunities.

Sources: DPIF (2008a, 2008 unpublished).

Western Australia

There is no specific drought policy in Western Australia and there have been relatively few state drought assistance measures (box E.4). While there is no state drought declaration process, state assistance under the 2007 Dry Season Assistance scheme was based on shire boundaries.

Box E.4 **Western Australia drought assistance measures**

Business subsidies and grants

- 2007 Dry Season Assistance Scheme — grants of up to \$8000 for eligible farmers in specified shires, funds for rural counselling services, funds for councils or community organisations to undertake community activities and financial advice for small businesses. Announced in August 2007 and applications closed March 2008. In total, \$4.3 million in grants was paid to 507 recipients.

Drought related training, research, development and extension

- Farm Training WA — state funded scheme to replace FarmBis. Funded for one year commencing 1 July 2008 (\$1.5 million).

Source: RDBC (2008).

South Australia

While the South Australian Government has a set of objectives to help guide the development of drought assistance measures, it does not have a formal drought

policy of its own. Instead, the NDP is used as the overarching policy. Based on the three NDP objectives, the South Australian Government has five core objectives that underpin its drought assistance measures:

- Achieving self reliance by farmers in managing risks stemming from normal climatic variability by increasing the focus on drought preparedness;
- The provision of appropriate assistance to producers experiencing conditions of exceptional circumstances;
- Ensuring that the provision of this assistance is equitable, efficient and timely and is based on the best science and information;
- Facilitating the maintenance and protection of Australia's agriculture and environmental resource base during periods of increasing climatic stress; and
- Facilitating the early recovery of agricultural and rural industries, consistent with long-term sustainable levels. (South Australian Government, sub. 91, p. i)

A range of assistance measures are delivered by the South Australian Government which are detailed in box E.5.

Box E.5 South Australian drought assistance measures

Business subsidies and grants

- Farm debt mediation — \$2000 grant for farmers in drought-affected areas for an independent mediator to negotiate with their bank.
- Planning for recovery grants — grants of up to \$14 000 for those receiving ECIRS for expert support in preparing (\$4000) and completing (\$5000) farm plans, and to undertake immediate farm works (\$5000).
- Computers for drought — subsidised provision of ex-government computers and training for ECIRS recipients.
- Drought apprenticeship retention program — payments for employers in drought-affected regions for apprentices and trainees enrolled in selected rural, horticultural trades that support agricultural production.

Waivers of rates and other government charges

- Mortgage stamp duty relief — mortgage stamp duty exemptions for producers needing to extend finance as a result of drought.
- Water transfer fee exemptions — River Murray licence holders who buy water in 2008-09 to top-up their water access to a level that does not exceed their water allocation can apply to have the \$335 application fee waived.
- Ex gratia payments — payments made to offset 50 per cent of the natural resource management water levy for River Murray licence holders.

(Continued on next page)

Box E.5 (continued)

Waivers of rates and other government charges (continued)

- Freeholding perpetual leases — the postponement of payment deadlines for farmers in drought-affected areas who are part of the accelerated freeholding project.

Household and community support measures

- Energy and school costs concessions and remissions — concessions and remissions for energy costs and school fees for families impacted by drought.
- Community counselling — confidential emotional counselling provided to individuals in drought-affected communities.
- Mental health support — a 24 hour emergency assistance and information service directed at primary producers affected by drought.
- Community support grants — grants of up to \$5000 for rural communities to stage activities that build resilience and help in coping with the drought.
- School expenses — \$150 per student for drought-affected families with access to benefits through the School Card to assist with educational expenses.
- Young farmer package — a rural leadership program targeting up to 20 leaders in drought-affected regions to assist them to become mentors for their community.

Drought related training, research, development and extension

- Technical advice and information workshops — to assist farmers and irrigators to manage their farms, finances and families through the drought and to recovery.
- Labour market transition program — training for people in regional areas who derive 75 per cent of their income from primary production to obtain licences to drive forklifts, front end loaders, heavy vehicles and dump trucks.
- Research and development to reduce the impact of drought on River Murray horticulture and broadacre farms — several research and development programs ranging from improved drought tolerance of wheat and lucerne to improved water use efficiency.

