

Submission from the Department of Territory and Municipal Services to the Productivity Commission Inquiry into Government Drought Support

The ACT experiences a modified Mediterranean climate and it is not unusual for the ACT to have extended dry periods. In the past drought declarations have not occurred unless the region had experienced poor pasture growth for an extended period of time, defined as two growing seasons (spring/summer or autumn/spring).

Past subsidies provided in the ACT have tended to help a relatively small number of farmers as shown by analysis of subsidies paid during the 1994/1995 drought when just 3% of eligible rural lessees obtained 50% of the assistance. During subsequent droughts no subsidies for the cartage of goods (stock to and from agistment, fodder and water) were provided in accordance with the National Drought Policy Review Task Force Report, which recommended that farmers should practise risk management and become more self-reliant, especially in respect to drought. It must, however, be recognised that the region is currently experiencing a very severe and prolonged drought event that is beyond the capacity of contingency planning of most farmers.

Drought was last declared in the ACT in 2006 and continues today. The ACT has continued to support the intent of the National Drought Policy of self reliance and risk management and for this reason has not supported the introduction of subsidies for transport of stock, and fodder as this may delay marginal farmers from adjusting out of farming or potentially rewarding poor managers and effectively penalise those who manage risk well. However, assistance is provided in the form of waiver of land rates and stock levy.

In the ACT all rural leases are required to have a Land Management Agreement (LMA). Included in the LMA is a section on how rural landholders intend to manage the effects of drought. The LMA process recognises drought as an important part of risk management. The ACT intends to revisit the LMA document to determine whether further emphasis should be placed on drought management, supported by education and additional rural extension activities. Further work is required in the ACT to ensure that farmers are aware of existing measures to assist in drought preparedness. The uptake of these programs, such as Farm Planning and Stockplan, in the ACT has not been as extensive as anticipated. It may be possible for the ACT to enter into arrangements with NSW agencies to assist in the delivery of additional programs to increase farmers' knowledge and awareness of risk management practices.

The ACT was included in the Cooma and Bombala Rural Lands Protection Boards application for EC declaration submitted to the Commonwealth. The process for the ACT to apply was considerably streamlined as a result of assistance provided by the NSW Department of Primary Industries. Other jurisdictions have been required to undertake a relatively complex and time consuming application process.

The ACT is currently reviewing its policy on drought declaration and assistance. The revised policy will support the underlying principles of the National Drought Policy i.e. encouraging self-reliance and risk management, but with an increased emphasis on better drought preparation. Drought preparedness will be enhanced by promoting awareness of the continually evolving risk management tools and the incentives for self-reliance that are currently available (e.g. tax concessions and Farm Management Deposits (FMDs)), and by facilitating other measures (e.g. education and training) that encourage producers to

implement improved management practices that are appropriate to the risks faced by an enterprise. Consideration is being given to assessing drought declarations using consistent criteria with the surrounding region of NSW. This will prevent the areas surrounding the ACT being declared in drought when the ACT is not and vis versa.

The current ACT drought assistance package presumes that drought will be a one in seven to ten year event and EC will be a one in twenty to twenty five year event. However, the recent drought has shown that droughts can last longer than previously anticipated and based on climate change forecasts, it is a trend that is likely to increase. Therefore, it is important that drought assistance programs ensure that producers adopt more rigorous measures to build resilience to major drought events.

Government assistance during prolonged drought events should only be provided in circumstances that are rare and severe and beyond the capability of producers to sensibly manage for such risk.

Which are the more important rationales for government intervention during severe drought? Are these the same rationales for intervention in other severe events?

The Department considers that government assistance for drought should be for drought preparedness and recovery. It is acknowledged that drought preparedness is unlikely to be sufficient to deal with exceptional circumstances.

In the past, ACT government assistance for drought has been reactive with assistance only provided in response to the consequences of drought. Responding to industry calls for assistance/subsidies during drought has not lead to any changes in most landholders' behaviour which would improve their capacity to withstand drought.

Assistance during exceptional circumstances would be justifiable if it is targeted at avoiding the loss of viable primary producers due to long term drought.

