

SOUTH AUSTRALIAN GOVERNMENT RESPONSE TO
NATIONAL DROUGHT POLICY REVIEW:
PRODUCTIVITY COMMISSION

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i. Introduction

The South Australian Government is committed to supporting the long term sustainability of primary industries and rural communities and accelerating recovery from drought, recognising the value and need to have a strong rural sector coming out of what is the worst drought in South Australia's history. In this regard the South Australian Government has been playing its part by supporting drought response measures that contribute to building greater regional productivity, resilience and capacity.

In South Australia, relevant industry, business and community organisations have worked in close partnership with the South Australian Government to identify key areas of need and develop and implement a policy approach that has the objective of achieving a stronger rural sector into the future.

The South Australian Government acknowledges the high levels of leadership shown across its agencies and from the rural communities and industries most affected. Their commitment has been pivotal to the success in delivery of support measures from the Commonwealth and State Governments.

The South Australian Government has implemented a policy framework underpinned by its commitment to National Drought Policy. Each of the five core objectives of the current National Drought Policy has relevance for the provision of business and income support, ie:

- 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.

In responding to these objectives the South Australian Government has developed and implemented a highly successful phased approach to the delivery of drought support. This approach has enabled each phase to be specifically targeted to address emerging needs as the drought has progressed. As at 4 August 2008, eight phases of drought response have been implemented, as outlined below and described in greater detail within this submission:

- Phase 1: Information provision and realignment of agency resources to focus on drought (ongoing);
- Phase 2: \$5.2 million package of measures announced during October and November 2006;
- Phase 3: \$12 million for five new EC applications and the extension of existing areas;
- Phase 4: \$13.8 million package that focussed on accelerating the recovery of farmers in receipt of EC support (13 Feb 2007);
- Phase 5: \$22 million for a further six new EC applications;
- Phase 6: \$9.1 million package to assist farming communities tackle the drought and aid the economic and social recovery of farming communities (24 May 2007);
- Phase 7: \$10.9 million package to increase drought resilience and build regional leadership capacity (16 Oct 2007); and
- Phase 8: Additional support measures announced since October 2007 to provide additional project based support given the ongoing drought conditions.

This submission is structured to respond to the three main requests made of the Productivity Commission by Primary Industries Ministers, ie:

- Report on the appropriateness, effectiveness and efficiency of Government business and income support;
- Identify impediments to improving self-reliance and preparedness for periods of financial difficulty; and
- Identify the most appropriate effective and efficient response by Governments to build self-reliance and preparedness to manage drought.

While the focus of this submission is on the provision of business and income support by the Commonwealth and South Australian Governments, the South Australian Government recognises that drought response requires an integrated approach, with social and natural resource considerations being of equal importance. In this regard, issues relating to the social considerations of drought response are included in the South Australian Government's submission to the Expert Social Panel.

Moving forward, the South Australian Government recognises that the continued emergence of impacts from the current drought and longer term climate change will present significant challenges to rural industries and communities. While the current suite of national drought support programs has assisted many businesses and families in need, they will not facilitate the level of reform required to meet these new and emerging challenges. A new approach is required.

1. Appropriateness, Effectiveness and Efficiency of Government Business and Income Support

The material contained within this section is primarily focused on drought support measures provided by the Commonwealth and South Australian Governments, either singularly or in partnership.

On the subject of drought response, the partnership between the Commonwealth and South Australian Governments has generally been highly collaborative, which is reflected in the successful implementation of National Drought Policy in South Australia.

1.1 National Measures

Exceptional Circumstances (EC) Declarations

At the start of September 2006, when the true severity of the 2006 drought began to become apparent, there were three EC declared areas in South Australia; the Central North East, Upper North Cropping and Far North (administered by the Queensland Government). Over the next 12 months, regional communities with support from the South Australian Government prepared and submitted 14 new applications for EC declaration.

The South Australian Government has a firm belief that EC applications should be owned and developed by the relevant community, with State Government support provided to ensure that the best possible case is prepared. In this regard, the South Australian Government facilitated the formation of Regional Drought Taskforces that brought together the relevant Regional Natural Resources Management Board, Regional Development Board(s), Regional Local Government Association and industry and community representatives to oversee the EC application development process, communicate drought related information and provide advice to Government.

To support the Regional Drought Taskforces the South Australian Government employed a team of project officers, offered grants of up to \$15,000 per EC application to assist in the preparation of high quality farmer case studies and supported the tours by the National Rural Advisory Council (NRAC). Considerable internal technical resources were also realigned within departments to support the application process.

Significant leadership and commitment was demonstrated by regional organisations and community members, who contributed significant cash and/or in-kind resources to ensure that the best application possible was prepared for their respective region. A conservative estimate is that over 4,500 hours of in-kind labour was contributed to the process by farmers and regional leaders across the State.

Further, the Commonwealth Government also incurred significant expense in the analysis and assessment of the applications for EC declaration that were submitted. This included the joint Commonwealth/State funded development and operation of the National Agricultural Monitoring System (NAMS).

The EC application process produced a range of benefits, including:

- Regional Drought Taskforces in the Northern and Yorke, Rangelands, Riverland, Lower Murray and Eyre Peninsula regions that continue to provide valuable advice to Government and regional communities;
- A greater focus on regional self reliance and increasing overall productivity;
- Increased understanding of drought policy and the drought support measures that are available;
- Increased intra- and inter-regional collaboration between leaders; and
- Development of new regional leaders and networks.

The process has however highlighted a range of issues including:

- The cost of the process, both in time and in dollars (Table 1);
- The considerable stress that was caused in regional communities during the assessment process due to the uncertainty of their applications' success; and
- The time taken to announce some declarations and the resultant delay before support could be accessed (noting that many were announced in a very timely manner).

Table 1: Indicative costs of the EC declaration process in South Australia

| Expenditure type | Function | Cost |
|---|--|------------------|
| PIRSA EC Support Team | Work with Regional Drought Taskforces to develop comprehensive EC applications | \$250,000 |
| EC Case Study Grants | Assist with the cost of engaging consultants to develop high quality case studies to support EC applications | \$200,000 |
| Estimated realigned PIRSA effort (unfunded) | PIRSA technical and policy staff who were realigned to support EC applications | \$100,000 |
| NRAC Tours | Support costs of tours | \$13,000 |
| Regional contributions | Cash contributions made by regional stakeholders to support development of high quality applications | \$100,000 |
| Regional in-kind | In-kind labour to support application development and NRAC tours | \$180,000 |
| SA contribution to NAMS (1yr) | 1 yr of State contribution to ongoing operation of NAMS | \$75,000 |
| TOTAL | | \$920,000 |
| No. of EC Applications prepared | | 14 |
| Cost per application | | ~\$65,000 |

Given that applicants for EC support were, quite appropriately, still required to go through the 'second gate' of eligibility assessment once a region had been declared, the cost-benefit of the current application process for EC declaration is debatable. The September 2007 announcement by the Commonwealth Government that all undeclared areas were to be covered by an interim EC declaration and hence be eligible for EC Relief Payment related support, raised further doubts about the level of effort previously required as part of declaration application and assessment process.