Sources: South Australian Government (sub. 91); Government of South Australia (2008).

Tasmania

Tasmania does not have an explicit drought policy and state assistance provided to farmers is done on the basis of Commonwealth EC declarations. Additional state funded direct drought assistance to farmers has been relatively minor in Tasmania with small numbers of programs (box E.6). However, the Tasmanian Government does have high level Drought Task Force and has developed a ‘Drought Proofing Tasmania Strategy’, which is aimed at providing water security for rural

communities and allowing growth in irrigated agriculture (DPIW 2008). In March 2008, a Tasmanian Irrigation Development Board was announced to oversee development of large scale irrigation projects. Public funding of \$220 million has been allocated, comprising \$140 million from the Commonwealth and \$80 million from the Tasmanian Government.

Box E.6 Tasmania drought assistance measures

Business subsidies and grants

- Assistance to support essential breeding stock — initially a grant of up to \$5000 per farm for farmers in EC areas and receiving either ECIRS or EC Relief Payments for purchases of fodder or water between March and June 2008. Extended in July 2008 to a total of \$10 000 per farm and available until 30 September 2008. About \$2.3 million was provided to 257 applicants through the scheme.

Household and community support programs

- Support grants — a total of \$350 000 available to provide one-off grants to community organisations providing drought support programs. Announced in April 2008.

Drought related training, research, development and extension

- Increase in extension services and provision of information by DPIW on issues such as drought feeding of livestock.

Sources: DPIW (sub. 85, trans., p. 24–42).

Australian Capital Territory

Despite reporting that the ACT is reviewing its policy on drought declarations and assistance (sub. 101), no public enunciation of the existing policy is available. However, the ACT has two assistance measures (box E.7).

Box E.7 ACT drought assistance measures

Waivers of rates and other government charges

- There has been a waiver of land rates and stock levies while the ACT has been drought declared.

Drought-related training, research, development and extension

- Two workshops directed at rural lessees affected by drought were conducted in 2007-08, covering sustainable grazing practices and post-drought recovery strategies.

Sources: ACT Government (sub. 101); TAMS (2008).

Northern Territory

The Northern Territory's drought policy has three objectives reflecting those of the NDP. The broad objectives are to:

- encourage primary producers and those associated with the rural industries to adopt self-reliant approaches in managing risk, especially climatic variability
- facilitate the maintenance and protection of the agricultural and environmental resource base of the Northern Territory during periods of increasing climatic stress
- facilitate the early recovery of rural industries consistent with long-term sustainable levels. (DPIFM 2008, p. 1)

Along with transport subsidies, the Northern Territory Government has concessional loan and grants available to producers with properties declared as being in severe drought (box E.8). There has been no uptake of these measures in the past three years.

Box E.8 Northern Territory drought assistance measures

Transport and other transaction subsidies

- Transport subsidy — paid to farmers with drought-declared properties to help with the cost of transporting breeding stock to and from agistment.

Business subsidies and grants

- Drought grants — grants up to the value of the concessional benefit of a loan are available to help producers with additional costs imposed by droughts but, unlike loans, allow producers to make their own financial arrangements in sourcing finance.

Concessional business loans

- Drought loans — loans of up to \$60 000 per producer per year are available to those with properties declared as being in severe drought (loan term of five years).

Source: DPIFM (2008).

E.2 State and Territory drought declarations

Three state and territory governments have also retained their own formal drought declarations that trigger support — New South Wales, Queensland and the Northern Territory. In all three, a declaration allows producers to access transport subsidies. Both Queensland and the Northern Territory have a producer or local community initiated declaration process, but for New South Wales, assessments are made by Rural Lands Protection Boards. In all cases, there is potential for differences to exist between what would be characterised as an EC drought and what a state or territory

government would declare as a drought that warrants (its) government assistance. Tasmania, South Australia, the ACT, Western Australia and Victoria do not have separate drought declarations.

