




Submission to the Interim Report of the Productivity Commission Review of the Future Drought Fund

July 2023

**NSW Farmers' Association
Level 4, 154 Pacific Highway
St Leonards NSW 2065**

T: (02) 9478 1000 | F: (02) 8282 4500

W: www.nswfarmers.org.au | E: emailus@nswfarmers.org.au

• @nswfarmers  nswfarmers

For further information about this submission, please contact:
Brendan O'Keeffe, Economist

Table of contents

Table of contents	0
About NSW Farmers.....	1
Executive summary	1
Recommendations	2
Drought in Australia	3
Drought policy context and lessons from past experience.....	4
Learning from the lessons of the past and applying them to the Future Drought Fund.....	6

About NSW Farmers

NSW Farmers is Australia's largest state farming organisation, representing the interests of its farmer members in the state. We are Australia's only state-based farming organisation that represents farmers across all agricultural commodities. We speak up on issues that matter to farmers, whether it's the environment, biosecurity, water, animal welfare, economics, trade, workforce or rural and regional affairs.

Agriculture is an economic 'engine' industry in New South Wales. Despite having faced extreme weather conditions, pandemic and natural disasters in the past three years, farmers across the state produced more than \$23 billion in 2021-22, or around 25 per cent of total national production, and contribute significantly to the state's total exports. Agriculture is the heartbeat of regional communities, directly employing almost two per cent of the state's workers and supporting roles in processing, manufacturing, retail, and hospitality across regional and metropolitan areas. The sector hopes to grow this contribution by working to reach \$30 billion in economic output by 2030.

Our state's diverse geography and climatic conditions mean a wide variety of crops and livestock can be cultivated here. We represent the interests of farmers from a broad range of commodities – from avocados and tomatoes, apples, bananas and berries, through grains, pulses and lentils to oysters, cattle, dairy, goats, sheep, pigs and chickens.

We work across regional New South Wales and in Sydney to ensure key policies and messages travel from paddock to Parliament. Our regional branch network ensures local voices guide and shape our positions on issues affecting real people in real communities, bringing policy ideas to Annual Conference. Our Advisory Committees provide practical advice to decision makers and our 60-member Executive Council makes the final decision on the policies we advocate on.

As well as advocating for farmers on issues that shape agriculture and regional areas, we provide direct business support and advice to our members. Our workplace relations team has a history of providing tailored, affordable business advice that can save our members thousands of dollars. Meanwhile, we maintain partnerships and alliances with like-minded organisations, universities, government agencies and commercial businesses across Australia. We are also a proud founding member of the National Farmers' Federation.

Executive summary

NSW Farmers supports comprehensive, integrated, consistent and effective national drought policy that:

- a) ensures that farm businesses are best prepared for, able to respond to, and able to recover from any drought event.
- b) ensures that farm businesses are able to return as quickly as possible to contributing to the economic prosperity of both their local communities and the nation.
- c) promotes preparedness and self-reliance, both of which are critical elements of good farm business planning.
- d) recognises that there are fundamental limits to what even the best farm businesses will be able to prepare for and supports provision of 'in drought' government support for farm businesses when these limits are exceeded.
- e) recognises drought not just as an issue for agriculture, but as an issue for regional development.
- f) recognises drought assistance as co-investment in farm businesses and communities.

The aim of the Future Drought Fund fits in with this policy, to support farm businesses and associated communities to prepare for, and become more resilient to, the impacts of future droughts. There are serious concerns, however, about the way in which the Fund is trying to achieve this aim.

The Future Drought Fund seems to have not learnt the lessons from past drought policy in a time of increasing climate variability. In order to correct the Fund away from short-term, duplicative, ill-planned, uncoordinated programs towards more coordinated, long-term, grassroots drought policy, wholesale changes need to be made. These changes should be made as soon as possible to ensure the wastage of taxpayer funds does not continue.

