



Independent Pricing and Regulatory Tribunal

NSW Drought Program Evaluation Framework

Other Industries — Final Report
January 2016



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1 | Executive Summary

In July 2014, the Intergovernmental Agreement on National Drought Program Reform (the IGA) came into effect. This agreement between the Commonwealth and state and territory governments aims to ensure that government-funded drought programs not only support farmers in times of hardship, but also help them adapt to and prepare for the impacts of increased climate variability and adopt self-reliant approaches to managing their business risks.

To implement the IGA, the NSW Government announced a new NSW Drought Strategy in February 2015. This strategy aims to deliver a more transparent, targeted and effective system of drought assistance programs that accords with the IGA. As part of this strategy, the Government asked the Independent Pricing and Regulatory Tribunal (IPART) to develop a framework for evaluating existing and proposed programs that takes account of their:

- ▼ complementarity with the Commonwealth’s drought assistance measures and functions under the IGA and the principles of the IGA
- ▼ ability to maintain incentives for farmers to invest in drought preparedness measures
- ▼ ability to effectively target relevant individuals or groups in need
- ▼ efficiency, equity and effectiveness
- ▼ ability to minimise transaction costs, and
- ▼ transparency and consistency.

We were also asked to recommend what data is required to be collected to enable cost-effective application of the framework. (Our terms of reference are provided in **Appendix A**.)

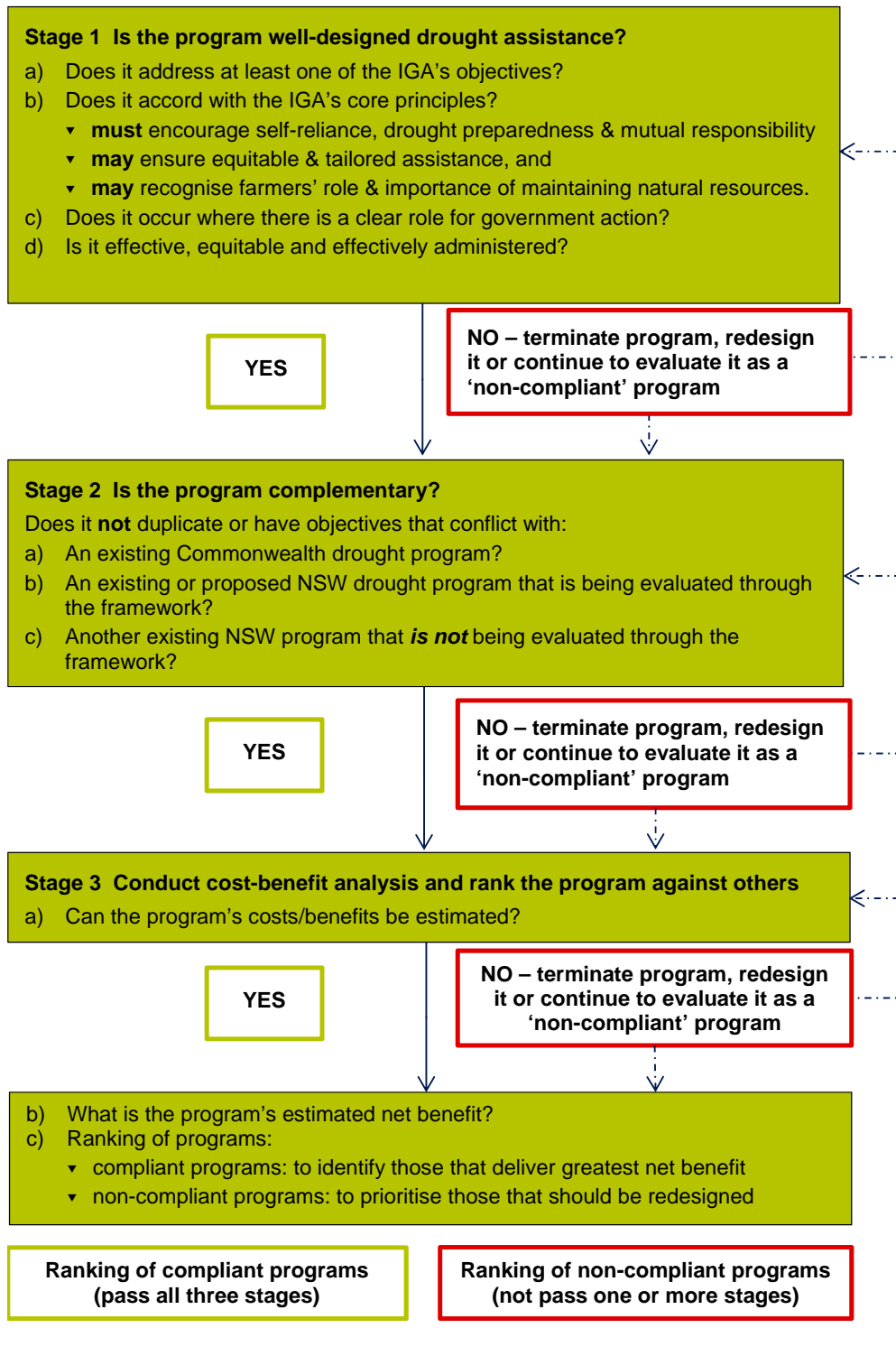
1.1 Our recommended evaluation framework

We have developed a framework for assessing existing and proposed drought assistance programs that will enable the NSW Government to identify the set of programs that accords with the IGA **and** delivers the greatest net benefit for the available funding. The framework is illustrated in Figure 1.1, and involves three stages:

1. Assessing whether the program complies with the criteria for well-designed drought assistance.
2. Assessing whether the program is complementary with other drought programs.
3. Conducting cost-benefit analysis and ranking the program's net benefit against that of other existing and/or proposed NSW drought assistance programs.

At each stage, an assessment is made as to whether the program complies with that stage. If 'Yes', the program progresses to the next stage as a 'compliant program'. If 'No', the program may be terminated, redesigned, or further evaluated as a 'non-compliant program' to determine the full extent of the redesign necessary to become a compliant program.

Figure 1.1 Recommended framework for evaluating NSW drought assistance programs



1.1.1 Stage 1: Assess compliance with criteria for well-designed drought assistance

Stage 1 consists of three steps, which establish whether the program generally complies with the criteria for well-designed drought assistance. That is, whether it:

- ▼ addresses at least one of the IGA's objectives and is consistent with the IGA's core principles
- ▼ occurs where there is a clear role for government action, and
- ▼ is effective, efficient, equitable and effectively administered.

Addresses an IGA objective and is consistent with core IGA principles

To address one of the IGA objectives, the program must either:

- ▼ assist farm families and primary producers to adapt to and prepare for the impacts of increased climate variability
- ▼ encourage farm families and primary producers to adopt self-reliant approaches to manage their business risks
- ▼ ensure that farm families in hardship have access to a household support payment that recognises the special circumstances of farmers
- ▼ ensure appropriate social support services are accessible to farm families, or
- ▼ provide a framework for jurisdictions' responses to needs during periods of drought.

We have distilled the core IGA principles to:

1. Encouraging self-reliance, drought preparedness and mutual responsibility.
2. Providing equitable and tailored assistance.
3. Recognising the role of farmers and the importance of maintaining the natural resource base.¹

In our framework, programs must meet Principle 1. This is based on our analysis – and historical developments in drought policy – which emphasise the importance of promoting self-reliance, preparedness and mutual responsibility.²

¹ The IGA sets out a wide range of principles. For this step, we have distilled them down to three core principles that relate specifically to drought assistance programs (rather than, for example, the principles of good policy design – which are dealt with in subsequent steps of the framework).

