

NATIONAL DROUGHT POLICY

MANAGING FOR RISK & PRODUCTIVITY

This document sets out the National Drought Policy agreed to by Commonwealth and State Ministers. The policy is based on principles of sustainable development, risk management, productivity growth and structural adjustment in the farm sector.

Definition of a Drought Policy

Drought is one of several sources of uncertainty affecting farm businesses and is part of the farmer's normal operating environment. Its effects can be reduced through risk management practices which take all situations into account, including drought and commodity price downturns.

The objectives of the Drought Policy are to:

- encourage primary producers and other sections of rural Australia to adopt self-reliant approaches to managing for climatic variability;
- maintain and protect Australia's agricultural and environmental resource base during periods of extreme climate stress; and
- ensure early recovery of agricultural and rural industries, consistent with long-term sustainable levels.

The Role of Farmers and Government

Under the National Drought Policy, farmers will have to assume greater responsibility for managing the risks arising from climatic variability. This will require the integration of financial and business management with production and resource management to ensure that the financial and physical resources of businesses are used efficiently.

Government will help create the overall environment which is conducive to this property management planning and risk-management approach. We will encourage producers to adopt improved property management practices through a system of incentives, information transfer, education and training, landcare group projects and research and development (R&D).

During severe downturns, Governments will act to preserve the social and physical resource base of rural Australia, and will provide adjustment assistance in the recovery phase. Support will be available to those with sound projects who are temporarily in financial difficulty.

State Governments may provide drought-assistance measures in addition to those offered by the Commonwealth, but these should not compromise the overall direction of the national policy.

- States may provide transaction-based subsidies or other similar measures in times of drought at their sole discretion and at their own expense as a transitional measure. Agreement has been reached to phase out transaction-based subsidies as soon as practicable to ensure the smooth transition to the measures available under the National Drought policy.

Policy Measures

The New Rural Adjustment Scheme

The Commonwealth Government is implementing a new Rural Adjustment Scheme (RAS) to further its commitment to more effective adjustment measures for farmers and a more productive, efficient and competitive rural sector.

The new RAS will be more sharply focussed on sustainable, long-term profitability at the farm level, based on structural adjustment and productivity growth. Changes involve a simplification of operations, with a single farm adjustment program, new funding arrangements including shared contributions between the Commonwealth and the States/Territories, and new accountability procedures.

- The Scheme will also be a vehicle for providing assistance to farmers in times of exceptional downturn which encompasses not only drought but also commodity price falls, disease outbreaks and other situations beyond the farmer's control. Provision of this assistance will be governed by the degree of financial hardship of the farmer rather than drought *per se* and will be provided only to those with sound long-term prospects in farming.
- New arrangements in the form of farm household support will be introduced for farmers, under certain conditions of hardship, who are temporarily in need of income to meet the day-to-day requirements of the farm family.

Ongoing measures

In normal circumstances, farmers will be able to obtain incentives through interest subsidies on commercial finance or grants to enhance the profitability of their businesses through farm improvement and development, support activities such as training, farm appraisal and planning services, and in special circumstances, carry on financial support as part of a program of productivity improvement. Eligibility for these measures will be based on sustainable, long term profitability, the merit of the proposed development project and need. Funding of this will be on a shared Commonwealth-State basis. There are also provisions to assist non-profitable farmers to leave farming:

- Grants will be provided to farmers to improve their skills;
- Grants will be available to assist with the cost of obtaining any financial assessment and counselling;
- Projects which increase productivity may be on an individual-farm basis, involve collective action by groups of eligible farmers, or involve comprehensive packages of regional adjustment and development initiatives. This may be necessary where sustainable development is dependent on new investment essential for success of the overall project but is not feasible for undertaking by individual farmers. This may also be linked to other activities such as Landcare.

The banks and other financial institutions will continue to play a major role in financing the farm sector. The banks have recognised the special needs of the farming community and have introduced flexible interest and capital repayment terms for farmers. RAS finance supplements these arrangements. Finance from commercial and RAS sources will form an integrated package of financial services to meet the demand from farmers for financing their development projects.

In order to facilitate the adjustment out of farming of those who are considered to be unprofitable in the long term and who have a low asset base, the revised RAS includes a re-establishment grant which is available to eligible farmers on the sale of their productive farm assets.

