

# AGRICULTURE DROUGHT AND RISK MANAGEMENT MEASURES IN THE AGRICULTURAL COMPETITIVENESS WHITE PAPER

## REGULATORY IMPACT STATEMENT

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### 1 PURPOSE

This Regulation Impact Statement (RIS) analyses any regulatory impact of drought assistance measures in the Agricultural Competitiveness White Paper (White Paper). The RIS complies, with strong reference to the White Paper and its development processes, the Australian Government Guide to Regulation by:

- describing the problem these measures seek to address and reasons why government action is needed;
- describing the process undertaken, including extensive consultation, to determine measures to address the problem; and
- describing each measure in some detail, including its net individual benefit and process for implementation and evaluation (if known).

## 2 PROBLEM IDENTIFICATION AND JUSTIFICATION FOR GOVERNMENT INTERVENTION

### 2.1. BACKGROUND

Drought is a regular feature of primary production in Australia and preparing for and managing drought is key management issue for Australian primary producers. It is important primary producers are able to recognise the benefits of preparing for drought and are encouraged to adopt good business and risk management practices. Further, producers should have certainty on the role that the Australian Government will play to support those in drought, including certainty of access to a social safety net in circumstances of extreme drought.

In recent years, governments have been seeking to reform drought policy in Australia. In 2008, the then primary industries ministerial forum agreed that the approaches to drought management that were in place at the time were not appropriate and agreed to support improvements that would create an environment of self-reliance and preparedness, while encouraging adoption of appropriate climate-management practices. A comprehensive national review of drought policy was undertaken and included the following separate elements: an economic assessment of drought support measures by the Productivity Commission; an assessment by an expert panel of the social impacts of drought on farm families and rural communities; and a climatic assessment by the Bureau of Meteorology and the CSIRO.

From 2010 to 2012, the Australian Government, in partnership with the Western Australian Government, conducted a two-year pilot of drought reform measures in parts of Western Australia, testing several new measures developed in response to the national review. An independent advisory panel subsequently reviewed the pilot to inform the ongoing reform work.

In 2013, the primary industries ministerial forum agreed to the Intergovernmental Agreement on National Drought Program Reform (IGA). All Australian, state and territory governments are signatory to the IGA which outlines a framework for determining support for farmers, including specific responsibilities for different levels of government. The IGA took effect in anticipation of the cessation of Exceptional Circumstances (EC) arrangements, which had been the primary mechanism for in-drought assistance.

In the context of ongoing policy reform, the government's 2013 election commitments included the development of a white paper on agricultural competitiveness, and a review of the adequacy of drought support.

In December 2013, the government announced the White Paper. The White Paper would consider a broad range of factors affecting Australian agriculture, including: competitiveness; productivity; farm-gate prices; expansion of export markets; regional communities; jobs growth; supply chains; and regulation. Furthermore, it would specifically include consideration of drought management and provide the means to consider the suitability and adequacy of drought support and preparedness measures.

### 3 POLICY OPTIONS, CONSULTATION AND SELECTION OF BEST OPTIONS

To support the development of the White Paper, an Issues Paper and a Green Paper were released. Public consultation was held and comment sought following both releases. In total, over 1000 submissions were received and over 1000 face-to-face meetings were held with portfolio stakeholders to discuss policy ideas and options.

#### 3.1 Issues Paper

The Issues Paper was publicly released on 6 February 2014. It identified issues for consideration by stakeholders and raised specific questions for response through public submissions and public consultation sessions. Public submissions closed on 17 April 2014, with almost 700 submissions formally received and around 950 meetings with stakeholder groups in 34 locations around Australia. Submissions, unless specified by the author as confidential, were all published online.

While not all submissions received and meetings held were relevant to drought management, all policy ideas and other suggestions raised were considered by the government. The Agricultural Competitiveness Green Paper (the Green Paper), released on 20 October 2014, represented a summation of the views of stakeholders in response to the Issues Paper. The Green Paper narrowed the consideration of policy ideas and again sought responses from stakeholders on these policy ideas across a range of issues, including drought management.

