

Local Government Association of NSW



Shires Association of NSW

Our ref: R90/1160 Out-16734

15 December 2008

Commissioner Mike Woods
Inquiry into Government Drought Support
Productivity Commission
Locked Bag 2
Collins Street East
MELBOURNE VIC 8003

Dear Commissioner Woods

The Local Government Association of NSW and the Shires Association of NSW (the Associations) are the peak bodies for NSW Local Government.

Together, the Associations represent all the 152 NSW general-purpose councils, the special-purpose county councils and the regions of the NSW Aboriginal Lands Council. The mission of the Associations is to be credible, professional organisations representing Local Government and facilitating the development of an effective community-based system of Local Government in NSW. In pursuit of this mission, the Associations represent the views of councils to NSW and Australian Governments; provide industrial relations and specialist services to councils and promote Local Government to the community and the media.

The Associations welcome the Government Drought Support Inquiry and the opportunity to make a submission on the Productivity Commission (the Commission) draft inquiry report.

We are aware that the Commission's draft report is part of the broader national review of drought policy by the government, and acknowledge the public release of the Expert Social Panel report *Its About People: Changing Perspectives on Dryness* and the joint Bureau of Meteorology and CSIRO report *An assessment of the impacts of climate change on the nature and frequency of exceptional climatic events*.

Local Government have long advocated the need for an inter-governmental review and overhaul of the present disjointed and porous system of drought relief measures, given contemporary understanding of the social, economic and environmental impacts of drought and the emerging science on climate change. What is apparent is that the qualifications for, timing and nature of different measures seem to bear no relation to one another.

The Associations have noted that the draft recommendations by the Commission have not addressed some of the concerns raised by the Associations in our original submission. Councils play a pivotal role in rural communities, particularly in times of crisis or prolonged hardship. There is an expectation that councils will provide the leadership and support required to cope with the immediate crises and to provide for the long term viability of the community. The prolonged drought affecting most of NSW has demonstrated the important role that councils play.

Prolonged drought impacts on a Councils' financial capacity to do so as the local economy declines. Affected councils are typically faced with:

- increased levels of rate deferrals and defaults;
- decreased income from fees and charges as a result of lower of economic activity; and
- restricted opportunities to increase rate or other revenue.

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In September 2007, the Shires Associations of NSW convened a Drought Summit in association with the NSW Farmers Association, and the Country Women's Association. The summit was attended by representatives from councils, federal and state government, industry organisations and community groups and discussed the impacts of the drought on farmers and rural communities in NSW.

The summit attendees agreed that a revised package of assistance is required for NSW communities affected by the prolonged drought.

This package needs to be flexible enough to respond to circumstances which constantly change and must include a long term commitment from both the federal and state governments to work together to 'drought proof' NSW communities. The priorities identified at the Summit that is not addressed in the Commission draft recommendations are summarised below.

Annual Rate Rebates

Support for the introduction of annual rebates for Local Government and Rural Lands Protection Board rates for primary producers and agricultural- related businesses in areas officially 'in drought'. The rebate should be set at a minimum 15% although there is support for a 50% rebate. The Victorian Government currently provides rate rebates of up to 50% of 2007/08 shire rates. In light of the widespread nature of the drought in NSW, a 15% rebate would be a positive step. This measure is designed to help farmers and businesses meet their rate obligations and to assist councils in maintaining infrastructure and services.

Fixed Water Charges

Support for a waiver of fixed water charges for irrigators who have had their allocations reduced due to drought. As a result of the dramatically reduced – in some instances non existent – allocations, the capacity of irrigators to pay is extremely limited.

Infrastructure Spending

Support for the appropriate maintenance of and investment in rural and regional infrastructure to ensure the survival and growth of rural communities into the future.