Discussions with ACT landholders have indicated that there is an expectation among some producers that government assistance should automatically occur in a drought. However, other producers disagree and see downturn in income during drought as a normal business fluctuation. Encouraging self-reliance may be enhanced by a mutual obligation approach to future drought assistance e.g. assistance measures will be dependent on the implementation of a business plan incorporating risk management strategies.

The principles of the 1992 National Drought Policy remain relevant today, particularly the underlying principles of self-reliance and risk management.

Government intervention should focus on:

- promoting the awareness of the continually evolving risk management tools (e.g. Stockplan) and the incentives for self-reliance that are currently available (e.g. tax concessions and Farm Management Deposits (FMDs));
- the welfare safety net for farming families; and
- access to an enhanced exit assistance program to encourage those farmers who cannot become viable to exit the industry.

What is your understanding of the meanings of preparedness and self reliance?

The 1992 National Drought Policy seeks to promote primary producer self-reliance and the ability to withstand future drought events.

Preparedness means that primary producers and other industry members have risk management plans that incorporate drought events, with producers becoming more self-reliant.

As part of the Department's proposed review of its policy on drought declaration and assistance it will identify what measures could actually be undertaken by industry to improve preparedness with the intent of targeting assistance to improve primary producer drought preparedness.

Drought preparedness measures are critical in enabling farm businesses and rural communities to manage variations in climate without undue call on the government for support.

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

The duration of the ACT drought (2002-08) has meant that many primary producers who were well prepared and engaged in best practice are now encountering difficulty. Producers who may have considered themselves prepared for a one or two year drought were confronted by a continuing drought with slight relief during some seasons. However, all ACT producers have managed to remain in business, largely supported by off-farm income.

During this prolonged drought many ACT landholders have increasingly relied on off farm income, off farm investments and farm management deposits.

Strategies to prepare for drought vary from farm to farm. Some producers have undertaken education and training programs e.g. Prograze, Landscan and Stockplan to assist them in making management decisions. However, despite this training and the adoption of risk mitigation strategies, producers are still reluctant to make capital investments that could enhance their recovery after drought and enhance long term profitability. Many producers do not want to borrow money or spend significant amounts of off farm income on a low return investment to the detriment of the family.

The Department sees education and training as an important part of improving producer self-reliance to drought by building primary producer knowledge of new research and successful farm management practices either via web based programs, direct training programs or information sharing workshops. However, it has been difficult to have producers undertake training when they are preoccupied with feeding hungry stock, or when conditions are good.

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

The ACT rural industry is very minor compared to other states and the Northern Territory. The rural sector contributes approximately \$14 million to the ACT economy. The ACT has not seen the reduction in farm numbers or the decreasing scale of production as has other parts of Australia as all landholders live within 30 minutes of a city of 350 thousand people and alternative jobs. Most ACT landholders receive off farm income. Therefore, the major impediment to adopting self-reliance i.e. lack of capital, is not a major problem in the ACT. The factors that could impair self-reliance in other parts of Australia e.g. health and

welfare issues associated with isolation and stress, fragmentation of social networks, loss of contact with the broader community due to focus on farm survival do not factor in the ACT.

In general, do current drought support programs provide an incentive for farmers, farm businesses and farm dependent 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?

A perception by some producers that the government should automatically provide drought assistance may have led to some producers placing insufficient emphasis on their own risk management practices. Prolonged government assistance may tend to reduce, in some, the desire to engage in the long term planning necessary for self reliance. It should also be noted that there may be some producers that do not adopt preparedness measures regardless of the availability of government support.

It has been argued that state and territory assistance in the form of subsidies (transport and fodder) has led to price rises and that only those producers who can afford to hold stock and purchase feed receive the assistance. Past subsidies provided in the ACT have tended to help a relatively small number of farmers as shown by analysis of subsidies paid during the 1994/1995 drought when just 3% of eligible ACT rural lessees obtained 50% of the assistance. It is also argued that EC assistance favours poorer managers whilst high performing producers are often ineligible for support.