The declaration approach is also not able to account for small pockets of exceptional need that are surrounded by significantly less impacted areas. For example, over recent years the Tumby Bay district on Lower Eyre Peninsula has experienced, on a relative basis, some of the worst climatic conditions in the State. However, it is questionable whether the Tumby Bay district would be of sufficient size to be considered for an EC declaration in its own right and had the Lower Eyre Peninsula application not been supported, a group of significantly drought affected producers would have been deprived access to the levels of support provided to other similarly drought affected producers across the State.

The use of a declaration of an area as the first 'gate' for the provision of drought support does have a significant positive in that the declaration provides a platform around which access to support programs can be based. Such a platform would help to facilitate the harmonisation of drought response measures across jurisdictions, subject to agreement to implement a nationally consistent drought response framework.

In South Australia, the number of EC approvals from each region has been broadly commensurate with the severity and longevity of the adverse seasonal conditions experienced, noting that it is likely that the River Murray Corridor region is still to experience the worst of its drought related impacts. Given this, it is unlikely that the removal of the need for a region to be EC declared would have had any material financial impact on Commonwealth and State Government expenditure on the EC program.

Exceptional Circumstances Relief Payment (ECRP)

As at 25 July 2008, there were 2,497 registered ECRP clients in South Australia, with a state-wide approval rate of 94 per cent.

It is the South Australian Government's view that an equitable and appropriate social safety net should always be available for those in demonstrated need in a developed country such as Australia.

Exceptional Circumstances Interest Rate Subsidy (ECIRS)

As at 25 July 2008, 1,876 businesses have been approved for the ECIRS in South Australia with a state-wide approval rate of 75 per cent. A further 121 applications were under consideration.

Table 2 demonstrates the level of ECIRS take-up on a quantum of applications received basis and on a per farming population basis. It should be noted however that the percentage approvals for the Adelaide and Mount Lofty Ranges and SA Murray Darling Basin regions in particular are likely to be significant underestimates as both regions contain a considerable number of smaller 'farmers' who do not meet the base definition of a farmer for EC purposes (ie. off farm income, amount of labour contributed etc.).

Table 2: ECIRS take up in South Australia at 25 July 2008

| Region | Number of ECIRS approvals* | Number of farmers** | % of farmers receiving ECIRS* |
|----------------------------|----------------------------|---------------------|-------------------------------|
| Adelaide & Mt Lofty Ranges | 32 | 3,246 | 1% |
| Eyre Peninsula | 448 | 1476 | 30.4% |
| Kangaroo Island | 22 | 290 | 7.6% |
| Northern and Yorke | 421 | 3,344 | 12.6% |
| SA Arid Lands | 53 | 159 | 33.3% |
| SA Murray Darling Basin | 603 | 4,429 | 13.6% |
| South East | 250 | 2,888 | 8.7% |
| Small Business | 47 | NA | NA |
| TOTAL | 1,876 | 15,832 | 11.8% |

* Close approximations due to regional boundaries not aligning precisely with EC boundaries.

** 7125.0 - Agricultural Commodities: Small Area Data, Australia, 2006-07, Australian Bureau of Statistics

A survey of just under 400 farmers recently undertaken by the Department of Primary Industries and Resources South Australia (PIRSA) identified ECIRS as the most important drought support measure to their business (~75 per cent), however there was no discussion as to whether there was an alternative that could be better.

Exceptional Circumstances Exit Package (ECEP)

Transition out of farming is an important consideration given ongoing drought, potential climate change impacts, market forces and increasing input costs. However a significant concern about the current ECEP is that there does not appear to be a clearly stated objective about what the package is trying to achieve. For example, is it a social support measure to assist producers who can no longer financially remain farming to leave the industry, or is it a package to encourage structural adjustment by enabling less productive producers to leave the industry? The eligibility criteria and the incentives offered would be very different depending on which of these objectives was chosen.

The current eligibility criteria would tend to suggest that the ECEP is a social support measure. If this is the case then the ECEP should be a base level

social support measure that is available to eligible farmers at all times, regardless of the prevailing climatic conditions (eg. FarmHelp), and not be included as part of a drought response program.

While severe drought creates a time of pain for many primary producers and regional communities, it also provides an opportunity for people to re-evaluate their business and its long-term viability. The inclusion of a package in a drought response program that facilitates this analysis and helps 'willing sellers' (who may be viable in the short to medium term) to leave the industry and start a new career is likely to deliver far greater benefits to rural communities, regional productivity and the producers themselves. This approach would essentially shift the focus of the program to include producers with 'lower productivity' as well as producers with 'lower viability'.

Irrespective of the issues outlined above, the take up of the ECEP in South Australia to date appears to be low, with 67 applications received (~0.4 per cent of SA primary producers) and seven grants paid as at the end of July 2008. While noting that this may change over time, the South Australian Government has formed the view that there are two significant inhibitors of take up; these being the lack of a case management framework and the current eligibility criteria.

Mental and emotional strain is a significant issue for many people living in drought affected areas. This impacts on the confidence they feel in making decisions and especially for such big decisions as leaving the land and accessing the Exit Package. Individuals and families require additional support to assist them through this process (case management approach)

In terms of the case management framework, the current EC Exit Package does not provide coordinated assistance for producers to ensure that the best possible outcomes are achieved for the individual, their family and their local community. The current approach includes a range of packages that can be accessed individually through Centrelink but do not contain a 'value add component'. Significantly greater take up and outcomes could be achieved if a coordinated support package was provided to assist primary producers to make decisions and access support to exit the industry with dignity and seek alternative business and personal options. This would also include a complimentary support program that identified key skill shortages in the region and broader employment sectors with matched training and recognition of prior learning assessments to address these areas.

While the current eligibility criteria may be appropriate from a social support program perspective, they appear to be inhibiting the take-up of the EC Exit Package, which in turn is inhibiting the required industry transition process. These barriers particularly impact on the eligibility of many of the people who, from a productivity and viability perspective, should be encouraged to exit and include:

- The EC definition of a bone fide farmer;
- The current level of the assets test;

- The need to have owned or have had a right or interest in the farm for at least five years immediately prior to exiting the farm industry; and
- The requirement to sell the property including the house, when this is the family home.