In Queensland, areas, shires or individual farms experiencing a severe climatic event (one that is likely to occur no more than once every 10 to 15 years) can be drought declared and access assistance measures. For areas and shires, an assessment is made by the Local Drought Committee, which then recommends to the Minister for Primary Industries and Fisheries whether an area should be drought declared. The Minister makes a declaration based on this recommendation. For individual farms, owners outside declared areas who believe their property is affected by drought must apply to the Queensland Department of Primary Industries and Fisheries to have their properties declared as an ‘Individually Droughted Property’ (IDP). The criteria used to assess conditions for the area and individual applications are the same, but applied more broadly to assess areas (box E.9).

Box E.9 Criteria for Queensland drought declarations

The criteria for drought declarations in Queensland vary by enterprise type. All enterprises (and areas) must, however, meet the rainfall criteria — low rainfall must represent a one in 10 to 15 year event. For IDP applications, individuals must demonstrate that they have responded to drought conditions and been self-reliant to some degree.

For livestock dominated enterprises, the following are considered in assessing an application or area:

- the amount and distribution of rainfall over the previous 12 months, and its effectiveness during the previous two summer pasture growth seasons
- availability of pasture and water relative to neighbouring holdings
- the fat score of breeders and non-breeder animals (not applicable to dairy cattle)
- whether or not the drought-like conditions have been caused by overstocking (an IDP declaration will not be made if there has been overstocking)
- the degree of drought-induced forced sale and agistment movement (stock numbers should generally be reduced in line with the deteriorating seasonal conditions)
- the amount of drought feeding undertaken — hand-feeding without which the stock would perish.

For cropping, horticultural or sugar enterprises, the rainfall criteria applies and an assessment is made of the soil moisture level of the property, crop yields (expected reductions) and the availability of irrigation water. Additional criteria are applied to sugar enterprises regarding planting decisions, rainfall timing and whether the crop is required to be ploughed out.

Source: DPIF (2008b).

Once applications are received they are processed within ten working days. For individuals, they are notified as to the outcome of their application after this period, with the declaration remaining in place for 12 months unless revoked or replaced by an area declaration. In contrast, area declarations are open-ended, and continue until the area is revoked by the Minister. Revocations occur following widespread rainfall and under the recommendation by the Local Drought Committee that the area has come out of drought.

Declarations of severe drought in the Northern Territory, which trigger the availability of assistance, are made on an individual property basis. While the objectives of the NDP are reiterated in the Northern Territory's drought policy, the definition of a severe drought differs to EC definition used by the Commonwealth. A severe drought is defined as a property declared to be in drought in at least two out of three consecutive years (box E.10). As with Queensland, a severe drought is one that is expected to occur no more than once every 10 to 15 years. Declarations last for one year and run from 1 January to 31 December.

Box E.10 Drought declarations in the Northern Territory

Farmers with pastoral properties who believe their property is experiencing drought must apply annually to the Northern Territory Department of Primary Industries, Fisheries and Mines (DPIFM) to gain a declaration. Applications must be made between 1 April and 30 April in the year the declaration is sought. Applications must include:

- proposed turnoff numbers in the year of application
- details of turnoff for the previous seven years
- summary of drought management arrangements proposed for the property, including the recovery period
- type and level of assistance sought
- proposed use of funds sought.

In assessing applications, DPIFM will assess the severity of the drought and the extent to which producers have managed their stock numbers to take account of seasonal conditions. DPIFM take into account whether property owners have access to other properties (either by ownership or commercial arrangement) and assess the conditions in all properties when making a drought declaration. Severe drought conditions for an individual property are declared by DPIFM when a property has been drought declared for at least two of the past three consecutive years.

Source: DPIFM (2008).

E.3 Evaluation of drought assistance measures

Available information on assistance measures varies greatly. Given data limitations, many measures can only be evaluated in terms of their appropriateness in line with the rationales for government intervention discussed in chapter 5. Where possible, the effectiveness of other measures is also examined by using available data and by drawing upon existing reviews. It should be noted that many of the measures used by state and territory governments operate over relatively short timeframes (minimising the potential for perverse incentives), involve relatively small amounts of money or are accessed by a relatively small proportion of the community.