(The Associations acknowledges and welcomes the recent funding programs for Local Government from the federal and state governments for infrastructure, but would like to highlight the \$7.8 billion infrastructure renewal backlog facing NSW Local Government ¹)

Income Contingent Loans/ Long Term Low Interest Loans

The Associations have joined with the NSW Farmers Association in advocating the introduction of Income Contingent Loans as an additional assistance measure, the aim of this loan would be to:

- Provide a cash flow/financial assistance to maintain core agricultural business activities so that business can continue to operate;
- Help retain the rural skills base;
- Sustain rural and regional communities.

A number of financial institutions and other industry and community organisations have expressed their support for the establishment of a program which would enable farmers to maintain their core agricultural business activities. Financial assistance through this program would have a positive impact on farmers as well as for local communities and associated industries.

Through the provision of financial assistance to maintain core agricultural business activities, entire rural communities will benefit as economic growth will be stimulated throughout the supply chain. This will facilitate a much more efficient recovery from the drought for agriculture and associated industries which ultimately benefits the government through reducing the assistance required and increasing revenue through taxes on production.”²

Income Contingent Loans have been successfully used in other contexts (e.g. Higher Education Contributions (HECs)) and the Associations strongly recommend that the Inquiry fully investigate their potential as a drought assistance measure.

¹ Local Government Inquiry: Are Councils Sustainable? – May 2006

² NSW Farmers Association – Income Contingent Loan – December 2007

Streamlining Drought Assistance Paperwork

Support for the Productivity Commission's recommendation reported in its *Annual Review of Regulatory Burdens on Business: Primary Sector*, released 12 September 2007 to remove duplication in applying for drought assistance. Streamlining the paperwork associated with Exceptional Circumstances ('EC') and other drought assistance measures would remove unnecessary duplication and alleviate processing time.

In 2007/08 Australia had a gross value of Australian farm production of \$41.2 billion, and with agricultural establishments providing rural employment in Australia of 359,800. Farm, Forest, and Fishery sectors contributed 13.4% to the Australian total exports. These industries compete on an unlevel playing field against heavily subsidised American and European counterparts and still managed to contribute \$31.3 billion to the Australian export market in 2007/08.³ These statistics highlight how the agricultural industry is essential to the Australian population and economy. Farmers need to be encouraged to farm, to maintain this essential industry. Where feasible farmers should be supported to stay on the farm rather than exit farming, and government policy needs to be focused on retaining occupancy on farms. Depopulation of farms will have a detrimental effect on rural & regional communities, the economy, and places Australia at greater risk of food insecurity. Local government calls upon the state and federal government to recognise the value of agricultural industry and provide statements and policy to support the continued growth and operations of the agricultural industry. The Associations recommend that drought policy needs to be focused on grants for a "farming future".

The Associations agree with the Commissions draft recommendation 8.1 for significant public funding for research, development and extension to assist farmers prepare for, manage and recover from the impacts of climate variability and change. We would like to see that the funding package is flexible enough to respond to circumstances that constantly change.

The Associations support in part the Commissions recommendation 8.4. The Associations strongly support the retention of Farm Management Deposits (FMD) and support the provision of early withdrawal of funds for farmers experiencing all circumstances of hardship, not just linked to drought. We do however have apprehension about the recommendation to keep the current cap and eligibility requirements for FMD, and the Associations believe that the cap should be allowed to be increased to reflect the current increases in farm inputs and the CPI. We recommend that the Commission adopt the Department of Agriculture, Fisheries, and Forestry FMD Review key finding, i.e.: *The review acknowledges the increasing scale of farm businesses and thus the increased cost of production. To remain effective into the future, thresholds should take account of farm sector trends and the parallel need for larger risk management reserves to operate larger scale farm businesses.*⁴

The Associations support long-term funding and job security for Rural Financial Councillors and Drought Support Workers. This view is also supported by the NSW Rural Mental Health Network, which remains extremely supportive of Farm Family Gatherings as an important ingredient to improving the mental health and wellbeing in rural communities, particularly in times of stress. We are concerned about the Commission's draft recommendation 8.2 for a review of Rural Financial Councillors assessing:

- The institutional barriers to the provision of private sector financial advice services in rural and remote regions;
- The extent to which the schemes' case-management provides for referrals to other relevant services in a timely manner; and
- How services might be better targeted to instances where alternatives are not available.