Recommendations

1. Carry out a needs analysis for drought policy and programs to ensure the FDF is appropriately targeted to fill strategic long-term gaps.
2. Learn from the successes of the pilot Regional Drought Resilience Plans and use these as a way to better plan and coordinate the activities of the Hubs with increased input from local stakeholders such as farmers and farmer groups.
3. Clearly define the role of Hubs as coordinators of drought preparedness in regions.
4. Improve messaging and communication of the roles of Hubs and the outcomes they are achieving in line with their clearly defined roles.
5. Continue funding the Farm Business Resilience Program and use its relatively high level of engagement to gather information on where long-term improvement in farm business resilience can be achieved and in informing stakeholders about other drought programs, including any drought response initiatives should they occur.
6. Take caution in the inclusion of natural capital in the FDF, due to the need to narrow the scope of the FDF rather than broaden, and the prevalence of existing natural capital programs which increases the likelihood of duplication.
7. Conduct analysis of RDC and other innovation investments to find where specific gaps exist. Focus innovation grants on filling these gaps and conducting targeted research. If no clear gaps exist, then redirect this funding to areas of clearer value.
8. Consider removing social programs due to the strong overlap with the remit of state and territory, and local governments. Note that this does not include programs which have a direct focus on mental health, but rather those investments in areas such as community infrastructure in which delivery gaps are less clearly identified.
9. Use this juncture to clarify the roles of each program, and the responsibilities of each stakeholder within each program, and concurrently update the monitoring and evaluation framework of the Fund. Embed systems within this framework which ensure that lessons from monitoring and evaluation are used to continuously improve the performance of the Fund and the programs within it. Communicate the outcomes of monitoring and evaluation to stakeholders to increase the accountability and transparency of Fund operations.

Drought in Australia

Australia has a highly variable climate, characterised by both lower average rainfall and higher rainfall variability than other nations. This results in producers being subject to more climate related risk than almost any other country in the world. Climate change is set to exacerbate this challenge, with models predicting changes in future rainfall patterns and more severe droughts. Changes have already been observed over the past 20 years such as reductions in average winter rainfall in southern Australia. The 2020 State of the Climate report¹ stated the following about Australia's climate: has warmed by 1.4°C since 1910; decline in winter season rainfall in south-western Australia (20% since 1970) and south-eastern Australia (12% since 2000).

ABARES research has estimated the impacts of these changes on Australian broadacre farms with the following findings:

- Changes in seasonal conditions over the period 2001 to 2020, relative to 1950 to 2000, have reduced annual average farm profits by 23 per cent, or \$29,200 per farm.
- Conditions post-2000 have increased the variability of cash income and profits. In the 20 years since 2000, the risk of very low farm returns due to climate variability has doubled, relative to 1950 to 2000.
- The difference between profits in normal and drought years has widened².

There is a strong track record, however, of the agriculture industry's response to drought. ABARES has developed a methodology to produce 'climate-adjusted' estimates of farm productivity, which accounts for long-run average climate conditions³. This measure has shown that gains in productivity have offset the negative effects of climate over the last 30 years, so that actual productivity levels have still increased. For example, wheat yields under dry conditions have increased by 14 per cent since 2008 as technology and management practice changes have changed, more than double the gains in yield under normal conditions over the same period⁴.

A continuation of long-run historical productivity would prevent declines in broadacre farm production by 2050 even under the most severe climate projections.

Despite these gains, farmers remain exposed to significant climate risk, and manage this in several ways. Farms generally maintain higher equity than other businesses, and smaller farms maintaining even higher equity ratios than large farms. Maintaining sources of off-farm income that are less variable is another response, with again smaller farms having a larger share of off-farm income than larger farms.