In addition, regional communities have expressed the view that the delivery of this and other programs through a 'primary production' or 'business' focussed shop front would be preferable to the current delivery through a social welfare agency (eg. Centrelink).

In the South Australian River Murray Corridor the requirement that the property be sold is causing additional complications as a functioning property market does not currently exist, thereby effectively stranding producers who wish to exit. Given that 63 per cent of wine grape growers in the Riverland farm blocks that are less than 10 hectares in size and 75 per cent of the Riverland citrus growers farm blocks of less than five hectares in size, the worsening River drought is having a disproportionate impact and the development and implementation of a suitable transition support package will be critical to achieving the long term sustainability of the region.

Professional Advice and Planning Grant (PAPG)

In South Australia, 159 producers have accessed the PAPG since it was made more broadly available in September 2007.

The concept behind the provision of the PAPG to primary producers in EC declared areas is supported, as it provides an opportunity for producers to build their capacity to manage through change and accelerate their recovery from drought once conditions improve. The change in September 2007 to make the PAPG available to producers immediately following an EC declaration rather than after three years of declaration is also supported, as an earlier investment in this area is likely to deliver a greater return on investment.

While the concept behind the provision of the PAPG is supported, it is likely that the outcomes delivered for the investment of public funds would have been significantly greater had the use of the funds been tied to actions identified within an appropriate business plan and delivered through a case management framework.

Murray-Darling Basin Irrigation Management Grant

As at 6 May 2008, 850 River Murray Irrigators in South Australia had accessed the Murray-Darling Basin Irrigation Management Grant since it was first made available in September 2007.

While the concept behind the provision of the Murray-Darling Basin Irrigation Management Grant is supported, it is likely that the outcomes delivered for the investment of public funds would have been significantly greater had the use

of the funds been tied to actions identified within an appropriate business plan and delivered through a case management framework. There are also issues of equity with small growers able to access the same size grant as larger growers.

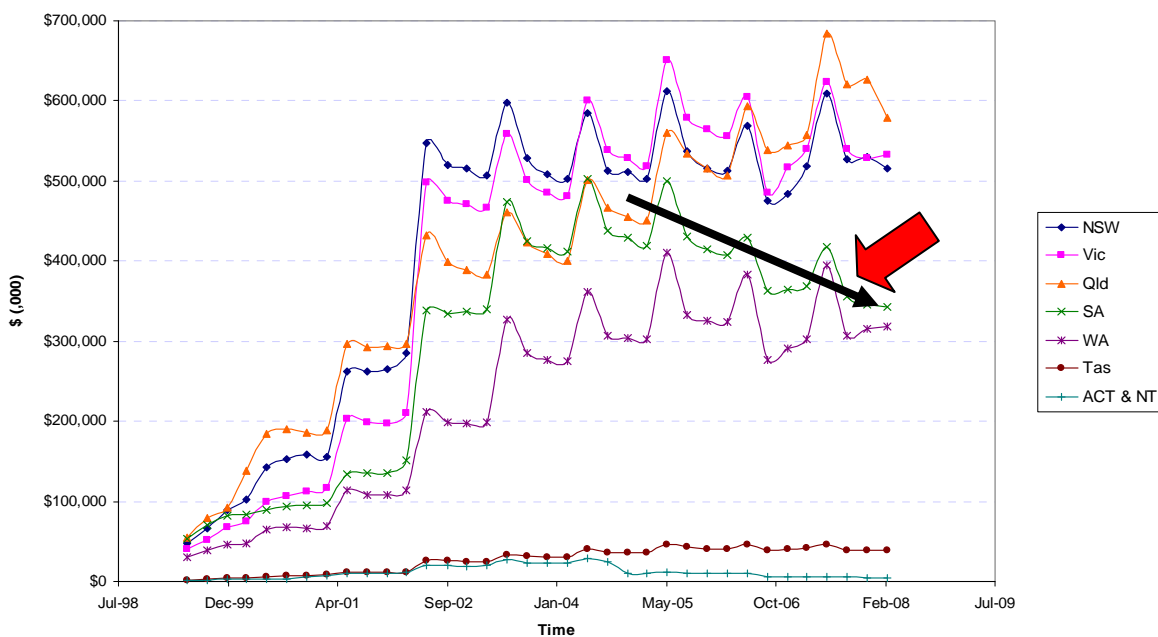
Farm Management Deposits (FMD)

While Farm Management Deposits were developed to assist farmers to 'smooth' their income between good and bad years, the continuing rise in the national value of FMDs has created a degree of scepticism about their level of effectiveness. The pattern of FMD levels in South Australia is however not consistent with that observed nationally, with significantly higher per capita investment followed by a steep decline from mid 2005 (Figure 1). This suggests that FMDs are working in accordance with their stated objective in South Australia.

With regard to the increased levels observed in other jurisdictions, analysis would be required to determine whether the magnitude of contributions made by higher end producers is masking the drawdown of FMD funds by middle or lower end producers.

The results outlined above support the South Australian Government's view that primary producers in this State do not factor in the provision of Government support during future periods of drought. While many producers react at the time of the on-set of drought, the general approach is one of managing forward for the variability of the seasons.

Figure 1: *Farm Management Deposit Levels by jurisdiction as at March 2008*



1.2 Previous South Australian Specific Response Programs

The South Australian Government's current approach to the provision of business support during periods of drought and its policy directions for the future have been significantly influenced by experience gained through the following programs:

- Eyre Peninsula Regional Strategy;
- Central North East Farm Assistance Program; and
- Lower Eyre Peninsula Bushfire Recovery Program

Eyre Peninsula Regional Strategy

The Eyre Peninsula Regional Strategy (EPRS) evolved in response to the findings of the Eyre Peninsula Regional Task Force that investigated issues arising from adverse economic and agricultural events in the early 1990's. The EPRS was established as a Rural Partnership Program (RPP) between the Commonwealth Government, the South Australian Government and the Eyre Peninsula community, with a total of \$11.2 million of funding provided over approximately five years.

Over 40 per cent of farm businesses on Eyre Peninsula developed a property management plan through the EPRS and approximately 45 per cent adopted minimum tillage, demonstrating the success of the EPRS projects relating to sustainable resource use. The benefits of minimum tillage works were first experienced during the dry 1999 cropping season when farmers did not encounter the soil drift problems they have experienced in past dry seasons. This has been reinforced through the current drought conditions with minimal soil erosion being experienced.