#### 3.2 Green Paper

The Green Paper specifically identified 'drought' as one of 25 policy idea themes from all issues that had been raised. Specifically, this category included ideas to build resilience and risk management capability, and to provide appropriate support to farm families and otherwise viable farm businesses suffering severe droughts. Specific policy proposals and options suggested by stakeholders were summarised under the following two headings, with specific measures identified underneath):

- i. drought preparedness
  - a. introducing more favourable accelerated depreciation
  - b. facilitating the uptake of insurance and other risk management advice
  - c. improving climate information systems
- ii. in-drought support
  - a. additional mental health support during times of drought
  - b. additional assistance for prolonged and/or severe drought

Other ideas, such as broader taxation measures, while still relevant to drought, were captured in detail under separate categories of ideas. Further, the Green Paper also identified Australian Government assistance measures already available to the agriculture sector for drought preparedness and in-drought support.

Stakeholders had the opportunity to publicly comment on and respond to the issues raised in the Green Paper, including the most appropriate mix of proposals and available measures (for example, on-farm, household, business, social, community) and, while noting the government's support for the framework under the IGA, stakeholders were also invited to raise new policy ideas.

The public consultation process closed on 12 December 2014, with 357 submissions received and many face-to-face meetings held with major stakeholders across Australia; submissions, again, were published online. Once collated, the submissions would be considered in preparing the White Paper.

### **3.3 White Paper**

The White Paper provides an overview of what the government is doing to ensure the sector remains competitive and introduces new initiatives and commitments to further this agenda. The White Paper is due for release in early July 2015.

The White Paper includes measures directly relevant to drought management and preparedness; these have been included in the drought chapter. Other measures outlined in the White Paper may be less directly relevant to drought assistance and are better categorised under an alternative heading.

Each of the directly relevant measures, despite its inclusion in the one chapter, was considered on an individual basis: measures focus on different aspects of the agriculture sector in that some target primary production, others target regional communities and some directly fund governments. Further, the measures are a mix of new activities and extensions to existing activities. It is therefore difficult and misleading to consider the combined regulatory burden of the measures. Measures are described below with their individual regulatory costs and, where necessary, offsets.

The measures relevant to drought assistance outlined in the White Paper are:

1. Grants to facilitate the uptake of farm insurance and other risk management assessments
2. Managing pest animals and weeds in drought-affected areas
3. Extending concessional loans schemes in 2015–16
4. Enhanced community and social support
5. Additional funding for the Rural Financial Counselling Service
6. New concessional loans scheme (10-year scheme)
7. Increased case management and activity supplement for the Farm Household Allowance

These seven measures were selected by the government as the best of all those considered throughout the policy development process.

## 4 DETAILED MEASURE DESCRIPTION, NET INDIVIDUAL BENEFIT AND IMPLEMENTATION/EVALUATION (WHERE KNOWN)

### 4.1 Grant to facilitate the uptake of farm insurance and other risk management assessments

#### 4.1.1 Description and Implementation

This measure will allow primary producers to improve their management of farm risk and preparedness for droughts and other adverse events, by facilitating the uptake of insurance and other risk management advice. Producers can be reimbursed for expenses on a matched basis for each dollar of contribution made by the producer, up to the maximum of \$2500 per farm business. Payments could reimburse farmers for:

- I. conducting a pre-assessment prior to entering into an insurance contract for multi-peril crop insurance (or similar insurance product), or
- II. advice on risk management options for their farm business to:
  - a. better manage income volatility;
  - b. diversify income streams;
  - c. restructure their finances; or
  - d. adapt to changing circumstances.

The programme will likely be delivered through states and territories with payments extending over four financial years (commencing 1 January 2016 and ending 30 June 2019).

Reimbursement grants would be allocated on a first-come basis, subject to eligibility. Primary producers would only be eligible to receive one payment for the life of the programme, with no more than one payment made in respect of any farm business that may be jointly managed.