² See for example, Drought Policy Review Expert Social Panel, *It's About People: Changing Perspective. A Report to Government by an Expert Social Panel on Dryness*, Report to the Minister for Agriculture, Fisheries and Forestry, Canberra, September 2008, recommendation 6, p 20; Keogh, M., "Editorial", Volume 3, *Farm Policy Journal*, 2006, p iv; Productivity Commission, *Government Drought Support*, Final Report, 2009, Terms of Reference, p IV.

It is preferable for programs to meet all three IGA principles. However, programs may still meet the requirements of this step if they meet Principle 1.

Occurs where there is a clear role for government action

The second step in Stage 1 is to assess whether the program occurs where there is a clear role for government action. To comply with this step, it needs to be established that:

- ▼ the program addresses a market failure or other specific policy objective, and
- ▼ implementing the program is expected to improve the long-term outcomes relative to no government action.

Is effective, efficient, equitable and effectively administered

The final step in Stage 1 is to assess whether the program conforms to the principles for best-practice policy design. To meet this criterion it must be:

- ▼ effective – successfully achieves its objectives
- ▼ efficient – achieves its objectives at least cost
- ▼ equitable – allocates scarce resources fairly, and
- ▼ effectively administered – involves administrative arrangements that are transparent, consistently applied, and minimise transaction costs.

1.1.2 Stage 2: Assess whether the program is complementary with other drought programs

Stage 2 assesses whether the program is complementary to drought assistance measures already in place.³ This involves assessing whether the program duplicates or conflicts with:

- ▼ an existing Commonwealth drought program
- ▼ an existing or proposed NSW drought program that is also being evaluated through the framework, or
- ▼ another existing NSW program that **is not** being evaluated through the framework.

The framework assumes Commonwealth programs are fixed measures for providing drought assistance, and therefore requires all NSW drought program to be complementary to these programs.

³ The IGA states that programs should be consistent with the principles for reform agreed by the Standing Council on Primary Industries which includes the requirement for programs to be complementary to measures already in place (*Intergovernmental Agreement on National Drought Program Reform 2013*, Attachment B, Principle a, p 8).

It also requires that NSW programs be complementary to each other. If a program is assessed as duplicating or conflicting with another existing or proposed NSW program, the framework requires that it be:

- ▼ terminated
- ▼ redesigned so that it complements the existing program designated as 'non-compliant' with Stage 2, or
- ▼ designated as 'compliant' with Stage 2, following the redesign or termination of the other NSW program that it duplicated or was in conflict with.

1.1.3 Stage 3: Conduct cost-benefit analysis and rank against alternatives

The final stage of the framework involves estimating and ranking the program's net benefit against that of other existing or proposed NSW drought assistance programs. It includes three steps:

- ▼ identifying whether the program's cost and benefits can be estimated (eg, is the necessary data collected)
- ▼ using cost-benefit analysis to estimate the costs and benefits and calculate the net benefit, and
- ▼ using the net benefit to rank the program against other programs that have been evaluated.

Compliant and non-compliant programs are ranked separately.

- ▼ Ranking the compliant programs enables the Government to determine the set of programs that generates the greatest net benefit for the available funds.
- ▼ Ranking the non-compliant programs helps to identify which of these programs warrant redesign and re-evaluation, and which should be terminated. Non-compliant programs should be redesigned to become compliant **before** being considered for implementation, because such redesign will improve their likelihood of achieving greater overall benefits.

1.2 Our recommendations on data collection

We consider that two types of data need to be collected to enable the evaluation of drought assistance programs in NSW. First, consistent data should be collected and shared between agencies to:

- ▼ identify where and how often applicants are accessing multiple programs, and
- ▼ enable a holistic evaluation of the effectiveness of drought programs.

Second, consistent data should be collected to enable analysis of the actual costs and benefits of each program implemented. The type of data required will vary according to the type of program. (Our specific recommendations are listed below.)

1.3 Changes to the framework since the Discussion Paper

Our recommended framework is largely the same as the draft framework outlined in our Discussion Paper. However, we have made several changes in response to stakeholder feedback. The key changes are that our recommended framework:

- ▼ enables programs that fail a stage of the framework (non-compliant programs) to still be progressed through the remainder of the framework
- ▼ enables all programs (compliant and non-compliant) to be separately ranked to determine which compliant programs generate the greatest net benefit, and which non-compliant programs should be prioritised for redesign
- ▼ includes definitions of key terms, including drought; equitable and tailored assistance; and self-reliance and preparedness
- ▼ recognises that in some circumstances ‘lines on maps’ may still be used to determine drought areas and eligibility criteria for drought assistance programs, and indicates that this approach should be supplemented by objective criteria and rationales to determine overall eligibility for a drought program, and
- ▼ includes additional recommendations about the collection of data.

1.4 Structure of this report

The rest of this report explains our framework and recommendations in more detail, including our responses to stakeholder submissions. The report is structured as follows:

- ▼ Chapter 2 outlines the context for the review, including more information on the IGA and NSW Drought Policy.
- ▼ Chapter 3 provides an overview of our recommended evaluation framework, including how we envisage it being applied.
- ▼ Chapters 4 to 6 discuss each of the three stages in the framework in detail and provide examples to illustrate how the framework would be applied.
- ▼ Chapter 7 sets out the data required in order to apply the framework.

1.5 List of recommendations

Our recommendations are set out in the following chapters. For convenience, they are also listed below.

- 1 That the NSW Government apply our evaluation framework to review its drought assistance programs and only fund programs that:
 - comply with the framework
 - have benefits that exceed costs, and
 - generate the greatest net benefit within the budget constraint.
- 2 That the Rural Assistance Authority work collaboratively with NSW and Commonwealth government agencies to ensure the sharing of data on all drought programs. Consistent data should be collected across programs to build a broad profile on who is accessing drought assistance, and to enable a holistic assessment of the effectiveness of drought programs.
- 3 That data for each program administered or funded by NSW Government agencies be collected to enable analysis of the costs and benefits of the program and whether it is achieving its objectives. The following information should be collected for each program type:
 - **Information programs:** survey data to assess the uptake and value of the information provided, and to link findings to improved decision-making.
 - **Grants:** data on the purpose of the grant, what it was spent on, the resulting benefits, and whether the purpose was achieved.
 - **Loans:** data on the purpose of the loan, the change in productivity from the investment, and repayment rates.
 - **Counselling and social support programs:** survey data from clients to assess satisfaction with these programs.

2 | Context for this review

According to the Bureau of Meteorology (BOM), drought is a ‘prolonged, abnormally dry period when the amount of available water is insufficient to meet our normal use.’⁴ Drought is not simply low rainfall.

There is no universal definition of drought because people use water in so many different ways.⁵ This review relates to the impacts of drought on farmers and other primary producers. Specifically, it relates to the policies and programs governments fund to support primary producers and the sustainability of the agricultural sector in times of drought.

To provide the context for our review, the sections below outline:

- ▼ the 2013 Intergovernmental Agreement on National Drought Program Reform (IGA)
- ▼ the NSW Drought Strategy
- ▼ our Terms of Reference for this review, and
- ▼ our process for this review.