This program introduced the model of a case management, facilitated approach to the provision of support to the community.

Central North East Farm Assistance Program

The South Australian Government further refined the model for delivery of a targeted support program through the joint State and Commonwealth funded *Central North East Farm Assistance Program* (CNEFAP) that operated from 2000-2003. The model of delivery provided participants with a grant to engage an independent consultant to develop a comprehensive business plan. Participants then accessed a grant to assist in the implementation of priority works identified in their business plan.

Evaluation of the program highlighted an initial reluctance of farm businesses to develop a business plan prior to accessing on-ground works grants, but found that a significant proportion of participants viewed the business plan as the most valuable component once they had completed the program.

Lower Eyre Peninsula Bushfire Recovery Program

After the bushfires on Lower Eyre Peninsula in January 2005, the South Australian response model was further developed through the joint State and Commonwealth Government funded *Lower Eyre Peninsula Bushfire Reestablishment Program* (LEPBRP). Program participants accessed a business planning grant to engage an independent consultant to assist them to develop a comprehensive business plan. Participants could then access two grants to undertake sustainable agriculture and biodiversity projects on their properties. Evaluation of this program provided similar feedback to that received for CNEFAP, where participants were initially reluctant to undertake the business planning process but ended up finding that to be the most valuable component of the program.

The consultants who were available to develop business plans as part of LEPBRP were registered through an expression of interest process and provided with a template for the business plan content. This allowed the funders some control over the content of business plans although did not allow for assessment of content. While this process provided independence for government from farm business decisions, it did result in a wider range of quality in the business plans. In future programs it would be valuable to include a more rigorous registration process for business planning consultants to improve quality standards.

Summary

The key to the success of all of the programs outlined above has been the adoption of a case management approach, where specialist facilitators have been engaged to provide a point of contact for participants to assist them through the process. This was particularly important for LEPBRP as participants were extremely traumatised and having difficulty coping with the overwhelming number of things to do. Four facilitators were employed and assisted participants with all steps of the program, other than when they were working with their independent consultant to develop their business plan. Using this approach, over 80 per cent of fire affected businesses attended the introductory workshop and 70 per cent developed a business plan. The delivery of the program would have been significantly reduced without the presence of the facilitators.

This has also been reflected through the current *Planning for Recovery* program, where two facilitators were initially engaged to assist participants through the program, although with less contact and more emphasis on participants being responsible for the timing and delivery of each component than in LEPBRP. The program, although being well received and accessed, encountered some difficulties with producers finalising their paperwork. These difficulties were overcome through the provision of additional facilitation support and over 70 per cent of eligible participants are now accessing the program.

The facilitators, or case managers, have proved to be the key to success of the model, although there is always a need to balance the amount of effort

placed on program management and delivery with the results achieved on ground.

Overall, the model is designed to assist farm businesses make their own decision to realistically assess their current and future position and develop a business plan that will assist them in managing future risks, increase future productivity and reduce the impacts of future adverse events such as drought and longer term climate change.

1.3 The Current South Australian Government Drought Response Program

The South Australian Government has developed a set of principles that guide the development of measures that are included within its drought response program and ensure there is a coordinated, whole of government approach. Of these, five are of particular relevance to the area of business and income support, ie:

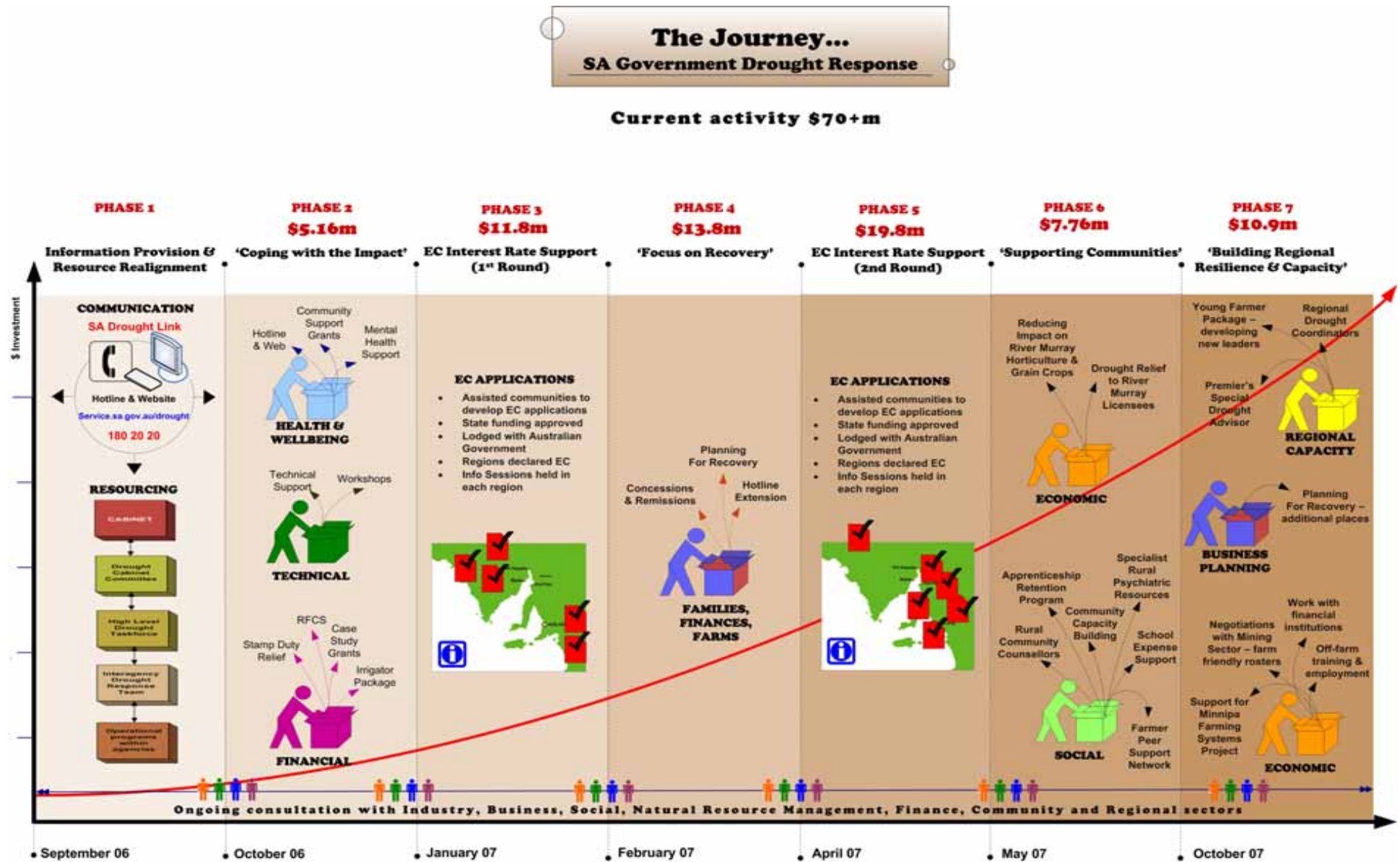
- Consistency with the agreed National Drought Policy;
- That there be no separate State drought declarations, with EC being the trigger for access to business support measures;
- The need to address the social, economic and environmental impacts of drought through an integrated response;
- The need to provide a mix of measures that address immediate needs, help to accelerate recovery and assist in mitigating the impact of future droughts; and
- The need to avoid measures that distort markets and negatively influence risk management decision making.

