



# **Mid Lachlan Alliance, Bland Shire Council and RLPB**

**Inquiry into Government Drought Support**

**August 2008**

**INQUIRY INTO GOVERNMENT DROUGHT SUPPORT**  
**Productivity Commission Issues Paper**

Preamble:

The Mid Lachlan Alliance of Councils commends the Federal Government on initiating this review of drought support measures but in doing so implores a practical, sensitive and realistic overview so as to ensure the future of farming in Australia.

Whilst Council acknowledges that Agriculture's share of GDP has fallen significantly on 1960 levels, the question is more so does Australia seek to maintain reasonable levels of self sufficiency and the relevance of rural communities or is our goal to be reliant on food and fuel imports? Where our farmers and the Agriculture sector is not supported the latter scenario may become the reality of Australia's future.

Rationales for government drought support

- 1). *Which are the most important rationales for government intervention during severe drought? Are these the same rationales for intervention in other severe events?*

The most important rationale for government intervention in severe drought is simply survival of the farming industry and our rural communities.

The casualty of the current drought has extended beyond financial distress to the mental and physical health of individuals and local communities. Without government intervention the consequences of this national disaster would be far greater. All Australians irrespective of their occupation, circumstances or class deserve a basic standard of living, represented as a base welfare system.

It must be understood that the current drought of record falls outside the planning control of any reasonable business risk management practices and cannot be withstood without some form of government intervention. Similarly, government intervention is required in other severe events to support the resultant human and financial needs of families albeit these tend to become immediately effective and spanning a reduced period, unlike the drought.

- 2). *What is your understanding of the meanings of preparedness and self reliance?*

Preparedness and self reliance are reasonable business fundamentals however in severe events such as the current drought it is difficult for any business, no matter how effective the operator, to manage and prepare for an unprecedented seven years of zero cashflow.

- 3). *What have been the lessons learned from the last drought and what strategies are farmers now adopting in response to those lessons?*

Firstly it needs to be clarified that we are still in drought. As far as lessons learnt it has been evident that without drought assistance farms and surrounding communities would cease to exist. The prolonged drought has not only eroded the ability for farmers to earn an income necessary to meet their basic needs but has also imposed a serious human cost. The pain and suffering of individuals, of all ages, and their communities is beyond any comprehension. Without government intervention it is widely acknowledged that the human tragedy would be far greater.

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Quite simply the reality is that survival strategies are the current focus of farm families and rural communities to withstand the financial and social devastation of this drought.

- 4). *What are the impediments to individual farmers, farm businesses, farm dependant rural small businesses and rural communities becoming sufficiently self reliant to withstand severe drought events?*

The current drought is the primary impediment to individual farm businesses, farm dependant rural small businesses and rural communities becoming sufficiently self sufficient. Seven years of negative cash-flows resulting from failed crops, maintaining stock and increasing input costs is very difficult for any one family to think beyond the luxury of surviving the current moment. Accordingly to defray governments responsibility on account of a requirement to become self reliant in times of severe drought neither appears reasonable nor in the spirit of our welfare policy.

Looking beyond the current drought the impediments to individual farmers becoming self reliant and so better able to withstand the pressures of future drought occurrences is comparable borrowing terms. Added to this is the prevailing skills shortage as well as falling real commodity prices. The skills shortage is also exacerbated by the financial inability to maintain employment on farms with many wives required to take the place of these workers and farmers exhausted by heavy and unrelenting workloads – thereby taking them outside the support role of families as well as the potential to benefit from off farm income.

A further impediment to being able to withstand future drought events is the absence of government taxation incentives applying to farm capital expenditure including for instance farm fodder storage silos similar to those allowed under earlier Government policy.

In terms of rural communities becoming more self sufficient local government areas now have in place economic development strategies to compete with other centres as far as attracting new industries. Without any real incentives such as differential tax rates to relocate from metropolitan areas this is a very resource intensive process on top of maintaining the day to day operations of local government.

Farm families form a very important part of our communities social fabric and national food supply. It is not up to individual farmers to solve this national problem rather requires the government to seriously analyse the importance it places on supporting our agricultural sector and our rural communities. Factors that may improve the resilience of farms is increased research and development into cereals and processes that are more drought tolerant and efficient via for instance increased focus to ensuring the sustainability of ground and surface water.

- 5). *In general, do current drought support programs provide an incentive for farmers, farm businesses and farm dependant rural small businesses to become more self reliant and adopt strategies that better prepare them for instances of severe drought? Do they do the opposite?*

Current drought support programs are simply a means of survival for farm families, they do not discourage farm businesses to become more self reliant rather they enable the retention of our farmers and crudely holding together our rural communities. Where these drought support programs were not in place the size and number of farm holdings would be substantially different, with the resultant social costs being fading rural communities, as well as a corresponding increase in unemployment and food prices. Accordingly the

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Government needs to review the short term costs of current drought support measures in the context of such long term substantial opportunity costs.