2.1 2013 Intergovernmental Agreement on National Drought Program Reform

In 2013 the Commonwealth, state and territory governments reached an Intergovernmental Agreement on National Drought Program Reform (IGA). This agreement came into effect from 1 July 2014, and replaces previous arrangements where drought assistances programs were triggered when a drought event was declared as an Exceptional Circumstance. (Appendix C provides more detail on these previous arrangements and national drought policy reform.)

⁴ Bureau of Meteorology, <http://www.bom.gov.au/climate/drought/#tabs=About-drought>, accessed on 4 December 2015.

⁵ Ibid.

The IGA has five objectives:

1. Assist farm families and primary producers to adapt to and prepare for the impacts of increased climate variability.
2. Encourage farm families and primary producers to adopt self-reliant approaches to manage their business risks.
3. Ensure that farm families in hardship have access to a household support payment that recognises the special circumstances of farmers.
4. Ensure appropriate social support services are accessible to farm families.
5. Provide a framework for jurisdictions' responses to needs during periods of drought.⁶

It also sets out the programs to be implemented under the IGA. These programs and the level of government responsible for their administration are shown in Table 2.1.

Table 2.1 Programs to be implemented under the IGA

Program	Responsibility
Farm household support payment	Commonwealth
Continued access to Farm Management Deposits (FMDs) and taxation measures	Commonwealth
National approach to farm business training	State
Coordinated, collaborative approach to the provision of social support services	Joint State and Commonwealth
Tools and technologies to inform farmer decision-making	Joint State and Commonwealth

Data source: *Intergovernmental Agreement on National Drought Program Reform 2013*, p 3.

The IGA recognises that other programs may be developed in the future to provide temporary, in-drought support. It indicates that programs should comply with the following principles:

- ▼ be consistent with principles and complementary to measures already in place
- ▼ occur where there is a clear role for government and deliver a net public benefit
- ▼ address recognised welfare needs
- ▼ encourage good farm business decision-making and facilitate adjustment in the agriculture sector
- ▼ avoid government being positioned as the business 'lender of last resort'
- ▼ enable links with other measures or between service providers
- ▼ recognise the importance of maintaining the natural resource base, and
- ▼ be underpinned by monitoring and performance information to ensure any measures implemented are appropriately targeted.⁷

⁶ *Intergovernmental Agreement on National Drought Program Reform 2013*, p 2.

⁷ *Intergovernmental Agreement on National Drought Program Reform 2013*, Attachment B, p 8.

2.2 NSW Drought Policy

To implement the IGA, the NSW Government established an independent Regional Assistance Advisory Committee (RAAC) to:

- ▼ provide advice on the vulnerability of rural communities to climate-related downturns, and advice on potential farm business, farm family and community support response programs and initiatives direct to the NSW Government,⁸ and
- ▼ oversee the preparation of the new Regional Seasonal Conditions Reports that replaces the system of State drought declarations.⁹

In 2014, the RAAC commissioned the Australian Farm Institute (Institute) to review NSW's existing drought measures to ensure they were in line with the IGA.¹⁰ While the Institute's report observed NSW drought policies were not consistent with the IGA, it was not able to reach a conclusion on the adequacy of current drought policies.¹¹ This was partly because the changes in national and state drought policies had only recently been made.¹² In its report, however, the Institute noted there were a number of 'legacy programs' from the Exceptional Circumstances system of drought response and a 'muted engagement' in the new IGA-mandated programs.¹³

For example, the Institute commented that a number of stakeholders considered the NSW Government's transport subsidies to be inconsistent with the IGA.¹⁴ Some also noted access to these subsidies was triggered by 'lines on maps', meaning the measure was accessible to some who were not adversely affected by drought, but was not available to others in adjoining local government areas that were more adversely affected. Other criticisms expressed by stakeholders included:¹⁵

- ▼ the lack of public benefits arising from the transport subsidies
- ▼ the subsidies seem unlikely to foster better business planning and drought preparedness by recipients, and
- ▼ the subsidies were not coordinated with other drought support measures.

⁸ <http://www.dpi.nsw.gov.au/agriculture/emergency/seasonal-conditions/raac>.

⁹ As of February 2013, the NSW Government no longer declares a district to be in drought. Instead, it issues Seasonal Conditions Reports on a monthly basis to help landholders manage and prepare for worsening conditions and droughts. NSW Parliamentary Research Service December 2013 e-brief 12/2013, p 2.

¹⁰ <http://www.dpi.nsw.gov.au/agriculture/emergency/seasonal-conditions/raac>.

¹¹ Keogh, M., and Goucher, G., *Review of NSW Response to Drought Policy Reforms*, Research report, Australian Farm Institute, Sydney, November 2014, p 3.

¹² Ibid, p 49.

¹³ Ibid.

¹⁴ Ibid, p 35.

¹⁵ Ibid.

Following the Institute's review, the NSW Government announced the NSW Drought Strategy in February 2015. This strategy aims to deliver a more transparent and targeted system of drought support to support the State's farmers in becoming more resilient and better prepared for future droughts, improve their businesses and reduce risks.¹⁶

Under the NSW Drought Strategy, the NSW Government has undertaken a number of initiatives. One of these initiatives was to ask IPART to conduct this review. Another was to develop the Drought Framework (see Appendix B). This framework sets out specific programs and funding for drought support. It also defines varying levels of drought that can trigger assistance. These include:

- ▼ **Mild drought:** Has experienced less than 20% of the following for each of the last six months:
 - relative pasture growth
 - relative rainfall, and
 - relative soil moisture.
- ▼ These must be verified by on ground conditions, assessed by Local Land Service technical reports.
- ▼ **Moderate drought:** Continues to experience the conditions identified with mild drought with no period of recovery.
- ▼ **Severe drought:** Conditions of drought extend for a period of more than 24 months with no period of recovery.
- ▼ **Recovery:** Over a period of six months, 40% or more of annual rainfall has been received and Local Land Services verify that on ground recovery is evident.

2.3 Terms of Reference

Under our Terms of Reference for this review, we are required to develop a cost-effective framework that will allow for consistent evaluations of the effectiveness of NSW's drought assistance measures. We are also asked to make recommendations about what data needs to be collected to inform this evaluation.

¹⁶ www.dpi.nsw.gov.au/agriculture/drought-bushfire-and-emergencies/drought/support/nsw-drought-strategy.

The Terms of Reference also specify that the framework we develop should assess a program's:

- ▼ complementarity with the Commonwealth's assistance measures, functions and principles under the IGA
- ▼ ability to maintain incentives to invest in drought preparedness measures
- ▼ ability to target relevant individuals or groups in need effectively
- ▼ efficiency, equity and effectiveness
- ▼ ability to minimise transaction costs, and
- ▼ transparency and consistency.

2.4 Review process

To conduct our review and develop our recommended framework, we undertook our own research and analysis, and conducted public consultation and meetings with stakeholders and industry experts. As part of our consultation, we:

- ▼ released a Discussion Paper in October 2015, which set out a draft framework and sought stakeholder submissions, and
- ▼ held a public roundtable in November 2015 to provide stakeholders with another opportunity to provide input to the review and comment on the draft framework.

We received 10 submissions on the Discussion Paper. We considered all the comments made in submissions, during targeted consultations and at the roundtable before we finalised our framework and recommendations.