In developing the South Australian Government's Drought Response Program, advice was taken from the Department of Health that, from a mental health perspective, better outcomes would be achieved if the Government announced a greater number of smaller support packages over time than if it provided the same amount of support in fewer, larger announcements. This has resulted in the phased approach outlined in Figure 2 and Figure 3.

Figure 2: *The South Australian Government's phased approach to drought response*

- Phase 1: Information provision and realignment of agency resources to focus on drought (ongoing);
- Phase 2: \$5.2 million package of measures announced during October and November 2006;
- Phase 3: \$12 million for five new EC applications and the extension of existing areas;
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- Phase 5: \$22 million for a further six new EC applications;
- Phase 6: \$9.1 million package to assist farming communities tackle the drought and aid the economic and social recovery of farming communities (24 May 2007);
- Phase 7: \$10.9 million package to increase drought resilience and build regional leadership capacity (16 Oct 2007); and
- Phase 8: Additional support measures announced since October 2007 to provide additional project based support given the ongoing drought conditions.

Figure 3: Implementation of the South Australian Government's Drought Response Program



In developing its drought response program, the South Australian Government has sought to implement a range of measures that address immediate needs and/or have a longer term capacity building focus, rather than provide direct, market distorting subsidies. In this regard, an outline and brief performance summary of the business and income support related measures are provided in Table 3. The cornerstones of the South Australian Government's Drought Response Program have been the focus on integration, 'recovery' and building the capacity of communities to deliver ongoing benefits post drought.

A survey of just under 400 farmers recently undertaken by PIRSA indicated that:

- When asked about drought response programs, producers tended to be concerned more about their community than their own business;
- Although loss of income was seen as the most significant impact of drought, respondents also recognised the impact of considerable increases in input costs, both in terms of their bottom line and increasing their risk exposure;
- Rural Financial Counselling, ECIRS, mental health support and FarmBis training grants had the highest overall level of awareness of measures that were viewed to assist producers;
- Stress and depression was having a significant impact on the families of 30 per cent of respondents. Elevated stress levels impact on the ability of producers to effectively manage their business, thereby exacerbating the impacts of drought; and
- Awareness of drought response programs generally reflected or exceeded the proportion of their target audience within the farming population. For example, over 40 per cent were aware of the Planning for Recovery Program which is only available to recipients of ECIRS (currently 12 per cent of farmers) and 25 per cent were aware of the Young Farmers Program that is only available to producers under 35 years of age.

Feedback from the Regional Drought Taskforces and industry bodies has reinforced the value of the South Australian Government's integrated drought response program. These bodies have also recommended that a program similar to *Planning for Recovery* be made available to all farm businesses to improve their productivity, resilience and preparedness to manage both seasonal variability and long-term climate change.

Table 3: South Australian Government Business and Income Related Drought Support Measures

| Response Measure | Immediate needs | Longer term capacity | Description | Measure of success to date |
|---|-----------------|----------------------|--|---|
| Additional Rural Financial Counsellors | ✓ | | To support the appointment of an additional 1.5FTE rural financial counsellors and a 0.5 FTE Coordinator to support clients who would otherwise not require assistance expect for circumstances directly resulting from the drought. | Additional staffing resources have been appointed. For the quarter ending 31 December 2007, Rural Financial Counselling Service SA Counsellors worked with 976 clients, 474 being new clients. The Riverland had the highest number of clients at 331, the Mid North, 184 clients, Murray Mallee 130 and Eyre Peninsula 104. |
| Mortgage Stamp Duty Relief | ✓ | | Relief from mortgage stamp duty for producers needing to extend finance as a result of the drought | As of 6 August there have been 1500 applications and the value of assessed relief is \$792,114.50. |
| Technical advice and information workshops | ✓ | ✓ | A range of technical advice and information to assist farmers and irrigators with tools to enable management of their farm, their finances and their family through the drought towards recovery. | Over 100 workshops have been delivered across a range of topics including livestock, risk management, crop management, irrigation efficiency and succession planning. Wherever practicable health and wellbeing has been a key topic. |
| Drought Hotline and website | ✓ | | To provide a single point of contact for the SA Community for SA Government Drought Response through a freecall call centre service. | Since the commencement of the hotline in October 2006, 3,614 calls have been received, with a long term average of around 200 calls per month. There has been an average of around 60-70 calls per month since December 2007. |
| EC Application support | ✓ | | To develop relevant case studies and support regional applications for EC support | All regions of South Australia were successful in attaining EC status. |
| Accelerating the processing of ECIRS applications | ✓ | | To reduce the rate at which applications processed from 6-8 week processing time to an average 300 applications per month with an average 4 week processing time. | In February 2008 application processing time was reduced to four weeks and has been maintained at this level since. |
| Postponement of Perpetual lease payments | ✓ | | Financial relief to farmers in drought affected areas who are part of the accelerated free holding project (PLAF), by postponing payment deadlines according to individual needs. | 158 applications have been received with 98 having approved extensions related to seasonal conditions. |
| NRM Levy relief for River Murray Irrigators | ✓ | | Funding to offset a component of the NRM levy for River Murray Irrigators. | The first instalment of the relief was provided with the NRM levy reduced by 50% |
| Farm Debt Mediation | ✓ | | For primary producers in drought affected areas, who need the assistance of an | The program has received strong support from the South Australian Farmers Federation and primary producers and |