Exceptional downturn

In times of exceptional downturn, interest subsidies above the level of 50 per cent of the interest rate on commercial loans and/or existing debt may be provided jointly by the States and the Commonwealth. Eligible farm businesses are those temporarily in severe financial difficulties, profitable in the long term, but can only access commercial finance if the interest is subsidised. Flexibility in the amount of assistance and the rates of any interest subsidy over 50 per cent will be a permanent feature of the National Drought Policy to avoid implementation of *ad hoc* policies in times of crisis.

- Together with the flexibility that banks are prepared to offer on loan repayment terms, any additional interest subsidy would go a long way towards meeting the farmer's requirement for relief from payments during exceptional downturn.

Farm household support

New measures are to be introduced to provide support for farmers unable to meet day-to-day living expenses. Farmers who are in extreme financial hardship and cannot obtain commercial finance for carry-on purposes will be able to access farm household support under new legislation to be administered by the Department of Social Security on an agency basis. The eligibility conditions for the new household support arrangements are still under consideration.

The above measures provide full coverage of assistance for adjustment/productivity growth; for support in situations of exceptional downturn, whether brought about by drought or other factors; for improving farmers' skills; and for extreme financial hardship.

Increasing self-reliance

Building Financial Reserves

Income smoothing and the creation of reserves can be useful tools in risk management. Mechanisms such as tax averaging and Income Equalisation Deposits (IEDs) have important roles to play in financial management. The Government has introduced an improved IED scheme, including a Farm Management Bond (FMB) provision, which will contribute to the development of a financially self-reliant and sustainable farm sector.

The Government will monitor other aspects of farm taxation and income-smoothing mechanisms such as tax-averaging to ensure that they do not prevent the new IEDs operating effectively and that they facilitate good risk-management practices. The Government will ensure that the entire package of income taxation and associated measures is providing both correct and consistent signals to farmers to encourage sustainable and efficient management systems.

The changes to the IED scheme and features of the FMB are as follows.

For IEDs

- a reduction in the withholding tax rate from 29 per cent to 20 per cent, unless the taxpayer self assesses otherwise;
- an increase in the maximum amount of deposits from \$250,000 to \$300,000. This overall limit includes the amount deposited in Farm Management Bond;
- a reduction in the minimum deposit required from \$5,000 to \$1,000;

- allowing interest payable on deposits to be reinvested;
- the above changes to apply from 19 August 1992.

The Farm Management Bond will be incorporated into the IED scheme with the following characteristics to apply from 1 October 1992:

- an investment component of 80 per cent;
- the maximum amount that can be deposited in this bond is \$80,000;
- only taxpayers who are primary producers with non-farm taxable income of less than \$50,000 are eligible to deposit;
- withdrawals can only be made in periods of hardship arising from circumstances such as drought and other natural events;
- withdrawals other than for specified events can be made, but the investment component will return to the normal IED level of 61 per cent;
- deposits in normal IEDs can be transferred to an FMB, provided FMB criteria are met;
- all other conditions attaching to the basic IED apply.

The tax system already has wide-ranging measures that provide incentive for expenditure on drought preparation. For example, expenditure on water conservation can be written off over three years rather than the useful life of the asset. This encourages expenditure on physical improvements for drought management. Further, the introduction of accelerated depreciation provisions from 26 February 1992 means that investment in fodder and grain storage can now be written off over much shorter periods than previously. The Commonwealth Government will monitor the effectiveness of existing measures, and consider introducing new measures if necessary.

- However, any new measures will be carefully assessed to ensure that they are consistent with the objectives of the National Drought Policy in terms of planning and management strategies.

- It is proposed that tax incentives for drought preparedness and whole farm management be examined in association with the 1993/94 review of income taxation measures for landcare.

Whole-farm planning

The widespread adoption of whole-farm or property-management planning is the major vehicle by which improved risk management, productivity growth and sustainable development will be achieved.

Property-management planning allows the integration of management strategies for the physical, financial, marketing and farming practices of individual properties. Through the use of tools such as land-capability assessments, farm budgets, marketing plans and decision-support systems, farm plans allow producers to identify the elements of risk within their businesses and take steps to minimise their impact.

A general improvement in the capacity of the rural community to increase self reliance will not be achieved until the majority of producers develop and implement an integrated property management plan. As discussed under *Resource Management* below, the Commonwealth will provide support for the development and effective use of property-management planning techniques.

Education and training

While many farmers are already engaged in effective risk management and drought-preparedness activities, there is scope for providing opportunities for farm managers to upgrade their skills and learn new techniques (see page 9).

Farmers will have access to information, education and training materials, courses and facilities that will increase their capacity to manage risk and to implement whole farm planning.