#### 4.1.2 Policy Rationale

Primary producers' understanding of financial risk has traditionally been less developed than that of participants in other sectors of the Australian economy. Producers have underestimated the real costs of comprehensively managing risk at the farm business level, particularly in relation to extreme climate events such as drought. Uptake of commercial farm insurance products has therefore been limited.

A range of new commercially-available insurance products (including multi-peril crop insurance) has recently become available in Australia due to continued financial market innovation, globalisation of insurance markets, and commercial success of a number of risk management products overseas.

Uptake of these new products is low but increasing while they continue to generate broad coverage in rural media and interest across industry. In submissions to the White Paper process, the insurance industry argued that uptake is likely to remain low for some time without some incentives and encouragement from the government. This has provided an opportunity for the government to promote self-management of farm risk through support for

risk management advice and by encouraging the more rapid and broader uptake of commercial farm insurance. Importantly, this could reduce reliance on public drought support over the longer term and foster a culture of greater self-reliance and contribute to the availability of drought preparedness options.

#### **4.1.3 Regulatory Impact**

The Office of Best Practice Regulation has agreed that this proposal has no regulatory cost (OBPR reference number 19113). The proposal will likely fund state and territory governments under an agreement with the Australian Government, to provide grant payments to eligible farm businesses in their jurisdictions. Given the grant is a reimbursement for an activity already undertaken by the producer, there will be no Australian Government interactions of a regulatory nature on businesses, community organisations and/or individuals from this proposal.

## **4.2 Managing Pest Animals and Weeds in Drought-affected Areas**

### **4.2.1 Description, Implementation and Evaluation**

This proposal will provide \$25.8 million [redacted text] to alleviate grazing pressures from pest animals in drought-affected areas. This proposal also addresses the impacts that predators such as foxes and wild dogs are having on weakened livestock. In addition, it will address weed management issues due to the decline of pasture/groundcover.

This proposal will provide additional employment and economic stimulus to local farmers and businesses in communities that can demonstrate a need for projects. The flow-on benefits to these communities are not limited to the short term; they will also have longer-term benefits for the regions and the agricultural industries on which they depend.

Contributions, both in-kind and additional funds, from farmers, industry bodies, natural resource management bodies, states/territories and councils, will be encouraged to ensure local ownership and longer-term management of projects.

The mechanism for delivery will be payments to the states and territories through a national partnership agreement under the Intergovernmental Agreement on Federal Financial Relations. States and territories will forward funding to natural resource management bodies, industry organisations and/or councils in affected areas. These organisations will be required to work with local Landcare, farming system and other groups to deliver the activities, focusing on large-scale coordinated management where appropriate. This will enable a simple administrative process and alignment of Commonwealth and state and territory actions. The programme will complement other Commonwealth pest animal management measures and will not apply to activities that receive sufficient funding through other programmes.

Records will be maintained to allow future analysis on the effectiveness of drought-related programmes on a national and regional basis.

### **4.2.2 Policy Rationale:**

Nationally, pest animals are responsible for over \$719 million in damage to agricultural production per annum. During drought, the impact of pest animals is exacerbated by increased pressure on pastures/groundcover, reduced livestock feed, and predation on stock. It is also difficult for farmers to maintain the management levels required to protect the resource base that is necessary for long-term production.

Continuing grazing demand during abnormally dry conditions places extreme pressure on groundcover vital for livestock health and poses a long-term risk to the soil resource base and ability of native and improved pastures to regenerate. The congregation of weakened livestock around watering points increases predation by wild dogs and foxes. Action is required to support primary producers to ensure best use of remaining forage, to maintain animal welfare, reduce livestock losses and improve groundcover over time.

While farmers are removing livestock and resting paddocks, the movement of pest animals, particularly hard-hoofed pest species like feral goats, onto farms is resulting in the decline of any remaining pasture, reduced water availability and soil erosion. Feral and pest animals also damage fencing infrastructure and can lead to an increase in predator numbers.