¹ Bureau of Meteorology and CSIRO (2020) State of the Climate. <http://www.bom.gov.au/state-of-the-climate/documents/State-of-the-Climat-2020.pdf>

² Hughes, N. and Gooday, P. (2021) *Climate change impacts and adaptation on Australian farms*, ABARES Insights: Issue 3, 2001

³ Hughes, N., Lawson, K. and Valle, H. (2017) *Farm performance and climate: Climate-adjusted productivity for broadacre farms*, ABARES Research Report 17.4

⁴ Hughes, N., Burns, K., Soh, W.Y. and Lawson, K. (2020) *Measuring drought risk: The exposure and sensitivity of Australian farms to drought*, ABARES Research Report 20.17

Drought policy context and lessons from past experience

Australian drought policy faces a trade-off: providing relief to farm businesses and households during drought risks slowing and stifling innovation, disadvantaging those farmers who have better prepared for drought, and ultimately reducing the incentives for improved management practices. For these reasons, drought policy has shifted away from seeking to look after farmers during drought towards increasing drought preparedness and self-reliance.

In 2018 the Council of Australian Governments signed the new National Drought Agreement (NDA). The NDA sets out a joint approach to drought policy, with a focus on accountability and transparency. To realise the outcomes in the agreement, each party has specific roles and responsibilities. There are specific roles for the Commonwealth and state and territory governments, while there are also shared roles responsibilities across both.

A review of the NDA in 2022 resulted in 33 recommendations including:

- The next agreement should strengthen its focus on collaboration and coordination. While parties meet regularly, the NDA is silent on any mechanisms to support sustained communication or collaboration on shared priorities, leaving no way to identify or progress shared priorities. This is concerning considering the shared priorities are those where there are the biggest risks of action not being taken or duplicative action.
- Refine the existing roles and responsibilities to articulate the breakdown of responsibilities where elements sit across both levels of government.
- More clearly acknowledge non-party stakeholders and recognise their role in drought preparation, response, and recovery. The experience of non-party stakeholders of engaging with drought programs has significant value for policy and program design.
- Include a principle for aligning drought policy and programs with intersecting policy activity, such as climate change, water, soils, and biodiversity.

As listed in the National Drought Agreement annual report 2021-22 there have also been reviews of twenty separate drought measures by both levels of government from the inception of the NDA in 2018 until 30 June 2022. Recommendations from these reviews and evaluations included:

- Carry out a suitable needs analysis to ensure services are appropriately targeted.
- Include funding and related provisions to support marketing and communication.
- Include regular program meetings with all participating organisations to facilitate interorganisational collaboration.
- Plan ahead about when and how government should offer support, rather than provide reactive support in drought.

A list of Australian Government Drought Response programs and measures, and their associated funding committed since 2018-19 included the following major initiatives to support farmers:

- | | |
|---|---------------|
| • Future Drought Fund | \$5 billion |
| • Regional Investment Corporation loans | \$2 billion |
| • Farm Household Allowance | \$415 million |

Productivity Commission Inquiry into the Future Drought Fund

- | | |
|--|-----------------|
| • Drought Community Support Initiative | \$181.5 million |
| • National Water Grid Authority | \$100 million |
| • Accelerated depreciation for fodder storage and FMDs | \$75 million |
| • Weather radars (BoM) | \$77.2 million |
| • On-farm Emergency Water Infrastructure Rebate | \$50 million |

If support for the wider community affected by drought is also included, this takes total funding committed during this period to \$8.8 billion.

A review of all of these measures and the response to the 2018-2020 drought was completed and had similar findings to other reviews. Despite the existence of the NDA and its aim of reducing gaps and unnecessary duplication on drought response measures, the review found that there was overlap in programs which provide in-drought cash payments to farming households, and that recipients were not restricted from obtaining assistance from multiple programs. This included the Drought Community Support Initiative, Drought Community Outreach Program, the 2019 grant to the Country Women's Association of Australia, the Drought Communities Programme Extension and Building Better Regions Fund Round 4.

Another finding was the complexity in drought governance and delivery, with the 25 drought measures delivered across 11 government agencies. This presents a coordination challenge, potential for duplication and unclear messaging about available support.

Short-term, reactive funding cycles were identified, causing uncertainty for farmers and communities, the slow rollout of programs, and support sometimes not available when it is most needed. When the drought hit across multiple states, it was unclear when the government would intervene and what programs it would offer to those affected. Being clear from the outset would better help farmers plan for drought periods.