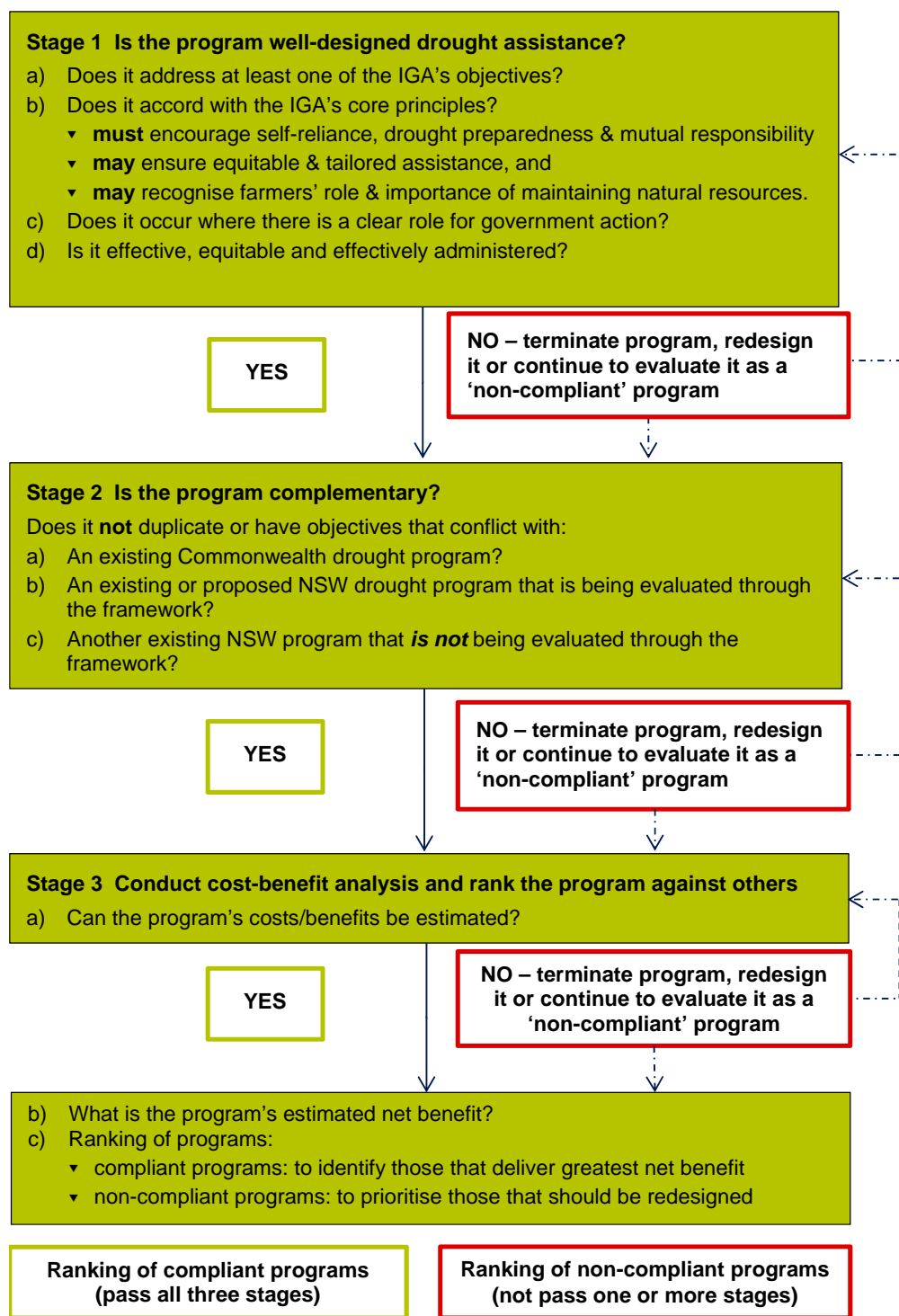
3 | Overview of recommended framework

Our recommended framework for evaluating existing and proposed drought assistance programs in NSW is designed to identify the set of programs that accords with the IGA **and** delivers the greatest net benefit for the available funding. The framework involves three stages:

1. Assessing whether the program complies with the criteria for well-designed drought assistance.
2. Assessing whether the program is complementary with other drought programs.
3. Conducting cost-benefit analysis and ranking the program's net benefit against other existing and proposed NSW drought assistance programs.

Figure 3.1 below provides an overview of the framework. The sections that follow discuss how it differs from the draft framework outlined in our Discussion Paper, and how we see the framework being used. Chapters 4 to 6 discuss each stage and its application in detail.

Figure 3.1 Recommended framework for evaluating NSW drought assistance programs



3.1 Changes to the framework since the Discussion Paper

In submissions and at our roundtable discussion, stakeholders expressed broad support for the draft framework in our Discussion Paper.¹⁷ In general, they considered it was conceptually sound and provided a logical approach to evaluating programs. Some also made suggestions for clarifying the framework. Others discussed changes to ensure the framework can accommodate a wide range of drought programs, and to the way programs progressed through the three stages.

3.1.1 Accommodating a wide range of programs

Stakeholders commented that the framework needs to be sufficiently flexible to accommodate the wide range of drought programs that are offered before, during and after drought.¹⁸ For example, the NSW Farmers' Association (NSW Farmers) noted that these programs may involve:

...direct measures that are targeted explicitly at farms...as well as broader, more indirect support measures (eg, social welfare, health and community support).¹⁹

In response to this feedback, we have sought to broaden the framework's scope where appropriate. However, ultimately the Government will determine which suite of programs will be subject to the framework.

3.1.2 Progressing through the framework

In the draft framework, programs could not progress to the next stage until they were assessed to comply with the current stage. Several stakeholders raised concerns with this, noting that it could result in agencies redesigning a program to comply with a stage, and then discovering that further elements of the program needed to be redesigned to comply with subsequent stages of the framework. They suggested that if non-compliant programs could progress through the entire framework it would provide agencies with a more comprehensive assessment of their drought programs. In particular, it would

¹⁷ Rural Assistance Authority, Public Forum, Transcript, 24 November 2015, p 7; Local Land Services Chair of Chairs, Public Forum, Transcript, 24 November 2015, p 7; Rural Financial Counselling Service - Central West, Public Forum, Transcript, 24 November 2015, p 7; G Goucher, Public Forum, Transcript, 24 November 2015, p 8; personal communication, telephone conversation between North West Local Land Services and IPART, 13 November 2015; personal communication, meeting between Regional Assistance Advisory Committee and IPART, 10 November 2015.

¹⁸ NSW Irrigators' Council submission to IPART, December 2015, p 1; personal communication, meeting between Country Women's Association and IPART, 19 November 2015.

¹⁹ The NSW Farmers' Association submission to IPART, December 2015, p 5.

give them a better understanding of what elements of their programs may need to be redesigned at each stage of the framework to become compliant.²⁰

In response to this feedback, we changed the way programs progress through the framework. At each stage of the recommended framework, an assessment is made as to whether the program complies with that stage. If 'Yes', the program progresses to the next stage as a 'compliant program'. If 'No', the program:

- ▼ is terminated
- ▼ is redesigned to comply with the current stage (and so progresses to the next stage of the framework as a compliant program), or
- ▼ continues to be evaluated through the framework as a 'non-compliant' program.

After progressing through the three stages, compliant and non-compliant programs are ranked separately. The ranking of compliant programs can then be used to determine the package of programs that generates the greatest net benefit within a given budget constraint.²¹

The ranking of non-compliant programs can be used to help agencies prioritise which programs should be targeted for redesign to become compliant, and which should be terminated. Non-compliant programs should be redesigned to become compliant **before** being considered for implementation, because such redesign will improve their likelihood of achieving greater overall benefits.