- The Commonwealth will make a significant contribution towards programs which provide information, services, and training to assist decision making.
- Steering groups will be established in each State to develop and implement programs targeted to particular needs of farmers and their advisers.

Research and Development

Research, development, demonstration and delivery are important elements of the policy package for improved management in a risky environment. Further, research and development can contribute to ameliorating the physical, economic and social effects of drought in the longer term. The Commonwealth will provide funding in this area.

Drought research for a profitable and sustainable rural sector is wide ranging, and includes whole farm management systems that integrate climate prediction, technical, biological and financial information; control strategies for weeds and pests; social-economic factors and the needs of rural communities and farm families in times of stress; and research on on-farm and off-farm investment strategies for farmers.

The Commonwealth will develop an integrated national drought R&D program in collaboration with the States and the rural R&D corporations. It will be funded in the first instance by a Commonwealth allocation of \$2.1 million over three years and with the intention that additional funds through collaborative contributions be provided by rural R&D corporations. The program will be aimed at enhancing the capacity of farmers to manage drought and it will seek both to bring together existing drought R&D and to fund new R&D where present gaps or shortfalls exist.

Coordinated drought research is essential, given the diverse nature of the impacts of drought. The R&D funding organisations in the Commonwealth Primary Industries and Energy portfolio are well placed to initiate the establishment of a national drought R&D effort encompassing Commonwealth and State research, policy and management institutions. The Land and Water Resources R&D Corporation (LWRRDC) will administer the Commonwealth funds for the national drought R&D program and, with the Rural Industries R&D Corporation (RIRDC), will coordinate the funding and research activities of other R&D corporations and agencies. They will be urged, as part of their priority setting, to include drought-related issues in their work programs.

An important element of drought-related R&D will be extension and demonstration, thereby ensuring that the results of the R&D are accessible to farm managers. Efforts will be made to ensure that the gap between research results and farm practices is bridged, including research into the decision-making and adoption practices of farmers.

Rural Communities

Strong, resilient rural communities are very important to the future of the rural sector. There are a number of Commonwealth and State programs already in place to meet the economic and social needs of rural communities, including non-farm businesses. At the Commonwealth level, these programs include the Business Advice for Rural Areas Program, the Marketing Skills Program, the Rural Industries Business Extension Service, Countrylink, the Rural Access Program and the establishment of telecentres. States also have complementary programs aimed at assisting rural families and communities to adjust.

Social support programs are already available to farmers and their communities in times of severe downturn and include emergency relief, health care, and financial and social counselling. These measures will continue to be monitored to ensure that these policies are meeting the needs of rural communities. New programs will be introduced if necessary.

Resource Management

The growth and prosperity of farming depend crucially on the resource base of the enterprise. Sustainable development principles must be applied to managing for drought and farm planning, including financial planning and risk management.

There are important links between the National Drought Policy and Landcare. Property management planning, for example, is central to the goal of ecologically sustainable development and to drought preparedness and risk management. The Commonwealth is providing \$3 million through Landcare in 1992/93, with further funding annually until 1995/96, for education and training in property management and a range of landcare activities, with the objectives of the National Drought Policy clearly in mind.

The revised RAS will have the capacity to support drought preparedness strategies by farmer (*sic*) which involve the more effective use of water resources available on farm, where such an investment improves the long-term productivity of the farm.

There will be greater consistency between Government policies to ensure the sustainability, both economically and ecologically, of the resource base.

- Governments will review land tenure arrangements to ensure that they are not structured in such a way to encourage overstocking or other poor management practices.
- Water management is critical to both drought management and ecological sustainability. The trend towards greater cost recovery-charging and transferable-entitlement policies for water should encourage better water management, including during drought, by those with access to irrigation water. For those outside irrigation areas, tax incentives exist to encourage the storage and distribution of water.

Implementation of the National Drought Policy

Implementation of the National Drought Policy will involve two complementary sets of activities: an initial awareness campaign to publicise the policy change, and on-going education and training on risk management and whole farm business practices.

The Commonwealth will provide \$1 million in 1992/93 and \$0.5 million in 1993/94 to fund the communication strategy which will target farmers, farmer organisations and associated industry groups, accountants, banks and other financial institutions, landcare groups and other areas serving agriculture.

Training packages for sustainable farming, which incorporate risk management, landcare principles and drought preparedness will be developed for farmers and their advisers and delivered by States and Territories. This process will involve liaison with senior advisory personnel, farm management consultants and producer representatives in the States to ensure that the training packages and extension programs are relevant and meet the needs of farmers as well as their service providers.