Weed incursions place very high costs on agriculture and the environment, impacting the ability of farmers to recover from drought in the short-term, as well as affecting the long-term productivity of agricultural land. During droughts, weeds have a propensity to survive better than pasture species and then spread to areas of depleted groundcover, putting additional pressure on the remaining groundcover required for livestock.

The containment and management of weeds in drought affected areas is critical to vegetation recovery and to prevent further spread. Prevention schemes are generally more cost effective than eradication schemes, and, importantly, chemical, biological or mechanical removal may also be easier in drought-affected areas due to de-stocking.

For regional Australia, there will be positive economic, social and environmental impacts.

Without intervention, there could be widespread failure of farming businesses in these areas, as well as widespread animal welfare problems. Participation in the programme will also allow farmers to achieve measurable on-farm benefits at a time when farm productivity is particularly low, as well as deliver long-term farm productivity and natural resource management outcomes.

During a period of prolonged drought, investing in the farming sector provides employment opportunities to former farm employees who may be out of work due to many farmers reducing their workforce. It also assists those who have become unemployed due to a general decline in financial prosperity in the broader community.

More broadly, it will continue to stimulate local communities' economies as it will provide economic benefits to delivery agents and agricultural suppliers in local areas. This will also strengthen the social fabric of communities.

This proposal would continue pest management efforts implemented in the February 2014 drought package, in which \$8.825 million was provided to drought-affected jurisdictions across 2013–14 and 2014–15. Preliminary reports suggest that the February 2014 programme has led to a measurable decrease in feral animal numbers, particularly across Queensland.

#### 4.2.3 Regulatory Impact:

<i>Average annual regulatory costs (from business as usual)</i>				
Change in costs (\$ million)	Business	Community Organisations	Individuals	Total change in cost
Total, by sector	\$0.002	\$0	\$0	\$0.002
Cost offset (\$ million)	Business	Community Organisations	Individuals	Total, by source
Agency	\$0.002	\$0	\$0	\$0.002
Are all new costs offset?				
✓ Yes, costs are offset <input type="checkbox"/> No, costs are not offset <input type="checkbox"/> Deregulatory – no offsets required				
Total (change in costs – Cost offset) (\$ million) = \$0				



### **4.3 Extending Concessional Loans Schemes in 2015–16**

#### **4.3.1 Description, Implementation and Evaluation**

This proposal will make the existing Drought and Drought Recovery Concessional Loans schemes available in the 2015–16 financial year. This proposal will ensure continuity of concessional loans products while a proposed permanent drought concessional loans scheme is developed.

The Drought Concessional Loans Scheme will continue to be available for the purposes of debt restructuring, providing new debt for operating expenses or drought recovery and preparedness activities (or a combination of these). The Drought Recovery Concessional Loans Scheme will be available for planting and/or restocking activities and associated expenses as seasonal conditions allow.

Under this proposal, the Drought Concessional Loans Scheme will continue in the jurisdictions in which it currently operates and will be offered to the Tasmanian Government to provide farm businesses with access to financial support once the Farm Finance Concessional Loans Scheme ends. If required, the Drought Recovery Concessional Loans Scheme, currently only available in Queensland and New South Wales, could be established in other severely drought-affected states and the Northern Territory. The live animal exports component of the Drought Recovery Concessional Loans Scheme will only be available in Queensland.

Records will be maintained to allow future analysis on the effectiveness of drought-related programmes on a national and regional basis.

#### **4.3.2 Policy Rationale:**

Farm businesses across parts of Australia will continue to be adversely affected by drought, the financial impacts of which are beyond the ability of some, otherwise viable, businesses to manage through and recover from. Conditions are unlikely to improve in the short-term; climatic evidence indicates that some regions are expected to experience long-term rainfall deficiencies for some time.

Australian Government support available to farm businesses experiencing financial hardship through the existing Farm Finance, Drought and Drought Recovery Concessional Loans schemes will cease on 30 June 2015. Without this proposal, farmers suffering from the financial implications of drought would not have in-drought business support available. Extending these schemes ensures assistance is available during these challenging times until related measures from the Agricultural Competitiveness White Paper commence.