- 6). *To what extent do drought support policies prevent the development of market responses to manage drought risk? For example, have drought policies impeded the development of weather insurance or other weather derivatives?*

Market responses in the form indicated appear very unrealistic particularly given the duration of the current drought. Mitigation measures such as drought tolerant crops and drought proofing communities by way of sustainable water provisions are solutions that are more viable without destroying for instance unrelated businesses such as insurance.

- 7). *Is the EC declaration process overly complex, long, non-transparent and open to manipulation? Is the current institutional approach the best and most effective way to achieve declarations of instances of severe droughts of low frequency, timing uncertainty and high consequence? Does the process need to be refined in the context of a changing climate to remain targeted towards such severe droughts?*

The EC criteria appear relevant and transparent albeit complex. However this is viewed simply as a means to an end. In terms of being refined in the context of a changing climate, as with all government policy and process, continual review and refinement is crucial.

- 8). *Do the geographical boundaries used in the EC Declaration process unfairly exclude some farmers from relief payments or conversely include some that do not need assistance? Does an EC declaration influence behaviour, for example, does the potential for declaration delay the decision to adopt preparedness strategies?*

The geographical boundaries as previously redefined appear reasonable. As far as an EC declaration influencing behaviour this reprieve simply provides financial relief to farmers who at that time would already be feeling the pressure of the drought and have in place sustenance strategies.

- 9). *Does the EC declaration process create incentives for state government to apply for assistance given the Commonwealth is responsible for most of the funding?*

The MLA is not in a position to adequately respond to this question.

- 10). *Have expectations of ongoing assistance been created as a result of many regions been declared as experiencing EC for several years?*

The creation of expectations is hardly the problem for those regions declared as experiencing EC rather the assistance is merely meeting the basic welfare requirements of farm families.

- 11). *Is a trigger approach, such as an EC declaration, a necessary first step to determine individual eligibility for drought relief? Could assistance be delivered on the basis of individual circumstances without an EC declaration? What administrative efficiencies does this raise?*

A trigger approach, such as an EC declaration, is a necessary first step to determine individual eligibility for drought relief with the individual application and subsequent assessment following in due course as appropriate.

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- 12). *How effective have EC interest rate subsidies been in improving the survival of farm businesses and farm dependant rural small businesses? How are farm business decisions altered by EC interest rate subsidies? Do the current eligibility requirements create adverse outcomes, for example, by creating a disincentive for farming households to seek off-farm income? Would support based on business attributes other than debt be more effective?*

EC interest rate subsidies have been effective in improving the survival of farm businesses which in turn benefits farm dependant rural small businesses. It must be qualified however that after eight years of drought all small businesses are carrying enormous amounts of debt and for this reason are surviving precariously one day at a time. This problem is exacerbated by the requirement to pay GST on these receivables (accrual basis). Where these businesses close this means staff lose jobs some of which are those farm families reliant on the off-farm income and so the cycle continues to the detriment of our struggling rural communities. Essentially farm businesses at present are putting in place strategies necessary for their survival, the EC drought support measures and sourcing off farm income are a very important part of these.

- 13). *To what extent have farmers benefitted from other input (fodder, transport, rates and other transaction based) subsidies? Have the benefits gone to farmers or to others in the marketing chain, including financiers and farm input suppliers? Do such subsidies encourage poor farm management practices, such as maintaining excessive stocking levels?*

Farmers at present have benefited from input subsidies which will inevitably flow to other service providers including carriers to enable the transportation of stock to for instance saleyards. Without this assistance the welfare of stock may be further compromised for example on account of the farmers inability to transport stock to a selling centre as a necessary and commercial response to the costs of feeding them.

- 14). *What role do farm financial counsellors play in guiding farm business decision making prior to, during and following drought? How effective is their advice compared to that from other sources?*

Farm financial counsellors play an integral role in guiding decision making as well as supporting the mental and physical needs of our farmers and their families. The availability and heightened sensitivity of the farm financial counsellor is the difference between dealing with this stress constructively thereby mitigating the resultant and multiplier mental health consequences.

- 15). *Should governments have structural adjustment policies which are triggered by severe drought? Why is there little use of current exit programs? Do severe droughts lead to an increase in exit from the industry? If not, why not?*

Current exit programs funded by the Federal Government whilst contained within a sound policy framework are insufficient to induce farm families to leave farms and re-establish elsewhere. Further they do not account for the strong connection land holders have with the land. Generally this professional loyalty runs very deep, spanning generations throughout the good and bad cycles of farming. It is worthwhile adding that examples abound where older generations are experiencing financial circumstances below when they were first married. For these couples who should be in the prime of their retirement rather than toiling

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on drought ravaged farms the exit programs are hardly adequate to settle debts and start again.

Severe droughts do lead to an increase in exit from the industry as evidenced by the experience in Bribbaree where 10 farm holdings have been acquired by a large publicly listed conglomerate company. The resultant impact will extend beyond falling populations and reduced community social fabric evidenced by for example falling fire fighting volunteer numbers to dramatically change the relevance of rural communities.