The Associations call for a commitment from the federal government not to reduce the extent and range of services provided by Rural Financial Councillors.

Farmers are currently experiencing high levels of debt because of the unprecedented drought in its duration and severity. An alternative of ongoing drought support payments, the Associations recommend the more effective method to support farmers adversely financially affected by drought is to offer long term low interest rate loans and provide tax incentives (e.g. accelerated depreciation, and write offs in the year of funding of improvements

³ Australian Bureau of Agriculture and Resource Economics, Australian Commodity Statistics 2008

⁴ DAFF, Review of the Farm Management Deposits Scheme – November 2006

for silos and other drought proofing measures). This would effectively provide financially support to farmers through the difficult drought period without the stigma of receiving welfare.

In the Associations view, the Exceptional Circumstances (EC) Declaration concept needs to be retained, but with its processes reviewed and amended to provide a more equitable and sustainable system. We believe that the EC declaration system should be overhauled and renamed to reflect what it truly represents "drought identification". The Associations view that the processes of identifying areas in drought is essential to drought affected communities, terminating the process completely as recommended by the Commission will have devastating impacts.

The Commission's recommendations 6.1 and 6.2 to remove the EC relief payments by 2009-10 will adversely affect farmers and rural businesses in a period where they are still experiencing one of the worst droughts in Australia's history. Removing EC relief by 2009-10 does not allow recipients enough time to recover from the current drought impacts and mitigate for future dry periods. The Associations raise questions about the effectiveness of any replacement relief programs that will need to be developed and implemented in the short time period before the EC relief funding is removed.

State subsidies need to continue; therefore we oppose the Commissions recommendation 6.3 to terminate all state and territories transactions-based subsidies by 30 June 2010. The NSW state government transport subsidy provides farmers with valuable assistance to ease the effects of drought on livestock by for stock, fodder and water transport. We call for the NSW transport subsidies to continue past February 2009 and remains as an aspect of drought support while farmers experience the negative impacts of drought.

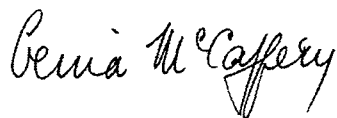
Although the Associations recommend that drought support should be in the form of long term low interest rate loans and tax incentives, if Temporary Income Support (TIS) continues with the Commissions recommendation 9.1 adopted, we would oppose the restriction of maximum claim of three out of seven years eligibility for TIS. Such a measure would be detrimental if another period of drought occurs similar to the previous seven years. Requiring drought affected farmers to apply for assistance through the general social security system after the three years of TIS and be required to meet the low income and assets limits will disqualify most farmers in need, just on farm equipment assets alone.

Any new policy for drought support needs to allow time for recovery and mitigation of drought before its implementation; and the recovery needs to be proven. Two types of recovery ought to be completed before any amendments occur, the recovery of climatic drought conditions and the financial recovery. In previous droughts farmers required on average three consecutive years of good seasons to recover financially from the impacts of the drought.

It is the view of the Associations that the trend of policy referring to drought as "climate change" digresses from the actual meaning and recognition of the impacts of drought. Drought is and will be "dry weather; lack of rain"⁵ as it is in our current climate just as it will be in the proposed future climate variability. The Associations also believe that drought should be considered as a natural disaster in the same context as the damaging impacts of floods and storms.

The Associations welcomed the opportunity to present these positions with the Productivity Commission at the Public Hearing held in Sydney on Monday 15 December 2009 and the Roundtable discussion in Dubbo on Friday 12 December.

Yours sincerely



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President
Local Government Association of NSW



Cr Bruce Miller
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⁵ The Macquarie Dictionary, third edition.