Without government assistance, even well-prepared farm businesses with positive long-term prospects may be unable to remain productive and recover when the season breaks. These farm businesses—many of which are family owned and operated—may have no source of income, making it difficult to manage ongoing fixed costs such as interest repayments, retention of core breeding stock and basic maintenance. The ongoing financial strain experienced may also have associated social implications for the broader rural community.

This proposal is not seeking to open new programmes but rather make the Drought and Drought Recovery Concessional Loans schemes available for another year; so the key features

and loan settings will remain the same, including the loan term and maximum loan values. In particular, the 1 in 10 and 1 in 20 year rainfall event thresholds will be retained for the Drought Concessional Loans. For Drought Recovery Loans, the 1 in 50 and 1 in 100 year rainfall event thresholds will be retained with the following modification:

- the eligibility criterion will be expanded to increase the flexibility of eligibility for those outside an area experiencing a 1 in 50 year rainfall event subject to the provision of additional information to demonstrate the financial impact of drought.

Regional Australia will benefit from the Drought and Drought Recovery Concessional Loans schemes being made available in 2015–16. Drought disproportionately affects regional communities. It detrimentally impacts farm incomes, farm employment, allied industries and the health and well-being of farming families and regional communities. Helping long-term commercially viable farm businesses get through drought and return to normal operating conditions will boost farm productivity and cash-flow, with positive economic and social flow-on effects for regional Australia. Under this proposal farm businesses will be able to take on new debt.

#### 4.3.3 Regulatory Impact

<i>Average annual regulatory costs (from business as usual)</i>				
Change in costs (\$ million)	Business	Community Organisations	Individuals	Total change in cost
Total, by sector	\$0.061	\$0	\$0	\$0.061
Cost offset (\$ million)	Business	Community Organisations	Individuals	Total, by source
Agency	\$0.061	\$0	\$0	\$0.061
Are all new costs offset?				
✓ Yes, costs are offset <input type="checkbox"/> No, costs are not offset <input type="checkbox"/> Deregulatory – no offsets required				
Total (change in costs – Cost offset) (\$ million) = \$0				

## **4.4 Enhanced Community and Social Support**

### **4.4.1 Description, Implementation and Evaluation**

This proposal has two elements. First, to increase funding of the social and community support measure under the February 2014 drought assistance package (current measure) for farmers, farm families and their communities through enhanced service delivery to these stakeholders during periods of severe and prolonged rainfall deficiency. Second, to provide authority to work with stakeholders on the development of an ongoing and responsive community support measure to support drought affected communities into the future.

As the current measure is scheduled to cease on 30 June 2015, the proposal seeks:

- funding for the 2015–16 financial year to allow transition from the current measure to an ongoing measure. This will allow the current measure to continue, for up to 12 months from its scheduled end date, and extend services to include additional local government areas (LGAs) experiencing severe and prolonged drought.

- *[redacted text]*

Existing Department of Social Services (DSS) social and community support programmes and temporary Department of Human Services (DHS) drought coordinators will deliver the enhanced services under the proposal through various approaches to connect with the community. DSS services will provide free advice and information about mental health and family relationships. This may include one-on-one counselling, family support services, referrals to other professional support, and hosting information sessions and workshops. DHS drought coordinators will work to ensure coordinated delivery of this proposal and clear communication of available assistance to farmers and their communities.

The proposal will retain some key settings of the current measure, including: enhancing existing services; providing services and information through outreach; and targeting these services to farmers, their families and their communities. Based on lessons learned from the existing measure, new settings will include a 'recovery phase' for areas to receive tapered funding for a period of time after a break in drought conditions; and tighter reporting arrangements to monitor success and opportunities for continuous improvement.

*[redacted text]*

The Department of Agriculture will oversee the measure and manage its implementation, including coordination of monitoring and reporting activities. DSS and DHS will provide regular progress reports and activity summaries to the Department of Agriculture for monitoring and reporting purposes.