Confusion has also resulted from poor communication of available drought support, such as mixed messaging from multiple agencies and organisations. There is a strong need for more targeted information at a local level that details assistance available from Australian, state and local governments and the charity sector. On-the-ground officials would assist by communicating the range of support available, understand the challenges of those who support is targeted to, and report directly back to government to inform program design.

In terms of programs reviews, there is a lack of meaningful, consistent, or accessible data relating to drought support programs. The NDA requires governments to share and improve the quality of data sources to strengthen policy making, but there is currently no mechanism to support this.

Learning from the lessons of the past and applying them to the Future Drought Fund

The Future Drought Fund has entered into this complex policy environment to support Australian farmers and associated communities to prepare for, and become more resilient to, the impacts of future droughts. It continues the policy shift enshrined in the NDA from in-drought assistance to building resilience before drought occurs.

The FDF, however, has repeated many of the mistakes which have been highlighted in previous reviews of drought programs, including:

- Poor articulation of the roles of key participants,
- Lack of planning and coordination of programs,
- Focus on short-term programs rather than long-term transformational change,
- Lack of information sharing about programs and their outcomes,
- Instances of overlap and confusion with other Australian, state and territory initiatives.

It is extremely concerning that lessons from the past have not been learnt, and points to a complete failure of the monitoring and evaluation, or at least the communication of monitoring and evaluation, of drought programs.

Other newfound issues with the FDF include:

- Whether the FDF is best placed to support social resilience due to the broad range of actions needed and the overlap with responsibilities of state, territory, and local governments.
- Modest uptake of climate tools due to lack of awareness and limitations around user design.
- Lack of clear ownership and limited funding for Regional Drought Resilience Planning.
- Lack of accountability and clarity around the role of Drought Resilience Innovation Hubs.
- Insufficient detail on how Hubs interact with existing organisations.
- Unclear how Drought Resilience Innovation grants complement existing agriculture innovation.

Because of these myriad issues it is NSW Farmers recommendation that some major changes be made to the Fund. These changes should be based on the experience of not only the early stages of the Fund, but also learn the lessons of various drought programs over the past five years.

The following principles should be followed:

- The Fund should focus on playing a coordinating role, which has been sorely lacking in Australian drought policy.
- Better engagement with farmers and farmer groups.
- The Fund should be narrowed in scope and care should be taken in broadening into areas such as natural capital. If anything, the Fund is trying to do much all at once, as shown by a lack of planning and overlap with other investments.

Productivity Commission Inquiry into the Future Drought Fund

Regional Drought Resilience Plans

To overcome the issues of confusion of the role of different parties, lack of planning, lack of information sharing, and overlap with other programs, Regional Drought Resilience Planning should play a larger role in guiding Future Drought Fund activities. These plans could identify the different stakeholders in each region which need to be engaged with (members state that organisations such as Landcare, for example, are more important in some regions than others), while also using the expertise of these groups to inform the plans. It would also give the agriculture industry in each region more of a voice to share local knowledge and articulate their needs in terms of drought planning.

Learnings should be taken from the pilot plans, such as the benefits from community engagement and the networks created between jurisdictions, to inform their expansion. A key lesson is that the RDRPs should play a more prominent role within the FDF, particularly in guiding the operation of hubs. As lack of planning was identified as a key deficiency of the FDF, it should be obvious that the RDRPs should be given more priority.

Drought Resilience and Innovation Hubs

The hubs should be refocused to play a coordinating role, providing a critical link between those delivering programs and those on the receiving end of programs. Hubs are already meant to bring in non-government stakeholders but there are questions around their effectiveness of doing so. Therefore, refocusing the hubs on this role as their main priority is recommended, which will fill a long-standing hole in Australian drought policy. This would align with the PC recommendation that the FDF should have fewer, better integrated programs.