Recommendation

- 4 That the NSW Government apply our evaluation framework to review its drought programs and only fund programs that:
 - comply with the framework
 - have benefits that exceed costs, and
 - generate the greatest net benefit within the budget constraint.

²⁰ The NSW Farmers' Association, Public Forum, Transcript, 24 November 2015, p 12; Rural Assistance Authority, Public Forum, Transcript, 24 November 2015, p 7; Local Land Services Chair of Chairs, Public Forum, Transcript, 24 November 2015, p 7; Rural Financial Counselling Service - Central West, Public Forum, Transcript, 24 November 2015, p 7; personal communication, meeting between Department of Premier and Cabinet and IPART, 11 November 2015.

²¹ The *Intergovernmental Agreement on National Drought Program Reform* also notes drought programs should only be pursued where they deliver a net public benefit (*Intergovernmental Agreement on National Drought Program Reform 2013, Attachment B, Principle b, p 8*).

3.2 How we see the framework being used

We consider that all NSW drought programs could be reviewed using the recommended framework. Adopting this consistent approach would help to identify the programs, both proposed and existing, that generate the greatest net benefit to the community.

After this process is completed, future programs could be assessed against the framework as they are developed. This will help to identify whether they duplicate or conflict with existing programs.

In addition, the programs that are implemented should be reviewed every three to five years, to ensure they are still effective, complementary and well-targeted. A significant change in Commonwealth drought programs should also trigger a review of NSW programs using the framework.²²

²² This point was noted by the Rural Industries Research and Development Corporation, personal communication in a meeting with IPART on 23 November 2015.

4 Stage 1: Assess compliance with criteria for well-designed drought assistance

Stage 1 of the recommended framework assesses whether the program being evaluated complies with the criteria for well-designed drought assistance under the IGA. This involves three steps, which are to establish whether the program:

- ▼ addresses at least one of the IGA's objectives and accords with the IGA's core principles
- ▼ occurs where there is a clear role for government action, and
- ▼ is well designed.

Each of these steps is explained in detail below.

4.1 Step 1 – Does the program address the objectives and accord with the principles of the IGA?

Step 1 establishes whether the program addresses one of the IGA's five objectives, and accords with three core IGA principles. The IGA objectives are to:

- ▼ Assist farm families and primary producers to adapt to and prepare for the impacts of increased climate variability.
- ▼ Encourage farm families and primary producers to adopt self-reliant approaches to manage their business risks.
- ▼ Ensure that farm families in hardship have access to a household support payment that recognises the special circumstances of farmers.
- ▼ Ensure appropriate social support services are accessible to farm families.
- ▼ Provide a framework for jurisdictions' responses to needs during periods of drought.

At our roundtable discussion, the Rural Industries Research and Development Corporation sought clarification of the scope of these objectives, in particular whether programs targeted at farm communities would be non-compliant.²³ While the IGA's objectives refer specifically to assistance to *farm families* and *primary producers*, we do not consider they exclude assistance to *farming*

²³ Rural Industries Research and Development Corporation, Public Forum, Transcript, 24 November 2015, p 7.

communities more broadly.²⁴ Further, several programs that state governments have implemented under the auspices of the IGA provide assistance to farming communities.²⁵

As a result, our framework does not limit drought programs to those that provide assistance to farm families or primary producers. Drought programs that target farming communities could comply with this step, provided they address one of the IGA objectives outlined above.

The IGA sets out multiple principles,²⁶ but for this step we have distilled these into three core principles that specifically relate to drought assistance programs:

1. Encouraging self-reliance, drought preparedness and mutual responsibility.
2. Providing equitable and tailored assistance.
3. Recognising the role of farmers and the importance of maintaining natural resources.

NSW Farmers expressed support for IPART summarising the IGA principles in this way.²⁷

In our framework, programs must meet Principle 1 (encouraging self-reliance, drought preparedness and mutual responsibility). Some stakeholders considered the framework should not prioritise Principle 1 over the other principles. NSW Farmers thought the framework should acknowledge the tension between conflicting principles, but not then resolve the issue by prioritising one principle over others.²⁸

However, our analysis – and historical developments in government drought policy – suggests it is important for the framework to give priority to Principle 1. Australian drought policy has emphasised self-reliance for over 20 years (see Appendix C). Government reviews of drought policy have also consistently supported the fundamental importance of promoting self-reliance, preparedness

²⁴ Specifically, the IGA states it will be consistent with the principles for reform agreed by the Standing Council on Primary Industries. Among other things, these principles state: “governments should focus on addressing the specific needs of farming families, farming businesses and farming communities.” (*Intergovernmental Agreement on National Drought Program Reform 2013*, Attachment A, Principle 1, p 7).

²⁵ For example, the NSW Government’s Rural Resilience Program provides support services to farming communities (www.dpi.nsw.gov.au/climate-and-emergencies/droughthub/wellbeing, accessed 7 December 2015).

²⁶ The IGA contains two separate sets of principles to apply when developing a program. Which set is relevant depends on whether the program is classified as an ‘in drought’ program or another type of program relevant to the IGA’s objectives. There is a large degree of commonality between the sets of principles. Stage 1 of the framework focusses on three core principles within the IGA framework.

²⁷ The NSW Farmers’ Association, Public Forum, Transcript, 24 November 2015, p 5.

²⁸ The NSW Farmers’ Association, Public Forum, Transcript, 24 November 2015, p 5.

and mutual responsibility.²⁹ In addition, undesirable incentives may arise if programs are not structured to encourage self-reliance and preparedness. For example, farm businesses may adopt less self-reliant strategies before droughts in the belief governments will help maintain them during droughts.³⁰

It is preferable for programs to meet all three IGA Principles. However, a program may still pass this step of the framework if it only meets Principle 1.

4.1.1 Principle 1 – Encouraging self-reliance, drought preparedness and mutual responsibility

By ‘self-reliance’ we mean farming businesses, families and communities should have primary responsibility for managing the risks and impacts of drought on them, since drought is a natural characteristic of Australia’s variable climate.

By ‘drought preparedness’, we mean farming businesses, families and communities should develop strategies to enable them to prepare for, manage and recover from drought.

By ‘mutual responsibility’, we mean assistance measures should be dependent upon recipients taking actions to improve their circumstances.

In response to our Discussion Paper, some stakeholders noted that ‘self-reliance’ and ‘drought preparedness’ can mean different things across farming businesses, and so are difficult concepts to measure.³¹ Others requested that we further define these concepts in the framework,³² for example, by outlining a way to benchmark current levels of self-reliance or drought preparedness.³³

However, as the framework potentially needs to accommodate a wide range of drought programs, we prefer to maintain ‘high-level’ definitions of these concepts. In our view, this provides guidance to policy makers, while still affording them the scope to innovate and develop programs that comply with these concepts in different ways.

²⁹ See for example, Drought Policy Review Expert Social Panel, *It’s About People: Changing Perspective. A Report to Government by an Expert Social Panel on Dryness*, Report to the Minister for Agriculture, Fisheries and Forestry, Canberra, September 2008, recommendation 6, p 20; Keogh, M., “Editorial”, Volume 3, *Farm Policy Journal*, 2006, p iv; Productivity Commission, *Government Drought Support*, Final Report, 2009, Terms of Reference, p IV.

³⁰ Productivity Commission, *Drought Report*, 2009, p 344.