*[redacted text]* In developing a methodology for the ongoing measure, the Australian Government will work with states and territories and other stakeholders to ensure coordination and consistency in line with the IGA.

### **4.4.2 Policy Rationale**

Australian farmers are exposed to a range of hardships which stem from financial, climatic, personal and health-related stresses. While these stresses are not dissimilar to those

experienced by other Australians, they can be exacerbated by the nature of farmers' work, isolation, extreme weather events and fluctuating incomes.

Drought can have a significant negative impact on farmers' physical and mental health, as well as the wellbeing of their families, farm businesses and communities. Despite this, compared to their urban counterparts farmers and farm families have limited access to services to address the physical and emotional impacts of these stresses. Research has shown links between mental health issues and drought. Of farmers who were in drought in 2008, 17 per cent had mental health issues compared with eight per cent for those who had not experienced drought in the three previous years. This highlights the need for social support services to be available at all times, be embedded in existing community services and be facilitated by strong coordination and communication between service providers.

The current social and community support measure has been successful. DSS' Families and Children Activity service providers have had contact with over 22 000 farmers and their families across northern NSW and Queensland. Of these, over 800 individuals are now registered clients of the service. Further, under DSS' Community Mental Health Activity, over 9 800 people have had direct access to support including advice and counselling, and over 2 800 referrals to follow-up services have been made (as at November 2014). Drought coordinators have attended over 1000 community meetings and events and travelled significant distances to work with service providers and communities to improve coordination of and access to local services. However, social support service providers indicate that demand for services will continue after drought conditions ease as people are more able to prioritise their own physical and mental health.

This measure is expected to have a positive impact on regional Australia. Attending, and leading where appropriate, community and industry events will provide 'soft entry points' for people typically reluctant to speak up or seek out help. They will aid service providers to identify people in need and connect them with support. These events also have the capacity to improve the morale and emotional wellbeing of individuals and communities through social interaction and network-building. Engaging families in rural communities with appropriate services will also achieve de-stigmatisation and deliver practical information about anxiety, depression and other mental illnesses. Drought coordinators will also contribute to the longevity of the measure, facilitating long-term connections and relationships to be built in communities.

#### 4.4.3 Regulatory Impact:

<i>Average annual regulatory costs (from business as usual)</i>				
Change in costs (\$ million)	Business	Community Organisations	Individuals	Total change in cost
Total, by sector	\$0	\$0.004	\$0.001	\$0.005
Cost offset (\$ million)	Business	Community Organisations	Individuals	Total, by source
Agency	\$0	\$0	\$0	\$0.005

DEPARTMENT OF AGRICULTURE

Are all new costs offset?

Yes, costs are offset  No, costs are not offset  Deregulatory - no offsets required

Total (change in costs - Cost offset) (\$ million) = \$0

## **4.5 Additional Funding for the Rural Financial Counselling Service**

### **4.5.1 Description, Implementation and Evaluation**

This proposal establishes a process for the employment of additional Rural Financial Counselling Service (RFCS) counsellors for a period of time as a result of a 1 in 20 year rainfall deficiency event in a defined area. It seeks to address the needs of an increased number of clients in financial stress as a result of drought conditions in some areas of Australia.

Under this proposal, service providers in affected areas can negotiate with the Department of Agriculture to secure funds to hire additional rural financial counsellors to cover the period of increased demand.

Additional funds will be delivered through the existing structure of the RFCS Programme.

Success of the proposal would be measured by the increase in client numbers, increase in time spent with clients and decrease in waiting times to see a counsellor in areas experiencing a 1 in 20 year rainfall deficiency. This information is currently provided to the Department of Agriculture by service providers in quarterly reports as well as through the programme's database. Records will be maintained to allow future analysis on the effectiveness of drought-related programmes on a national and regional basis.

### **4.5.2 Policy Rationale**

The RFCS provides free financial counselling to primary producers, fishers and the owners of small rural businesses who are suffering financial hardship and who have no alternative sources of impartial support.