| Response Measure | Immediate needs | Longer term capacity | Description | Measure of success to date |
|---|-----------------|----------------------|---|--|
| | | | independent mediator to negotiate with their bank, after having followed the arm Finance Strategy. | needs to be available at least to 30 June 2009. |
| Premier's Special Adviser on Drought. | ✓✓ | | To engage a high level specialist to work between Government, industry and communities. | Former Premier, Hon Dean Brown, has been appointed as Special Adviser. He has visited each of the priority regions and discussed issues with local communities. He has facilitated Leaders' Forums to discuss specific issues related to impacts of drought. |
| EC Interest Rate Subsidy (ECIRS) for farm businesses (State and Commonwealth) | ✓ | | Provision of 50% subsidy in year 1 and 80% subsidy in year 2 on eligible interest costs | As at 25 July 2008, 1,885 ECIRS applications have been approved with an approval rate of 75 per cent. |
| Planning for Recovery | ✓ | ✓✓ | Provision of up to \$4,000 for an integrated business plan and up to \$10,000 to assist with implementation of priority action. | Over 850 primary producers have accessed the program to date. Participants are provided access to the range of support measures including mental health. |
| Wudinna / Roxby Downs Air Commute Trial | ✓✓ | ✓ | Trial to determine the feasibility of operating an air commute service from Wudinna to Roxby Downs to retain regional population levels. | A trial is currently proceeding |
| Computers for Drought | ✓ | ✓✓ | Subsidised provision of ex-Government computer and 4 hours of one-on-one training to up to 150 ECIRS recipients. | Training was completed by 224 primary producers in receipt of EC interest rate subsidies. Computers and training were allocated as follows: <ul style="list-style-type: none"> ▪ 160 people received reconditioned computers and training; ▪ An additional 64 participants accessed the training component only (they already had a computer). DFEEST reports an increased uptake of the Outback connect on line computer training programs of participants from the Computers and Training for Drought program. DFEEST propose to respond to the request for on line financial management training from this group. |
| Drought Apprenticeship Retention Program | ✓✓ | ✓ | Employers in declared drought-affected areas can apply for payments for apprentices and trainees enrolled in selected rural, horticultural, and | Over 980 trainees and apprentices have received assistance with the program exceeding targets |

| Response Measure | Immediate needs | Longer term capacity | Description | Measure of success to date |
|--|-----------------|----------------------|--|---|
| | | | mechanical trades that support agricultural production, as well as electrical and plumbing trades. | |
| Research and development to reduce the impact of drought on River Murray horticulture and broad acre farms | | ✓✓ | The <i>enhancing the resilience of permanent horticulture in South Australia</i> project will monitor, capture and evaluate outlier crop data associated with the drought and into recovery. The data is valuable in developing improved climate risk and drought management regimes for future events | The <i>enhancing the resilience of permanent horticulture in South Australia</i> project has established new knowledge on the understanding of the water relationships with the rate of production decline and needs for survival. The project incorporates 26 properties and over 200 individual sites across the Riverland and Sunraysia. Additional funding of \$456,704 over 5 years has been secured from Horticulture Australia Limited (HAL) to assist in monitoring the citrus trial. |
| | | | The <i>Drought tolerance traits for wheat and lucerne</i> aims to determine the key characteristics of drought tolerant crops and pastures. | The <i>Drought tolerance traits for wheat and lucerne</i> project has so far defined the pathogens affecting drought tolerance of wheat and the pathogens which cause poor lucerne establishment. A greater emphasis on monitoring the root architecture will be undertaken in 2008. Australian Grain Technology is providing significant in kind support to the project including sowing nine trial sites in 2008. |
| | | | The <i>improving the use of plant available water in low rainfall cropping and pasture systems</i> aims to increase the understanding of seasonal influences and the effect of management techniques on plant available water capacity and water use efficiency of crops and pastures to better manage crop water resources across a range of conditions | The <i>improving the use of plant available water in low rainfall cropping and pasture systems</i> project has gained new knowledge in how seasonal rainfall patterns link to soil water dynamics and water use efficiency of crop and pastures. Some of the information from the project will be able to be applied to farming systems immediately. Other information will build the understanding of soil water behaviour and will be used in future low rainfall research projects. There are four growers on Eyre Peninsula trialling wide row sowing on their properties as a result of the research. Information from the research has been presented to 13 grower groups across Eyre Peninsula involving 262 growers |

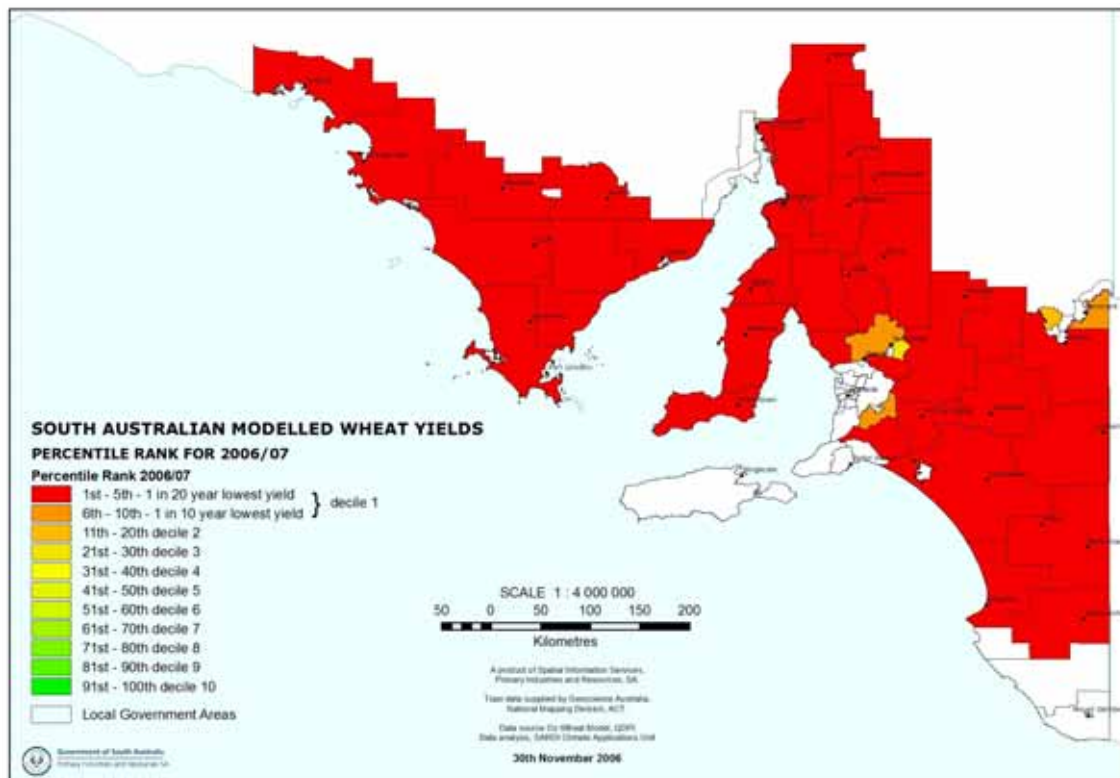
1.4 Role of Research and Development in Drought Response

Productivity

Past investment into research and development has delivered significant productivity benefits to primary producers and the State. Figure 4 demonstrates the modelled wheat yields for 2006/07 relative to the modelled wheat yields for every other season, with the influence of improvements in varieties and management practice removed. The near total cover of red across the grain growing areas of the State demonstrates the severity of seasonal conditions experienced in 2006/07 within the historical context.