The experience of NSW Farmers Members reinforces the findings of the PC report, that stakeholders are uncertain about their role and function due to lack of engagement and public reporting. Demonstrating adequate performance, including a defined work program would assist here. Exactly how the hubs have engaged with non-government stakeholders should be included in any monitoring and evaluation.

New functions added to Hubs in 2022 could go some way to addressing the lack of engagement by the Hubs with local stakeholders. These functions include adoption officers, regional soil coordinators and innovation officers. This should theoretically improve engagement with producers. Once again, lessons should be learnt from the past and the role of these officers should be clearly defined in a way that ensures there is minimal overlap with others such as NSW Local Land Services activities.

Farm Business Resilience Program

The other initiative which could be repurposed to fill a gap in drought policy is the Farm Business Resilience Program (FBRP). This is the only program which has demonstrated positive outcomes in terms of building resilience to drought. In New South Wales, 67% of participants reported an increased likelihood of changing behaviour; 41% of these participants reported specific behaviour changes. 100% of participants in business coaching reported specific intentions to implement priority changes.

The role of state governments in this program is key, and potentially a reason behind its success. The PC report found that insufficient time to set up systems undermined the ability to plan and coordinate

Productivity Commission Inquiry into the Future Drought Fund

with delivery partners, including state governments. The FBRP could be a way to enhance this coordination between commonwealth, state and territory governments, and also non-government stakeholders such as producers. This is especially relevant for NSW where the existence of Local Land Services gives the NSW Government a close relationship with producers and an avenue to increase the adoption of drought resilience business practices.

This success could be leveraged, and the program also be used for:

- Informing where transformational investment is required by identifying where improvements in farm business resilience are most required.
- Increasing the adoption of climate information tools and informing the design of these tools in a user-friendly manner.
- Connecting hubs and government agencies with farmer organisation groups such as Landcare and NRM groups.
- Be used as a mechanism to enhance environmental benefits.
- Be enshrined in any information sharing system to networks of farmers.
- Alert farmers of any changes in drought programs and educate them of available assistance when there is the likelihood of drought conditions. This clarity will better help farmers plan for how to prepare and respond to drought conditions.

Careful planning and consideration will need to be taken before integrating natural capital into this program as there are already so many existing programs and investments in this space across all levels of government, NGOs, and private brokers and consultants. To make the same mistake that has already been done with duplicative drought programs in the natural capital space would be incredibly foolish.

Other programs

While the hubs and farm business resilience program clearly fill gaps that have been identified in previous reviews, other programs appear to be duplicative and not well thought-out. These programs should be under serious consideration of being discontinued in their current form. NSW Farmers recommends the following for these programs:

- Conduct analysis of RDC and other innovation investments to find where specific gaps exist. Focus innovation grants on filling these gaps and conducting targeted research, which is also informed by the needs of farmers which could be gained through the Farmed Business Resilience Program.
- Consider removing social programs, or at least using an evidence base from previous social programs such as the Drought Communities Programme Extension, Foundation for Rural and Regional Renewal, Drought Communities Small Business Support, and Education Special Circumstances.

Monitoring and Evaluation

The PC report has identified another repeat of drought policy failure, a lack of monitoring and evaluation, and where monitoring and evaluation has been done, ignoring the lessons learned from it. Adhering to the recommendations from the PC would be a good starting point in reversing this trend.

Productivity Commission Inquiry into the Future Drought Fund

Streamlining the FDF and having a renewed focus on planning would improve the integration of the MEL and update it to develop MEL plans at the outset rather than at the post-implementation stage.

For example, if the roles of Hubs is better clarified and more focused on coordination, the MEL plan should be altered at the same time to be better able to guide how progress is tracked. This will have the benefit of being able to better articulate to stakeholders how the Hubs are tracking toward their clearly defined goals, which has been sorely lacking and a clear frustration of NSW Farmers members.

NSW Farmers implores the Federal Government to take seriously the findings of this review, and past reviews of drought funding, to make significant changes to the Future Drought Fund for the next funding round from 2024.