Employing additional counsellors would address heightened demand for the service which occurs as a result of prolonged and severe drought conditions for farming communities. Clients in rainfall deficient areas would likely require prompt access to rural financial counsellors during a 1 in 20 year event and the employment of additional counsellors would service this need. This approach will increase the resilience of the primary producers, fishers and small rural businesses in financial stress caused by severe drought.

This proposal is expected to have a positive impact on regional Australia. It will improve access to rural financial counselling in times of high demand when prompt assistance is required to help prevent eligible rural businesses from becoming unviable.

### **4.5.3 Regulatory Impact:**

The Office of Best Practice Regulation has agreed that this proposal has no regulatory cost (OBPR reference number 18920). Only the quantum of available funds will change, with extra funds being included with the existing contingency funds to help provide for possible contingency needs of 1 in 20 year drought events with no material compliance or regulatory-related actions that were not already in place with the existing programme.

## **4.6 New Concessional Loans Scheme (10-year scheme)**

### **4.6.1 Description, Implementation and Evaluation**

The proposal will establish a permanent national drought concessional loans scheme to assist commercially viable drought-affected farm businesses to continue to operate through drought conditions, recover once the season breaks and prepare for future droughts. The scheme will also help those experiencing debt servicing difficulties where farm businesses may have little or no source of income as a result of drought. The loans will enable farm businesses in need of financial assistance to access concessional finance to cover normal operating expenses, undertake income-generating activities when seasonal conditions allow, implement drought preparedness activities and/or provide debt relief by restructuring a proportion of their existing debt at a concessional interest rate.

The proposed loans will target farm businesses that are experiencing a rainfall deficiency equivalent to or worse than a 1 in 20 year rainfall event, or a 1 in 10 year rainfall deficiency event provided that they can supply evidence that they have experienced financial hardship as a direct result of drought.

Applications will be open each financial year for 10 years from July 2016 until June 2026, pending the outcome of scheduled reviews. Based on a 10-year loan term the last tranche of loans will be in place until 2036–37.

A comprehensive review will be undertaken in 2021–22 to ensure that the scheme is meeting its objectives and in 2026–27 to assess its effectiveness and the future of the scheme and broader framework. Scheme wrap-up and a final review will be undertaken in 2036–37. Records will be maintained to allow future analysis on the effectiveness of drought-related programmes on a national and regional basis.

### **4.6.2 Policy Rationale**

Farm businesses across parts of Australia have been and continue to be impacted by the adverse effects of severe and prolonged drought conditions, the financial impacts of which are beyond the ability of some, otherwise viable, farm businesses to manage and recover from.

During such conditions, even well-prepared farm businesses with positive long-term prospects may have limited or no source of income, making it difficult to manage ongoing fixed costs such as interest repayments, retention of core breeding stock and basic maintenance. In the absence of financial assistance, these farm businesses may be unable to persevere through drought and recover when the season breaks, with flow-on financial impacts to suppliers and the broader rural community. Without government assistance, affected farm businesses—many of which are family owned and operated—may face ongoing financial strain and associated social implications.

These loans will provide flexibility to assist eligible farm businesses through various stages of drought; from everyday survival and management, to recovery when the season breaks, and finally preparing for future drought. The long-term nature of the scheme also provides certainty to farm businesses that support mechanisms are available over time in the event of severe and prolonged drought and future droughts. These loans recognise that the impacts of drought occur across Australia at different times and subsequent recovery from drought doesn't occur at

the same time for all farm businesses, creating a fluctuating but ongoing demand for a concessional loans scheme.

The settings for the proposed loans include:

- a borrowing limit of up to \$1 million in total or up to 50 per cent of eligible debt, whichever is lower
- loan funding can be used for debt restructuring, operating expenses and/or drought recovery and preparedness activities
- a loan term of up to 10 years with interest only payments required for the first five years and principal and interest repayments for the remaining five years (calculated over 10 years). Any remaining loan balance must be repaid at the end of the loan term
- a concessional variable interest rate, which will be adjusted biannually (on 1 February and 1 August) in line with a movement of at least 10 basis points (0.1 per cent) of the average of the daily 10 year Commonwealth Government Bond Rate over a specified prior six month period. The first interest rate review will be in February 2017.