In spite of the severe climatic conditions experienced, state-wide grain yields in 2006/07 were approximately 13 per cent higher than those achieved during the 'less' climatically severe 1982/83 drought. It is considered that this improvement is primarily the result of improvements in varieties and practice change developed through research and development.

Figure 4: 2006/07 modelled wheat yields relative to historic seasonal conditions



Given the climate outlook described in the CSIRO/Bureau of Meteorology component of the National Drought Policy Review and the experience outlined above, investment in research and development activities as part of an overarching drought response program is likely to deliver a significant return. Such research will need to focus on the development of new production systems, as well as the improvement of existing varieties and management practices.

Research and development activities included within the South Australian Government's current drought response program are described in Table 3. In addition, PIRSA's Minnipa Research Centre is working with a group of local Eyre Peninsula farm consultants to assess the strengths and vulnerabilities of 13 businesses that have maintained business strength over the past five challenging years. The analysis will help to identify the research, development and extension requirements for the future under a variety of predicted climate change scenarios to build on existing strengths and better manage important vulnerabilities.

Land Management

Farming systems, specifically dryland cropping systems, have made significant practice changes over the last 10-15 years. Tillage systems have been reduced to a single pass, with minimal or no soil disturbance, which retains valuable stubbles, reduces erosion risk and increases productive capacity.

The impact of these advances in tillage practice is supported by recent advice received from members of the Advisory Board of Agriculture, who note that that in a number of areas there is a very clear difference in the level of cover between those paddocks that were direct drilled and those where conventional tillage practices were used. As noted earlier in this submission, the experience of the Eyre Peninsula Regional Strategy also highlighted the difference that changes in tillage practice makes to the sustainability of primary production.

With increasing climate variability, risk of soil exposure will potentially increase. Continued research, development and extension of new and improved technologies will be critical to ensuring that options are available for farmers to respond to these changes whilst continuing to improve their productive capacity.

1.5 Non-Primary Production Related Drought Impacted Businesses

Direct drought impacts have traditionally only been experienced by primary producers and primary production related businesses, noting that flow-on impacts do occur throughout regional communities. However, during this current drought an additional suite of businesses have been directly impacted, including:

- those that rely on the River Murray for the operation of their business (non-irrigators);
- those that rely on native species (eg. kangaroo field processors); and
- those that rely on selling the produce of primary producers (rather than selling products to primary producers).

Examples of the impacts experienced by each of these business types are outlined below and do reinforce the previously asked question of whether drought support is a farm productivity enhancement program or a program to assist with the management of the direct impacts of severe drought.

In an online survey of River Murray tourism operators, retail and hospitality providers undertaken by Tourism SA in May 2008, 66 per cent of respondents indicated that they had experienced a loss of revenue as a result of the drought. The majority of these operators indicated that this reduction was in the order of 20-30 per cent, however some respondents indicated a loss of over 60 per cent.

Declining water levels below Lock 1 on the River Murray has meant that a number of marinas can no longer operate and as a result, are experiencing increasing financial losses.

The South Australian Department of Environment and Heritage advise that low kangaroo numbers (as a result of drought) and escalating fuel prices are driving factors in the decision of some Kangaroo Field Processors (kangaroo shooters) to leave the kangaroo industry. Kangaroo Field Processors who have made attempts to access assistance have found that the nature of their business falls outside the scope of available drought assistance packages.

Citrus packing sheds in the Riverland have experienced significant impact with one leading operator already reporting a 25 per cent reduction in throughput over the last three years, due mainly to growers bulldozing trees and turning off their water. In addition, almost 75 per cent of fruit packed is exported and quality issues that are undetectable at the point of packing (eg. stem end dehydration and other stress related issues) are showing up in transit due to growers reducing water application. This in turn impacts on the reputation of the packer and its ability to retain and grow markets.

2. Impediments to Improving Self-Reliance and Preparedness

While noting the complexity surrounding drought policy, the South Australian Government has identified the following impediments to achieving improved self-reliance and preparedness, these being:

- The process of transition from the current policy model to a new policy model;
- The provision of support that does not encourage the adoption of improved management practices;
- The absence of an integrated 'transition to exit' program;
- Business management capacity;
- Understanding of risk management;
- Current industry structure;
- Provision of market distorting measures; and
- Access to decision support tools.

The process of transition from the current policy model to a new policy model

National agreement on reform to drought policy has been achieved previously, however this agreed policy has never been implemented by all jurisdictions on a consistent national basis. It is acknowledged that changing policy approach will be more difficult for some jurisdictions than others, depending on how well their existing programs align with the new policy and how the required change would be viewed by their regional communities.

Previous attempts to implement the reform of national drought policy have suffered from the lack of a clear and transparent transition plan and associated implementation period, the absence of a viable replacement program and an unwillingness to change policy position while some areas of the country continue to experience drought.

The provision of support that does not encourage the adoption of improved management practices

The current EC package provides limited incentive for primary producers to make changes to their business, as they are able to receive financial support without having to evaluate or improve the sustainability of their existing management practices.

At the other end of the scale, progressive producers who have adopted good business practices, managed debt levels and invested in improving the productivity and resilience of their business receive no support.

While noting that in many cases these progressive producers will have received a reward for their investment through increased financial returns, the current policy approach implies that producers will be rewarded for poor practice, rather than increasing productivity, self-reliance and innovation.

The absence of an integrated 'Transition to Exit' program

As discussed in detail in the EC Exit Package section (page 4), the South Australian Government considers that the lack of a case management framework and the current eligibility criteria are two significant impediments to the take up of the exit package and hence, achievement of the structural reform required in some areas. Achievement of this reform will then provide the opportunity for the remaining producers to improve their levels of self-reliance and preparedness.

Business management capacity

A recent survey of 300 grain growers found that two thirds did not have a business plan, 50 per cent had not undertaken any training in key areas of their business and that around 50 per cent would not be attending training in the near future due to lack of time, location and cost. The results of this survey support the findings of similar investigations in the past and are not consistent with those that would be anticipated if the majority of the primary industries sector was operating using a professional business approach.