Transport and other transaction subsidies

Several state and territory governments initially introduced transport subsidies for stock, fodder and water in order to maintain flocks and herds and to promote animal welfare outcomes. For example, the Queensland government's Drought Relief Assistance Scheme (DRAS) with transport subsidies intended to:

... maintain as far as possible the livestock resource of a property during drought, and assist in the return and restoration of that resource after drought. (Queensland Government, sub. 77, p. 14)

Similarly, New South Wales' transport subsidy scheme (transportation of stock, fodder and water) is intended to:

... assist farmers to ensure their livestock have access to adequate feed and water and thereby alleviate immediate animal welfare concerns and pasture and environmental degradation. (NSW Government, sub. 90, p. 6)

The Northern Territory also runs a transport subsidy schemes with similar objectives, although the scheme also aims to help reduce grazing pressure on drought-affected properties through encouraging agistment. In Tasmania, a recently introduced but now closed subsidy scheme for farm inputs (such as water, fodder along with agistment costs) was available to maintain essential breeding stock. Details of the schemes are provided in box E.11.

Transport and other input subsidies have been used widely by producers in New South Wales and Queensland, but significantly less so by producers in the Northern Territory. In New South Wales for example, the subsidies are viewed by the NSW Government as:

... popular with farmers, in part due to their low administration costs, general accessibility to a wide range of farm businesses, and the timeliness of their provision. (sub. 90, p. 6)

Box E.11 Transport subsidy schemes

Queensland's DRAS provides freight subsidies on fodder and water during drought events, and freight subsidies for restocking and returning from agistment at the end of a drought for two years from the date a state drought declaration is revoked. In any financial year, the maximum amount claimable is \$20 000, but this may be extended to \$40 000 with approval.

The NSW Government provides a 50 per cent rebate on transportation costs for the movements of water for domestic use, water and fodder for stock, stock to and from agistment and stock to sale or slaughter. To be eligible, claimants must own the stock and operate an agricultural holding or farm business entity. Payments are capped at \$20 000 in any one calendar year for water and fodder for stock, stock to and from agistment and stock to sale or slaughter movements and at \$5000 a year for domestic water movements. Operators of intensive livestock enterprises, such as piggeries, are not eligible for the subsidy.

In the Northern Territory, a freight subsidy of up to 100 per cent of actual costs of transporting breeding stock up to a distance of 1500 kilometres is available. Payments are capped at \$20 000 per year and available to farmers in Territory drought declared areas.

Sources: Tasmanian Department Primary Industries and Water (sub. 85); DPI (New South Wales) (2008); DPIF (2008b); DPIFM (2008).

As a result, an estimated 1 in 6 farmers in New South Wales have accessed the scheme over the period 2002 to 2008 (sub. 90). In total, the three remaining jurisdictions with transport subsidies provided over \$186 million in assistance (table E.1).

Table E.1 Transport subsidies, 2002-03 to 2007-08

	<i>New South Wales</i>		<i>Queensland</i>		<i>Northern Territory</i>	
	<i>Claims</i>	<i>Amount</i>	<i>Claims</i>	<i>Amount</i>	<i>Claims</i>	<i>Amount</i>
	no.	\$'000	no.	\$'000	no.	\$'000
2002-03	23 701	26 012	5 409	7 676		
2003-04	20 046	20 803	5 380	12 395		
2004-05	17 617	18 773	2 186	5 594		
2005-06	14 785	14 794	2 972	6 176		
2006-07	30 432	30 615	6 250	13 484	9	172
2007-08	18 702	19 336	4 796	10 476	4	64
Total	125 283	130 333	26 993	55 801	13	236

Sources: Unpublished data obtained from NSW Department of Primary Industries; Queensland Department of Primary Industries & Fisheries and Northern Territory Department of Primary Industry, Fisheries and Mines.

In Queensland in 2006-07, over 87 per cent of freight subsidies were directed to the haulage of fodder, with around 9 per cent paid to farmers sending stock for agistment. A similar pattern was observed in New South Wales, with the majority spent on the transport of fodder (71 per cent) and agistment (11 per cent). New South Wales also pays subsidies on stock transported for sale, which accounted for 11 per cent of total expenditure. The Northern Territory only provides subsidies for transport to agistment.