The initial interest rate will be set in consultation with the Minister for Finance before the opening of the scheme in 2016–17. The interest rate will be set at a level commensurate with the programme having a nil impact on underlying cash over the life of the programme (2015–16 to 2036–37).

Regional Australia will benefit from the proposed scheme. Drought disproportionately impacts regional communities. It detrimentally impacts farm incomes, farm employment, allied industries and the health and well-being of farming families and regional communities. Helping long-term commercially viable farm businesses get through drought and return to normal operating conditions will boost farm productivity and cash-flow, with positive economic and social flow-on effects for regional Australia. Under this proposal farm businesses will be able to take on new debt.

#### 4.6.3 Regulatory Impact:

<i>Average annual regulatory costs (from business as usual)</i>				
Change in costs (\$ million)	Business	Community Organisations	Individuals	Total change in cost
Total, by sector	\$0.027	\$0	\$0	\$0.027
Cost offset (\$ million)	Business	Community Organisations	Individuals	Total, by source
Agency	\$0.027	\$0	\$0	\$0.027
Are all new costs offset?				
✓ Yes, costs are offset <input type="checkbox"/> No, costs are not offset <input type="checkbox"/> Deregulatory – no offsets required				
Total (change in costs – Cost offset) (\$ million) = \$0				



## **4.7 Increased Case Management and Activity Supplement for the Farm Household Allowance**

### **4.7.1 Description, Implementation and Evaluation**

This proposal will increase Farm Household Allowance (FHA) case management and the activity supplement in the final (third) year of payment (commencing 2016-17, as this is the earliest a recipient could reach their third year).

This proposal will:

- support recipients to improve their situation and transition off welfare payments after three years;
- seek to increase an individual's focus on actions to improve their situation, including finding alternative sources of income/employment well in advance of the expiry of their FHA entitlement.

This measure will require additional Department of Human Services (DHS) Farm Household Case Officers (FHCOs) in regions to handle the resulting increased case load, of which a key feature will be an additional face-to-face meeting/s between the FHCO and the farmer/partner.

Based on demonstrated need and for 'high value' activities only (such as off-farm job readiness), the activity supplement payable to farmers/partners to implement their Financial Improvement Agreement will increase by up to an additional \$1 000 from the current setting of \$3,000 over the three years.

### **4.7.2 Policy Rationale**

Eligible farmers/partners can currently receive up to three cumulative years on payment under the FHA. The FHA aims to provide income support to farmers in hardship while they take steps to improve their situation.

This measure seeks to address the policy problem of ensuring individual farmers/partners follow through with actions to improve their situation. Additional case management will ensure that the best outcomes are achieved under the payment both for the farmer and in terms of value for government expenditure.

Anecdotally the Department of Agriculture has received positive feedback about the importance of case management from the FHCOs and the Rural Financial Counselling Service. Further, experience from the 2011 Western Australian pilot of drought reform measures was that income support case management was one of the most highly valued (by recipients) elements of the programme.

Strong and effective case management is the key to achieving the FHA's objective of helping farmers/partners to improve their situation. It is anticipated that the increased case management and activity supplement will further support the programme aims of the FHA.

This proposal is expected to have a positive impact on regional Australia in that the increased case management and activity supplement will further support the programme aims of the FHA, specifically positioning recipients to improve their long-term financial position. This will have flow-on benefits to regional communities through increased cash flow and demand for services.

Unlike a structural adjustment programme, this programme will not have significant impacts on the total numbers of farmers in rural areas.

**4.7.3 Regulatory Impact:**

The Office of Best Practice Regulation has agreed that this proposal has no regulatory cost (OBPR reference number 18916). The OBPR agrees that due to mutual obligation effects, the changes to the Farm Household Allowance (FHA) are unlikely to result in additional regulatory impact on business, individuals or community organisations as a result of the proposal to extend case management and increase the activity supplement in the third year of the existing three-year FHA process.