The lack of general commitment to basic business essentials such as regular direction setting, continuous improvement, skill development and risk management, therefore presents a significant impediment to achieving improved self-reliance and preparedness.

Understanding of risk management

Good risk management practices are fundamental to the success of any business operation, but particularly so in primary production where producers are generally operating in an environment of much greater uncertainty.

There is compelling evidence however, that a significant proportion of primary producers do not have the capacity to adequately identify and manage the risks that exist within their business environment. This is a significant impediment to the achievement of greater self reliance and preparedness. Evidence includes:

- Findings from the recent survey of Agricultural Bureau members across South Australia in which the members' identified their lack of risk

management capability as a significant gap in their ability to manage drought;

- Survey findings that, on average, 15 per cent of South Australian grain producers could not meet the terms of their forward contract in 2007/08. Feedback indicated that many producers did not realise that they were swapping price risk for climate risk when forward contracting significant amounts of their potential grain crop;
- 15 per cent of producers participating in a grain marketing survey did not read and understand either their written or verbal contract;
- Reports of River Murray irrigators who are still replacing citrus with vines.

In support of this, findings from a survey conducted by FarmBis SA suggest that producers who have undertaken risk management training feel more confident in managing their business through tough times.

Provision of market distorting measures

South Australia does not support the use of market distorting measures as a component of drought response programs on the basis that:

- They do not provide significant benefit to their intended target;
- They discourage the adoption of preparedness strategies by providing a perceived benefit to those that wait until impacts have occurred before taking action;
- They disadvantage neighbouring producers who are unable to access the subsidies; and
- They encourage increased reliance on Government for support and direction.

Access to decision support tools

The web based National Agricultural Monitoring System (NAMS) enables individuals to analyse a broad range of climatic, agricultural and regional data, however it does not currently provide the capacity for producers to use the system for risk management and continuous improvement through benchmarking. The recent independent review of the NAMS identified that an enhanced version of the system has the potential to contribute significantly to improving drought preparedness and risk management behaviour.

Given the propensity of primary producers to rely on themselves and their own knowledge when making decisions, the current lack of quality decision support tools is likely to be a considerable impediment to improving the base level of self-reliance and preparedness in the farming sector.

3. Recommended Government Responses to Build Self-Reliance and Preparedness

The South Australian Government supports the development and implementation of a new national approach to the provision of drought support that promotes greater self-reliance and preparedness. The need for this change in approach is reinforced by the findings of the recent Bureau of Meteorology/CSIRO report, which forecasts a landscape increasingly affected by more severe periods of drought and extreme temperatures.

It is critical that the overarching objective of the support is established prior to specific measures being developed and implemented (ie. is the desired outcome a change or preservation of existing levels of self reliance, etc.). This approach will increase the likelihood of measures being utilised by the target audience and mitigate, to a significant degree, the risk of perverse outcomes resulting from the provision of what was well intended support. It will also enable proposed response measures to be more accurately assessed and prioritised before being considered for funding and implementation.

If the support is to be focussed on improving farm productivity and resilience and adaptation then it would be inappropriate to confine the provision of support programs to periods of severe drought, in fact it could be counter productive to do so.

If the support is intended to assist businesses to manage through the impacts of severe drought, there may be justification for eligibility to be expanded to include ALL businesses that can demonstrate a clear and direct impact of the climatic event on their financial position, recognising that this would be complex and difficult to manage.

Harmonisation of drought response measures and the timing of their implementation between the Commonwealth Government and the individual jurisdictions will increase clarity about the support available, reduce inequities across boundaries and increase the efficiency of service delivery. Clear recognition by the Commonwealth and all jurisdictions of the importance of addressing business, social and natural resource management issues should see related response measures included as part of an integrated national drought response program. These measures should be provided in addition to the Commonwealth Government's responsibility to provide an income support safety net.

Whilst not the core business of this review, the existence of sustainable natural environments provides long term resources for primary production. The provision of support to allow communities to build ecosystem resilience through targeting restoration works in critical areas and providing tools to implement appropriate threat abatement and conservation programs will be an important component of building resilience.

From past experience with previous response programs and the current drought, the South Australian Government strongly recommends that a new response program be developed that focuses on increasing productivity, building resilience and achieving greater levels of preparedness. This would be most effectively delivered through a case management approach.

Essential government business support can be categorised into the following four areas:

- Safety net support;
- Transition out of the industry;
- Building management capacity; and
- Improving the tools and technologies available.

Safety net support

An equitable and appropriate social safety net should always be available for those in demonstrated need in a developed country such as Australia.

Transition out of the industry

Provision of support that provides opportunity and encouragement for those businesses that are vulnerable and/or lower productivity is critical. This requires mechanisms that allow primary producers to exit the industry with dignity and a range of options for their future. This support requires a case management approach to assist eligible applicants through the process, facilitating access to a range of measures including succession planning, skills development and/or recognition of prior learning and alternative business advice. The case management approach will increase the level of uptake and level of successful adjustment for farmers.

Building management capacity

It is recognised that the ability of primary producers to adapt to increasing variability (both climate and market) will be highly dependant on the degree to which they understand their enterprise, likely external impacts and how these impacts can best be managed.

To address this it is recommended that:

- support be provided to primary producers to develop integrated business plans that address risk management, business viability, natural resource management and family considerations;
- grants be made available to producers to implement priority actions identified in their business plan including; business development and

innovation; value chain management; and implementation of priority on-ground works; and

- programs focussing on skills development and/or recognition of prior learning be developed to build the capacity of primary producers to manage short and long term variability.

Improving the tools and technologies available

It is recognised that the ability of primary producers to adapt to increasing variability (both climate and market) will be highly dependant on the degree to which they understand their enterprise, likely external impacts and how these impacts can best be managed.

For primary producers to remain resilient and competitive in the face of increasing climate variability, significant investment in the enhancement of existing and development of new production systems, including the opportunities for diversification, is required.

Similarly, investment in the development of improved decision support tools will enable producers to consider a wider range of implications and what they mean for their business, thereby allowing a more informed decision to be made.

Identifying and addressing structural impediments that impact on the ability of producers to obtain efficient market outcomes, will reduce costs and increase management flexibility (eg. water market reform to increase the efficiency of water trading).

It is recommended that:

- The development of any new approach to the provision of drought support include a significant research, development and technology transfer component with a focus on adaptation to climate change; and
- A business case be prepared to evaluate the opportunity to develop the National Agricultural Monitoring System into a comprehensive decision support and benchmarking tool for primary producers.