Are transaction-based subsidies appropriate?

There is little or no valid rationale for the provision of transport subsidies. In some instances, attempts to justify such subsidies have been based on animal welfare grounds or as attempts to limit environmental degradation by making it cheaper to move stock from drought-declared areas. However, such justifications cannot be supported for the following reasons.

- Animal welfare outcomes are likely to be more effectively achieved through improved responsiveness to environmental conditions (such as early destocking). Further, from a policy perspective, the prevention of animal cruelty is likely to be more effectively achieved by direct policy targeting, such as through the use of regulations.
- By their nature drought declarations must be ex post and this can create incentives to hold stock to access transport subsidies. Accordingly, such payments are more likely to make environmental outcomes worse.

In terms of the rationales associated with improving self-reliance — reducing information barriers, supporting drought-related research and development, and correcting for market imperfections — transport subsidies are an inappropriate policy response.

Effectiveness of state-based transport subsidies

Little information is collected on the outcomes achieved by transport subsidies. Some participants to this inquiry were of the view that such payments were useful in providing farmers with greater flexibility in managing their business in times of drought. For example, as argued by the NSW Farmers' Association:

The transport subsidy has been very beneficial to farmers providing valuable assistance to mitigate effects of drought on livestock ... it is felt that the subsidy is assisting farmers to make decisions and supporting the welfare objectives of the subsidy. (sub. 98, p. 20)

Despite this, the effectiveness of these provisions has been questioned by previous reviews of drought policy (chapter 4) and also by those governments that provide this assistance. As suggested by the Queensland Government, transaction-based subsidies have the potential to alter behaviour in unintended ways by:

- encouraging producers to maintain higher stocking levels during drought (potentially leading to environmental degradation)
- encouraging the maintenance of stock through agistment whereas it may have been better to dispose of stock
- encouraging the purchase of fodder and other inputs during drought rather than building fodder storages
- increasing the demand for fodder during droughts which has a detrimental effect on other industries and producers in other states that do not receive the subsidies (sub. 77).

In addition, the NSW Government suggested that along with distorting incentives for current production decisions, such payments could have a longer term impact on sustainable production through creating permanent changes to production decisions (sub. 90). These comments were also echoed by the South Australian Government (sub. 91). Further, whether such payments provide material gains to those farmers who take advantage of them is also questionable. However, as the NSW Government notes, some of this gain is likely to be capitalised into the cost of transport services and fodder (sub. 90).

In terms of the NDP objectives, it is unlikely that the provision of these subsidies encourages producers to become more self-reliant. Payments encourage producers to be less reactive to changes in climatic conditions and thus they are likely to have greater exposure to climate risks.

Transport subsidies can also work against the objective of maintaining and protecting the environmental resource base during drought events. As noted by some, it enables producers to maintain their livestock even though their farm and region is in drought which in turn increases potential for environmental degradation through effects such as increased soil erosion.

Business subsidies and grants

Business subsidies or grants are used by most jurisdictions. They are typically aimed at specific infrastructure projects, such as water storage, or at costs that are exacerbated by drought, such as the costs of feed and water cartage.

There is typically no valid rationale for the provision of this type of business assistance. This is because the benefits of the grant are largely private in nature and there are few impediments to farmers accessing credit for worthwhile investments, given the generally high levels of equity held by farmers. That said, in some circumstances there may be positive externalities from on-farm activities. In these cases a grant or subsidy may be an appropriate form of assistance if the assistance is well targeted and linked to specific public benefits, such as achieving environmental benefits (see below).

However, most of the business grants and subsidies provided by state governments are not targeted at addressing market failures. The benefits of grants for livestock feed, such as that undertaken in Tasmania, or for farm costs more generally, such as the that provided in Western Australia, are entirely private and there is therefore no rationale for their provision.

Further, most subsidies or grants offered by state governments are short-term contingency measures in response to the effects of drought. In this context, they are generally ineffective in improving self-reliance, and are therefore inconsistent with the first objective of the NDP.