³¹ T Norton submission to IPART, December 2015.

³² Personal communication, meeting between Country Women’s Association and IPART, 19 November 2015.

³³ The NSW Farmers’ Association submission to IPART, December 2015, p 10.

Depending on the type of program being evaluated, Principle 1 asks whether it:

- ▼ encourages good farm business decision making by:
 - basing support for farm businesses on a willingness by those farms to prepare for drought and climate change,³⁴ or
 - facilitating efficient adjustments in the agricultural sector³⁵ (eg, exits, amalgamations)
- ▼ supports farming communities to prepare for drought and enhance their long-term sustainability and resilience³⁶
- ▼ avoids positioning government as the business 'lender of last resort'³⁷
- ▼ overcomes impediments to farmers adopting risk management strategies
- ▼ offers once-off or time-limited assistance to farm businesses, families or communities, to discourage dependency on government assistance,³⁸ and
- ▼ includes eligibility tests for relief that take account of the efforts of farm businesses, families or communities towards self-reliance.

One example of the application of this principle would be to make drought assistance to farm businesses contingent on their drought preparedness efforts. Programs should not benefit farm businesses that do not take prudent preparatory steps, or penalise those that do prepare. Strategies to minimise the risk of drought include building financial reserves, diversifying income streams (eg, earning off-farm income),^{39,40} insuring against drought, and having readily available access to credit.

³⁴ *Intergovernmental Agreement on National Drought Program Reform 2013*, Attachment A, Principle 6, p 7.

³⁵ *Intergovernmental Agreement on National Drought Program Reform 2013*, Attachment B, Principle d, 8.

³⁶ *Intergovernmental Agreement on National Drought Program Reform 2013*, Attachment A, Principle 9, p 7.

³⁷ *Intergovernmental Agreement on National Drought Program Reform 2013*, Attachment B, Principle e, p 8.

³⁸ The Productivity Commission noted that: "...the longer a farmer is receiving government assistance, the less capacity and/or motivation might be to take action which would lead the farm or household to become self-reliant" (Productivity Commission, *Drought Report*, 2009, p 132).

³⁹ NSW Farmers noted it may be difficult for farmers to earn off-farm income (eg, if they are remotely located from job opportunities): The NSW Farmers' Association, submission to IPART, December 2015, p 7.

⁴⁰ Productivity Commission, *Drought Report*, 2009, p 39.

4.1.2 Principle 2 – Providing equitable and tailored assistance

By ‘equitable’, we mean the program treats people in similar circumstances similarly.⁴¹ By ‘tailored’, we mean the program targets the specific needs of the individuals or group it is seeking to assist.⁴²

For a program to provide equitable and tailored assistance, it should not use blanket eligibility criteria. The IGA states ‘lines on maps’ should not be used to determine eligibility for drought assistance.⁴³ Several stakeholders concurred with this sentiment. They considered it inequitable having assistance based on the weather information for a particular region, rather than an assessment of the actual needs of recipients in that region.

In contrast, the Bureau of Meteorology (BOM) put the view that a region’s weather information should be a factor in determining eligibility for drought assistance. Further, eligibility for some current programs is based on weather information such as rainfall deficiency reports.⁴⁴ As a result, it may be difficult to completely avoid drawing ‘lines on maps’ when designing drought programs.⁴⁵

In our view, it is preferable to have specific, objective eligibility criteria for drought programs. However, we agree with BOM that it may be difficult to completely avoid using ‘lines on maps’ for certain programs, given the use of spatially-based weather information to identify areas affected by drought. These programs should be supplemented with objective criteria to determine access to assistance.

For example, the Government may develop a program for primary producers in areas which have experienced ‘moderate drought’ conditions (as defined within the NSW Drought Framework). As a result, ‘lines on maps’ may be used to determine initial eligibility for the program. However, this alone should not be sufficient to access it. Additional eligibility criteria would be required, such as evidence of drought preparedness (eg, destocking, increasing fodder storage).

⁴¹ Adapted from Productivity Commission, *Drought Report*, 2009, p 217.

⁴² *Intergovernmental Agreement on National Drought Program Reform 2013*, Attachment A, Principle 1, p 7.

⁴³ *Intergovernmental Agreement on National Drought Program Reform 2013*, Attachment A, Principle 1, p 7. ‘Lines on maps’ refers to the operation of Exceptional Circumstances declarations. Defining the boundaries of drought declared areas leads to lines being placed on maps, making a distinction between those who can and cannot receive assistance (Productivity Commission, *Drought Report*, 2009, p 118).

⁴⁴ For example, refer to the eligibility criteria for the Drought Concessional Loans program (<http://www.raa.nsw.gov.au/assistance/drought-concessional-loans>, accessed 7 December 2015).

⁴⁵ Bureau of Meteorology, Public Forum, Transcript, 24 November 2015, p 9.

4.1.3 Principle 3 – Recognising the role of farmers and maintaining natural resources

Farming plays a key role in Australia's economy. Further, farmers play an important role in maintaining Australia's natural resource base: its livestock, land, water and vegetation.⁴⁶

Depending on the type of program, this principle asks whether it:

- ▼ recognises the role of farmers in food production, natural resource management and maintaining rural communities, and
- ▼ recognises the importance of maintaining the natural resource base.

Box 4.1 illustrates how current drought programs of different types might be assessed against the three core IGA principles.

⁴⁶ *Intergovernmental Agreement on National Drought Program Reform 2013, Attachment A, Principles 7 and 8, p 7.*

Box 4.1 Applying the framework – Step 1 of Stage 1 – according with core IGA principles

Income support programs

An income support program for farm families would likely comply with Principle 1 (encourages self-reliance, drought preparedness and mutual responsibility) if it includes features such as time limits on the income support (so that it is only a temporary measure), and a requirement for recipients to take action to improve their financial position.

It would likely be consistent with Principle 2 (ensures equitable and tailored assistance) if it provides support based on robust eligibility criteria (eg, financial need). It is also more likely to accord with Principle 2 if these criteria are similar to the eligibility criteria for income support provided to the wider community.

Information programs

An information program is likely to comply with these principles if it can be used to make farmers aware of changing conditions, which encourages and assists with drought preparedness (Principle 1). For example, the program may include seasonal condition reports (which monitor climatic conditions) and building weather stations (which generate rainfall and temperature records).

Concessional loan programs

These programs provide government loans at a concessional rate of interest (ie, below commercial lending rates). Such a program may undermine self-reliance (Principle 1) if it is only available to farm businesses that are financially impacted by drought. It may relatively disadvantage farmers who make prudent preparations for drought (eg, by keeping operating costs low, investing in drought-proofing infrastructure, and diversifying with off-farm income).

The program would be more likely to comply with Principle 1 if it is well targeted. For example, farm businesses might only be eligible for assistance if they have taken reasonable steps to prepare for drought, will use the loan to improve their long-term commercial viability, and can demonstrate their ability to repay the loan.

Transport subsidy programs

Transport subsidy programs typically provide assistance to farmers in drought to move their livestock or obtain fodder. If a program encourages farmers to keep higher stock levels during drought, it recognises the importance of maintaining the natural resource base (ie, livestock) in accordance with Principle 3. However, it may not encourage farmers to adopt self-reliant strategies, such as de-stocking when necessary, in accordance with Principle 1, and so may not pass this step.