Since self government the ACT has relied on NSW DPI preparedness support programs aimed at helping producers be better prepared for climate risk. These programs include:

- Prograze
- Landscan
- Stockplan
- NSW DPI publications e.g. Managing Drought and The Drought Recovery Guide

Whilst the uptake of these programs in the ACT has not been as extensive as they could have been, those producers who have undertaken the programs have reported that the programs have made a difference during the recent drought.

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 derivative markets?

The Department is unable to comment on this issue.

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 evaluation process for EC declaration for the ACT was very complex and involved the integration of climatic, agricultural production and economic data from a range of agricultural businesses to assess the severity and impact of drought on farm businesses and families. This was very onerous and the ACT is indebted to the NSW Government for their assistance in including the ACT within the ACT and Cooma and Bombala Rural Lands Protection Boards regional application. The department is keen for this approach to continue.

It is difficult to predict future climate change and what will be a severe drought (i.e. a one in 20 to 25 year event). The introduction of the National Agricultural Monitoring System (NAMS) is intended to assist with the collation of data necessary to support an EC application. However, the ACT has had limited experience with the system.

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?

Given that Australia is likely to become warmer, and drier in the south, it is likely there will be changes in the nature and frequency of exceptionally hot years, low rainfall years and low soil moisture years. This will have impacts on the future frequency and intensity of drought. Therefore, it may be possible for the boundaries for EC declaration to be based on climatic categories rather than the current delineation by administrative boundaries e.g shire, Rural Lands Protection Boards (RLPBs). This should resolve the problem of some farmers being unfairly excluded from relief payments. This will not however solve the problem of adjacent farms on the other side of the boundary being excluded.

There may be merit to consider including the ACT in any future EC declarations in adjoining areas in NSW. During state/territory drought declarations the ACT operates independently to NSW (a hole in the donut) which often leads to inconsistencies in the management of drought in and around the ACT.

Does the EC declaration process create incentives for state governments to apply for assistance given the Commonwealth is responsible for most of the funding?

Given the onerous task of applying for assistance, and the state and territory requirement to fund 10 percent of the business assistance (which could be substantial amount of funding compared to the overall budget), there is a significant contribution from state and territory governments to EC assistance. Therefore there is little incentive for state or territory governments to make ambit claims.

Have expectations of ongoing assistance being created as a result of many regions been declared as experiencing EC for several years?

It has been suggested that many producers in other jurisdictions who have been EC declared for a long period are factoring assistance into their annual budget. There is no evidence of this in the ACT.

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 efficiency issues does this raise?

The recent report prepared by the CSIRO and BOM on the impact of climate change on exceptional climatic events (the climate review report) concludes that the:

“existing EC trigger definition is not appropriate under a changing climate. Future drought policy may be better served by avoiding the need for a trigger at all.”

However, there may be a need for a first step trigger. Some producers may have self induced circumstances and require assistance due to their individual circumstances that are different to the rest of the area/region.

How effective have EC interest rate subsidies been in improving the survival of farm businesses and farm dependent 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?

Many producers have complained that those that benefit most from interest subsidies are those who have the most debt, and that debt free producers do not benefit at all. However, if the debt is incurred as part of farm expansion or investment in development and new technology then the business may have improved preparedness and the IRS would be worthwhile to assist viable farm business during prolonged drought periods.

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?

The main transaction based subsidies appear to be freight subsidies provided by some States. The major objective of subsidies has in the past, been to mainly focus towards livestock producers with the aim of preserving a core breeding herd.

Anecdotal evidence suggests that benefits have flowed onto fodder producers and transport companies i.e. price increases.

Past subsidies provided in the ACT have tended to help a relatively small number of farmers as shown by analysis of subsidies paid during the 1994/1995 drought when just 3% of eligible rural lessees obtained 50% of the assistance. Therefore, it could be argued that those producers who can afford to keep stock and purchase fodder instead of reducing stock numbers receive the benefit.

Subsidies could encourage poor farm outcomes by:

- graziers maintaining higher stocking levels during drought (potentially causing environmental degradation);
- encouraging graziers to purchase fodder during drought rather than building fodder storages;
- increasing the demand for fodder to the detriment of other purchasers of fodder who do not receive subsidies; and
- discouraging producers from diversifying into activities that are not supported by subsidies.