Waivers of rates and other government charges

Waiving government charges is a relatively easily administered form of business assistance and hence, this form of assistance is used by a number of jurisdictions. They are typically aimed at waiving charges in relation to goods or services that are drought affected, such as rates or rentals on state-owned drought-affected land, or water charges where allocations are reduced.

Waving government charges is similar in effect to providing subsidies for other business expenses. Government charges are known business costs that are relatively stable. Many of these costs relate to the provision of service where there are fixed annual costs. For instance, in the case of water delivery, there are fixed costs for water delivery infrastructure that are incurred by government regardless of how much water is supplied in any year. As waivers do not address any market failure, there is no rationale for waivers of government charges as a form of assistance.

Government levies should be set to cover the average costs of service provision over the long run. While it is inappropriate to waive these in response to drought or other hardship, there may be scope to vary the way in which government charges are levied over time, provided that overall, fees meet the average cost of service provision over the long run. For instance, deferral of fees would be more a more appropriate assistance measure than a waiver.

Further, waivers are a relatively blunt form of assistance, which can reduce their effectiveness. One example is the Victorian water rebate scheme, which while an easily administered scheme, was poorly targeted, as rebates were made to recipients regardless of need. Further, such assistance measures do not align with the Victorian Government's drought assistance principles (SACES 2008b).

As with other business subsidies, fee and levy waivers do not improve self-reliance and are inconsistent with the principles of the NDP.

Environmental measures

Only Victoria has drought measures targeted at achieving environmental outcomes, with even these simultaneously aimed at other objectives. The Drought Employment Program is also targeted at providing employment opportunities for 'drought-affected rural Victorians' with stock containment also aimed at improving farm productivity. From a first principles viewpoint, such initiatives can have some merit.

Measures that seek to achieve environmental outcomes can lead to net community benefits if they are targeted towards correcting environmental externalities. If this is the case, it is possible that the benefits from intervention will exceed the costs of doing so. But depending on the environmental outcomes sought, it is questionable whether identified externalities only occur during droughts or whether to ameliorate the affects of the externality would require longer term sustained funding.

Assessments of the two Victorian schemes show mixed results. Grants provided to producers to build stock containment facilities in order to maximise vegetative cover and reduce soil erosion have reported significant environmental benefits (SACES 2008b). These grants were provided alongside technical advice from soil specialists. The drought employment program, on the other hand, was believed to be less successful. While it aimed at restoring and enhancing natural assets of community significance on private land, it was found that projects were selected to reflect employment priorities and were not necessarily those of environmental significance. Part of the reason this was believed to occur was related to funds initially been allocated to farmers to undertake works on their own properties. In the second round this was prohibited.

Concessional business loans

Concessional loans provided to farm businesses by state and territory governments have been targeted towards providing carry-on finance or to allow farmers to undertake productivity enhancing capital works. However, as with interest rate subsidies, concessional loans provided to maintain viable farm businesses during drought can only be justified if there is some failure in capital markets that restrict these businesses from borrowing. Given the availability of rural credit for viable farm businesses (Australian Bankers' Association, sub. 76) and high average equity levels, it is likely that such support measures cannot be justified on market failure grounds.

Despite this, concessional loans are more likely to achieve the goal of self-reliance than would other subsidies and grants, as producers are less likely to take on more risk than they otherwise would. Indeed, in the case of Queensland, concessional loans paid to farmers have mostly been paid back in full, with none of those holding outstanding amounts assessed as being at risk of default. In this sense, support for concessional loans can be viewed from a 'second best' perspective.

Household and community support measures

All state governments, with the exception of Western Australia, provide some form of drought-related household or community support. These measures are the most numerous among all the drought support measures provided and aim to achieve two broad objectives, to:

- ease the hardship faced by farming and rural households as a result of droughts
- promote rural community resilience and growth during droughts.

Household support

The underlying rationale for household support is to ensure that all households achieve some basic acceptable standard of living. This includes providing them with the capacity to access government services to a similar level to others also in receipt of support.