4.2 Step 2 – Does the program occur where there is a clear role for government action?

The second step in Stage 1 is to assess whether the program occurs where there is a clear role for government action. To comply with this step, it needs to be established that:

- ▼ the program addresses a market failure or specific policy objective, and
- ▼ implementing the program is expected to improve the long-term outcomes relative to no government action.

4.2.1 Does the program address a market failure or specific policy objective?

Government action (including drought assistance programs) is often justified on the grounds that, in the absence of action, the 'market' would fail to operate efficiently. Several stakeholders agreed with this justification.

Other stakeholders suggested an alternative rationale for government action. According to this rationale, there is a limit to how well farmers can prepare for lengthy droughts. At some point – for example, after three years of continuous drought – government assistance should automatically be provided to mitigate the impacts of drought.⁴⁷

We consider that drought programs should only be developed in response to a market failure or to target a clearly articulated government policy objective. This approach is consistent with best-practice policy design principles.⁴⁸ It is also consistent with the IGA principles.⁴⁹

In this respect, the periodic recurrence of drought does not of itself constitute a market failure. Rather, market failures could include:

- ▼ the inability of innovators to fully capture the benefits of research and development that generates community wide spill-over effects⁵⁰
- ▼ incomplete or asymmetric information (eg, sufficient information is not available to improve the adoption of risk management strategies or new technologies)
- ▼ activities that impose costs on others who are not party to a contract or transaction

⁴⁷ Personal communication, meeting between The NSW Farmers' Association and IPART, 12 November 2015; personal communication, meeting between Country Women's Association and IPART, 19 November 2015.

⁴⁸ NSW Government, *Guide to Better Regulation*, November 2009, p 11.

⁴⁹ *Intergovernmental Agreement on National Drought Program Reform 2013*, Attachment B, p 8.

⁵⁰ This leads to market failure because individuals or businesses do not garner all the benefits of their research and development (ie, these benefits 'spillover' to others), resulting in less than socially desirable levels of research effort (Productivity Commission, *Drought Report*, 2009, p 183).

- ▼ policy and regulatory failure (eg, government policies that have impeded farmers from becoming self-reliant for droughts)
- ▼ an absence of well-developed insurance markets for drought,⁵¹ and
- ▼ an absence of well-developed or effectively functioning credit markets for farmers.

Government action may also be necessary to achieve a specific policy objective, such as a social or environmental goal that would not be achieved by the market.⁵² However, such specific policy objectives should be drought related. For example, a program seeking to achieve regional development objectives would be unlikely to pass this step.⁵³

The sections below discuss the justification for government action and potential market failures with farm businesses.

Justification for government action

There should be a strong case to justify government assistance to any business, including farm businesses. This is because:

- ▼ farmers operate for-profit businesses in competitive markets⁵⁴
- ▼ the costs of assistance programs are ultimately borne by other members of society, and
- ▼ economic efficiency principles suggest governments should not intervene if doing so distorts prices and outputs in normal functioning markets.

NSW Farmers note that the presumption against government assistance for farm businesses is consistent with the intent of the IGA and its aim to foster greater self-reliance and drought preparedness.⁵⁵

⁵¹ See Productivity Commission, *Government Drought Support*, Final Report, 2009, p 126. Submissions to our review by insurers suggested current government drought subsidy programs may be impeding the efficient development of drought insurance products.

⁵² NSW Government, *Guide to Better Regulation*, November 2009, p 11.

⁵³ We note the Productivity Commission's comments in this regard given the changing patterns of settlement in regional Australia: "Some participants proposed that a rationale for drought assistance is that the injection of funds into regional areas helps communities retain a critical mass of population and preserve their social fabric." "Against this [long-term economic and social forces] backdrop, the efficacy of using temporary drought relief as a regional development tool is most unlikely. If governments are committed to supporting small towns per se, then more enduring regional development initiatives and policy consideration would be needed." (See Productivity Commission, *Drought Report*, 2009, pp XXXVII - XXXVIII.)

⁵⁴ These businesses compete with other sectors of the economy for scarce labour and capital inputs.

⁵⁵ The NSW Farmers' Association submission to IPART, December 2015, p 7.

The most directly relevant markets for farm businesses are those for agricultural produce, material inputs to agricultural production, transport and credit. All of these markets are volatile to some extent, but the mere existence of volatility does not constitute market failure, even if it is extreme at times. However, the absence of risk management products to mitigate this volatility may constitute a market failure, as discussed below.

Absence of drought insurance markets

Farm businesses experience a higher level of revenue volatility than businesses in most other sectors of the Australian economy.⁵⁶ Drought insurance products could play an important role in helping farm businesses manage this revenue risk. However, several reports have found that markets for drought insurance have not developed so far in Australia. Reasons given include:

- ▼ **Systemic risk:** there are limited possibilities to offset the drought risk in one area through pooling risks with producers in another. That is, many farmers in a region go into drought at the same time.⁵⁷
- ▼ **Crowding out:** government assistance has crowded out the demand for and therefore development of commercial risk management products.⁵⁸
- ▼ **Adverse selection:** low-risk farmers are less likely to voluntarily take up insurance, while high-risk farmers are more likely to do so, driving up insurance costs to all, and thereby either causing low take-up or leading insurers to refuse coverage.
- ▼ **Moral hazard:** farmers influence the performance of their operations; insurers therefore need to determine whether a loss is genuinely caused by drought or sub-optimal management practices.⁵⁹
- ▼ **Incomplete information:** lack of access to historical data on farm production and weather records may impede the development of tailored insurance products that appropriately reflect risk. Incomplete information can also exacerbate problems with adverse selection and moral hazard.

⁵⁶ Annual revenue volatility in the farm sector is the highest of any sector and more than double the 'average' for the entire economy (Australian Farm Institute, *Farm Institute Insights*, February Quarter 2015, p 4).

⁵⁷ Ha, A., Stoneham, G., Harris, J., Fisher, B. and Strappazon, L. "Squeaky Wheel Gets the Oil: Incentives, Information and Drought Policy", Volume 40, *The Australian Economic Review*, 2007, p 132.

⁵⁸ Ibid. Insurance Australia Group also noted that financial assistance given by governments in response to drought may deter some farmers from taking up insurance products such as multi-peril crop insurance (Insurance Australia Group, submission to IPART, December 2015).

⁵⁹ Hatt, M., Heyhoe, E., & Whittle, L, *Options for insuring Australian agriculture*, ABARES report to client prepared for the Climate Change Division, Department of Agriculture, Fisheries and Forestry, Canberra, September 2012, p 5.

Some stakeholders considered government subsidies for insurance products, such as multi-peril crop insurance, would increase the use of these products by farmers,⁶⁰ and also achieve regional development objectives.⁶¹ These stakeholders suggested drought insurance subsidies should be considered in the same way as other government drought assistance programs – as one of the tools available to government to help mitigate the impacts of drought.

In contrast, recent ABARES research on methods to deepen drought insurance markets concluded there was no strong economic case for government subsidising premiums or underwriting risk.⁶² However, it found government may have a role in providing relevant information or supporting research and development related to drought insurance.⁶³

Effectively functioning credit markets for farmers in times of drought

Banks have well-developed rural lending programs. In its submission to the Productivity Commission's 2009 review of government drought support, the Australian Bankers Association concluded:

There is no compelling case that there is a failure of rural credit financial markets that warrants Government intervention in the provision of financial services to agribusiness.⁶⁴

The available evidence suggests farming businesses that are profitable over the long term should be able to efficiently access credit markets in times of severe drought. Hence, the potential for government intervention to improve on outcomes might be limited.