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?

It is not known if any ACT landholders have taken advantage of the Farm Financial Counsellors service.

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?

The Department is unable to comment on this issue.

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

Income support provided by the EC program to small business and primary producers are a means of injecting cash into rural communities struggling with drought. The situation in the ACT is somewhat different to the rest of rural Australia. Most of the rural properties don't rely 100% on-farm income and supplement their business with off-farm income. Unlike other parts of Australia, rural properties in the ACT are within half an hour of the city and coupled with the low unemployment rate for the Territory most of the landholders have access to alternative employment.

The Department's experience is that EC business support has mainly been on IRS and there are very few rural landholders that are eligible to receive it.

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?

No rural landholders in the ACT applied for welfare assistance. However, the ACT is very supportive of assistance being provided to farm families in need. The ACT considers that the Exceptional Circumstances Relief Payment (ECRP) is crucial to helping some families survive the current prolonged drought. Farm families in financial difficulty due to prolonged drought should have access to a welfare safety net as do other groups in the community. The availability of the Health Care card would be very important

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

The Department is unable to comment on this issue.

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 dependent or instead based on individual circumstances? Should equity in assets be run down to some minimum level before households are eligible?

Farm families and farmer dependent small businesses in financial difficulty due to prolonged drought should have access to a welfare safety net as do other groups in the community. However, this assistance needs to be appropriately asset and means tested. Social security type payments, should continue to be undertaken by Centrelink with no involvement of state or territory governments.

Any support payments must be linked to EC criteria. If payments were dependant on individual circumstances rather than EC the number of farm families receiving support payments could potentially increase. This could lead to a long term subsidy for some of the rural sector.

Many properties generate relatively low rates of return in comparison to their land value therefore equity needs to be high to remain viable to obtain credit. The introduction of an equity test for access to assistance could substantially reduce the equity and therefore threaten long term viability of many such farms.

Bank deposit is the preferred method of payment as it allows families to continue to make decisions on where the money is spent within the community.

How can the environmental consequences of severe drought be minimised while providing assistance to farmers? Do current government support measures change these consequences in either a positive or negative way?

In the ACT all rural leases are required to have a Land Management Agreement (LMA). Included in the LMA is a section on how rural landholders intend to manage the effects of drought. The LMA process recognises drought as an important part of risk management as well as a way to better manage drought preparedness. The Department intends to revisit the LMA document to determine whether further emphasis could be placed on drought management, accompanied with further education and extension.

Unintended outcomes of some drought assistance programs can have an adverse impact on for natural resource management. Droughts are a time of extra environmental stress resources (soil, water, vegetation). Assistance packages may cause farmers to defer destocking decision which in turn could worsen soil erosion, affect water quality, cause damage to pastures, increase weeds abundance, all leading to loss of biodiversity and ecosystem function.

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

FMDs allow producers to deposit money during good years for use in bad and assist encouraging primary producer self-reliance. The concept of the scheme is consistent with National Drought Policies.

Critics of FMDs have complained about the substantial funds still held in FMDs after years of drought and that they are not being used as a risk management tool. While there may be some truth in the claim that some larger producers use the FMDs as a tax minimisation scheme other producers could be keeping them for drought recovery expenses such as restocking or as the last resort superannuation scheme.

The Department believes that the FMD scheme should be retained.

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?

The ACT was included within an application for Exceptional Circumstances declaration submitted to the Commonwealth with the Cooma and Bombala Rural Lands Protection Boards. The ACT has considerable respect for the extensive experience of the NSW Department of Primary Industries and its ability to process and implement drought support policies.

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?

The process for the ACT to apply was considerably streamlined as a result of assistance provided by the NSW Department of Primary Industries. Other jurisdictions have been required to undertake a relatively complex and time consuming application process.

Should there be a uniform national approach to drought policy?

The Department considers that there should be a uniform national approach to drought policy.

There would be merit in including the ACT in future drought declarations in adjoining areas in NSW. Currently the ACT operates independently (a hole in the donut) which often leads to inconsistencies in the management of drought.

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

The Department is unable to comment on this issue.