- 16). *If governments want to maintain rural communities, what are the most transparent, effective and efficient policies? What are the effects of incorporating these policies in measures directed to the preparedness for; management of, and recovery from, severe drought?*

If government genuinely wishes to maintain rural communities, strategies must be put in place to support their future including research and development to facilitate sustainable farming, training and drought financial assistance measures. The effects of incorporating these elements will be to mitigate the financial and social devastation of drought as well as signal confidence in the future of Australian agriculture.

Local Government seeks to play a role in providing the necessary intelligence to ensure policies best meet and address the needs of local communities. Accordingly this requires greater and wider consultation by the Federal Government in reviewing and developing policies relevant to the needs of our communities.

- 17). *How effective are drought relief payments in providing a safety net for farming families? Are the eligibility tests for farm family assistance suitable?*

*What have been the farm family welfare outcomes from the EC Relief payment? Are they satisfactory and at the level expected? For example, have farm families been able to meet their immediate health and education requirements? If not, what are some of the problems yet to be addressed in this area?*

As identified earlier within this submission, EC payments are necessary for the survival of many families. It is well documented that financial status also has a negative correlating consequence on the health and education of families thereby perpetuating the cycle. Some of the problems exacerbating these financial and social costs include the application of higher interest rates to farm businesses and the distances required to attain both education and health services. Individual circumstances also show examples where tertiary education is not possible on account of for instance ineligibility for Austudy funding. In regards to isolated families, boarding schools continue to be the only means of attaining a secondary education however this now places an additional strain on already struggling rural families.

*To what extent, if any, are payments diverted to the farming business and is this a matter for policy concern?*

Policy cannot dictate individuals resource allocation. Families are very well placed to understand their immediate priorities and the associated income allocation requirements. Government support may only provide for the continued social welfare needs of our communities with counsellors and training opportunities available to support families and in turn their communities.

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- 18). *What is the role for government in providing social security-type payments to self-employed farmers and rural contractors/businesses during times of drought? Who should be eligible and in what form should payments be made? Should payments be drought dependant or instead based on individual circumstances? Should equity in assets be run down to some minimum level before households are eligible?*

The government via drought support measures provides an important means of survival for not only farm families but the Australian agriculture sector. This also extends to rural contractors and businesses that all form part of the agriculture economy and who without their support and service provision the farming process would be incomplete and in some cases obsolete. Support payments should be based on an appropriate combination of drought and individual circumstances with no relationship to equity.

Cash flow is imperative to at minimum meeting the basic welfare needs of communities. Where policy required in the early stages the draw down of equity it would be very difficult for farm related businesses to ever achieve any hope of post drought recovery and re-establish resilient and viable operations.

- 19). *How can the environmental consequences of severe drought be minimised while providing assistance to farmers? Do current government support measures change these consequences?*

Environmental consequences of drought may be mitigated by preserving the natural management assistance funding offered via CMA's including the provision of training to landholders supporting effective land and environmental management.

Aspects of farm practices that have changed over the years and which are directly benefiting carbon emissions are direct drilling (associated with planting crops) thus keeping soil closed for longer periods and emitting less pollutants associated with reduced chemical and farm machinery use. Such evolving continuous improvement strategies continue with or without government funding.

- 20). *What roles do FMD's play in helping farmers prepare for severe drought events? Is there evidence that FMD's are substantially drawn down during drought? If not, what other 'needs' are FMD's fulfilling and is this an intended policy outcome? Do the eligibility criteria of the separate relief payments encourage or discourage the use of FMD's?*

Farm Management Deposits (FMD's) in substance are good farm management tools but are hardly relevant in the current prolonged drought with cash reserves in the major part drawn down on account of seven years negative cashflows.

- 21). *How has the implementation of drought support policies affected their accessibility and usefulness? Are there impediments to accessing support arrangements? Could support arrangements be delivered in a more efficient manner? For example, are the government institutions responsible for delivery of business and welfare assistance the most appropriate organisations and do state differences add to compliance costs?*

- 22). *What is the time taken and cost incurred by farmers and farm businesses to prepare the necessary documentation and how long does it take to process these applications once submitted?*

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The time taken and cost incurred by farmers and farm businesses to prepare the necessary documentation is substantial but is viewed more as a means to an end with the complexity of the application requiring the services of an accountant. The time following submission to the best of our knowledge is measured in months rather than weeks.

23). *Should there be a uniform national approach to drought policy?*

It is logical that a uniform national approach to drought policy apply given it is a national problem.

24). *Are there alternatives to the current drought support policy measures that could meet the objectives of the NDP in a more efficient and effective manner, particularly in the face of significant long term climate change? What are the advantages and disadvantages of these alternative approaches?*

A complement to those current drought support measures for sustainability would be aspects such as research and development funding focused on improving resilience to drought and climate variability and production support assistance. The advantages of this funding extends into the long term benefiting the long term viability of rural Australia as well as supporting the development of other industries including bio-fuels.

### Conclusion

As far as the effectiveness of current drought support measures in their present form whilst not the panacea they do provide for the basic survival needs of farm families which in turn goes a long way to supporting the future of the Australian Agricultural sector and rural communities.