While welfare payments are predominately the domain of the Commonwealth government, state governments provide support through concessions for state government provided services (such as education, school related transport and energy). These concessions are provided directly to households and are targeted at maintaining farm family access to merit goods and those viewed as essential services. Concessions made to farming households during drought appear, in the

broad, to be well targeted to the household (relate to household and not business costs) and are not paid as cash grants. However, one notable exception to this is the NSW Government's DoCS Drought Relief Payment which consists of a one-off grant of up to \$2000.

Community support

Rationales for rural community support relate to the building of social capital (or the capacity/infrastructure of local communities to do this), maintaining/expanding populations within rural communities and overcoming information failures surrounding government support programs.

In terms of social capital, governments have provided support in order for communities to develop or strengthen the informal links that exist with communities. To achieve these outcomes, governments have provided support to maintain local sporting clubs and facilities as well as to establish local groups. To date, little evaluation of these support measures has been done so their effectiveness is unknown.

In order to maintain or expand rural communities, some state governments have provided incentives for individual businesses to relocate into certain areas. However, these measures are rare and, most commonly, community support has been targeted at promoting information about support services for those within communities facing hardship. These range from mental health awareness programs to establishing organisations to coordinate and disseminate information.

Given the small scale of many of community support measures, and the lack of formal evaluation, it is difficult to assess the effectiveness of these measures. Measures to improve sporting facilities in Victoria, for example, are believed to have preformed well (SACES 2008b), but little information exists in terms of measures delivered by other states.

It is also difficult to assess the appropriateness of these measures. For example, in the communities that received support, did impediments exist to them building social capital? Does the broader community value maintaining/expanding populations in rural centre as an outcome in itself? The former relates to the under provision of what could be termed a local public good due to drought conditions, with the latter a societal preference — both of which are difficult to assess. Despite this, in relation to social capital, if failures are taken as given, then the provision of support (as broadly done by most state governments) appears to be appropriate as it is targeted towards these goods. Instead, where attempts are made to maintain or

expand rural towns, it is likely that the ad hoc nature of drought-related measures is inappropriate as the pressures for rural decline extend beyond drought events.

Drought-related training, research, development and extension

Drought-related extension and training measures are a common form of assistance by state governments. The extent of drought-specific research by states is less clear.

The rationale for government intervention through research and development and extension services was discussed in detail in chapter 8. As noted in that chapter, the case for government funding of research is likely to be greatest in the case of basic research or where there are clear spillover benefits. Similarly, because there is scope for government provided extension services to crowd out private service providers, government provision of extension services should be directed mainly to areas where private provision of services is unlikely to develop. It is also important to note that the provision of research, development and extension should be continuous, rather than reactive in response to drought.

Summing up

- While not all states and territories have stated drought policies, they all, to differing extents, provide drought assistance measures of various forms.
- Many of the measures delivered by state and territory governments involve small amounts of funding, have limited coverage and operate over relatively short timeframes.
- State-based transport subsidies are an inappropriate response to the rationales underpinning the NDP. Further they are likely to work against the rationales for intervention, placing producers in a less self-reliant position and potentially creating adverse environmental outcomes.
- Business subsidies are generally aimed at drought specific infrastructure or costs. By their nature, they are ex-post short-term contingency measures that are ineffective in improving long-term self-reliance.
- Waiving government charges has a similar effect to providing other forms of business subsidies. They are typically poorly targeted forms of assistance that do not consider the need for assistance or involve any form of mutual responsibility.
- Measures to achieve environmental outcomes can have net community benefits if they address environmental externalities. However, they need to be well targeted. Further, many externalities are likely to exist irrespective of drought.

-
- Concessional business loans are an alternative form of subsidy, but because of their longer-term nature and because producers still bear some risk they are more likely to encourage self-reliance than straight forward grants.
 - Household and community support measures are generally well separated from business assistance. However, some are targeted towards hardships that are not created by droughts and thus should be provided outside of drought policies.

Training and extension assistance is an appropriate form of assistance for states to provide where market failures exist and provision by private service providers is not feasible.