4.2.2 Is implementing the program expected to improve the long-term outcomes relative to no government action?

Government action is not warranted in every instance of market failure. In some cases, the private sector can find alternative solutions.⁶⁵ Governments should only undertake drought programs where they are expected to improve outcomes compared to what would occur in the absence of such programs.

Box 4.2 illustrates how current drought programs of different types might be assessed against Step 2 of Stage 1.

⁶⁰ Insurance Australia Group submission to IPART, December 2015.

⁶¹ The NSW Farmers' Association submission to IPART, December 2015, p 8.

⁶² Hatt, M., Heyhoe, E., & Whittle, L, *Options for insuring Australian agriculture*, ABARES report to client prepared for the Climate Change Division, Department of Agriculture, Fisheries and Forestry, Canberra, September 2012.

⁶³ Ibid, p 28.

⁶⁴ Productivity Commission, *Drought Report*, 2009, p 343.

⁶⁵ NSW Government, *Guide to Better Regulation*, November 2009, p 29.

Box 4.2 Applying the framework – Step 2 of Stage 1 – occurring where there is a clear role for government action

Income support programs

Income support provided to farm families in times of acute hardship may be used to address a specific policy objective (eg, improving equity).

Information programs

Information programs can be used to address areas of incomplete information. As an example, providing more reliable and location-specific seasonal forecasts could assist farmers better prepare for drought.

Information programs may also assist the development of drought insurance markets and deeper credit markets. For example, better information on location-specific yield levels or weather station data could overcome some of the information asymmetries – such as adverse selection – which currently exists and inhibits these markets.

Concessional loan programs

The rationale for government intervening in credit markets by offering this type of program is unclear. Commercially viable farm businesses may be able to obtain finance from private sector rural lenders, even in drought conditions. If banks are unwilling to lend to a farm business, it may be a rational response to managing credit risks. As such, providing concessional loans may result in the government acting as ‘lender of last resort’, and society not earning a sufficient return from the loan given the risks

In addition, offering this type of financial assistance has a hidden cost as it could actually perpetuate market failure. It can discourage the development of drought insurance markets and credit markets by crowding out demand for commercial risk management products and bank credit.

Transport subsidy programs

There does not appear to be a failure in the agricultural transport market to justify general transport subsidy programs. These subsidies may even distort markets (eg, by increasing fodder prices).

If the government pursues such programs in order to achieve a specific policy objective (eg, promoting animal welfare), this should be clearly outlined as the rationale for the program.

4.3 Step 3 – Is the program effective, efficient, equitable and effectively administered?

This step involves examining whether the program conforms with the principles for best-practice policy design. That is, the program should be:

- ▼ effective and efficient
- ▼ equitable and appropriately targeted to relevant individuals or groups in need, and
- ▼ effectively administered.

In addition, it should be designed to collect data that will enable it to be regularly reviewed.

4.3.1 Effective and efficient

Assessing the effectiveness and efficiency of a program involves evaluating:

- ▼ how well it achieves its intended objectives (effectiveness), and
- ▼ whether it achieves those objectives in a least-cost manner (efficiency).

To facilitate this assessment, the program should have clear and meaningful indicators of effectiveness (ie, expected outcomes). In addition, the program's costs to government, expected outcomes and probability of achieving them, should be quantifiable or able to be estimated. If they are not, it suggests the program is not sufficiently well-designed to be successfully implemented or evaluated.⁶⁶

To improve the efficiency and co-ordination of services, the program should enable links with other programs and between government and non-government service providers (where relevant).⁶⁷ For example, it should use existing agencies to implement a program if they offer the most convenient connection point for recipients.

⁶⁶ If this information is not available it may not be possible to evaluate it against alternative programs in the cost-benefit analysis stage (Stage 3).

⁶⁷ *Intergovernmental Agreement on National Drought Program Reform 2013*, Attachment B, Principle F, p 8.

4.3.2 Equitable and targeted

Assessing whether a program is equitable and well-targeted assistance involves determining whether it allocates resources based on identified need.⁶⁸ This includes considering whether resources are allocated fairly:

- ▼ within the farming community (ie, between farmers in different geographic areas), and
- ▼ between farming and other affected communities across the State more generally.

4.3.3 Effectively administered

Several stakeholders thought the framework should examine whether the program is effectively administered.⁶⁹ NSW Farmers' Association noted that even the best-designed programs could be frustrated by poor implementation.⁷⁰

We agree with this view. The framework now explicitly assesses whether the administrative arrangements for the program are transparent, consistently applied and minimise transaction costs for the recipient and administrative agency. These transaction costs include non-monetary costs like travel to administrative agencies and the time taken to complete an application form.

Box 4.3 illustrates how the framework could be used to assess different types of programs at this step.

4.3.4 Data collection to allow regular review

Even if a program passes Step 3, it should be subject to regular reviews. This is important to ensure it continues to be effective, efficient, equitable and appropriately targeted, and to ensure there are no unintended consequences from its operation. Therefore, well-designed programs collect relevant performance information (eg, on costs, achievement against indicators) that enable them to be monitored and periodically reviewed.⁷¹ For more information and our recommendations on data collection, see Chapter 7.

⁶⁸ *Intergovernmental Agreement on National Drought Program Reform 2013*, Attachment B, Principle c, p 8.

⁶⁹ Personal communication, meeting between Country Womens' Association and IPART, 19 November 2015; G Goucher, Public Forum, Transcript, 24 November 2015, p 8; Rural Industries Research and Development Corporation, Public Forum, Transcript, 24 November 2015, p 10.

⁷⁰ The NSW Farmers' Association, submission to IPART, December 2015, p 8.

⁷¹ This is consistent with *Intergovernmental Agreement on National Drought Program Reform 2013*, Attachment B, Principle h, p 8.

Box 4.3 Applying the framework – Step 3 of Stage 1 – ensuring the program is effective, efficient, equitable and effectively administered

Income support programs

Incomes support programs would likely pass Step 3 of Stage 1 where they include time limits on assistance and provide farm families with similar access to these type of payments as others in the community.

Concessional loan programs

Concessional loans are more likely to be effective (and so pass Step 3) where they fund activities that make farm businesses more self-reliant. This is less likely to occur if farm businesses can use concessional loans to pay their operating expenses or refinance existing debt.

Having rigorous eligibility criteria (eg, assessing an applicant's ability to repay the loan) may increase a program's effectiveness. However, it would increase the cost of the application process. The program may also be costly to administer. For example, significant time and enforcement costs may arise if recipients do not make repayments on time. These costs may undermine the program's efficiency.

5 Stage 2: Assess whether the program is complementary with other drought programs

The second stage of the recommended framework assesses whether the program complies with the criteria for complementary drought assistance under the IGA. This involves three steps to establish whether the program duplicates or conflicts with:

- ▼ a Commonwealth drought assistance program, or
- ▼ an existing or proposed NSW drought assistance program that is also being evaluated through the framework, or
- ▼ another existing NSW program that **is not** being evaluated through the framework.

As an example of programs with conflicting objectives, the Productivity Commission found that the effectiveness of programs to facilitate farm exits was limited by the business and household assistance programs, which supported farmers to stay on their farms.⁷²

5.1 Step 1 – Is the program complementary with Commonwealth drought programs?

The framework assumes Commonwealth programs are fixed measures for providing drought assistance, consistent with the Terms of Reference. Governments are adopting a co-ordinated approach to assisting farming families, businesses and communities. Hence, NSW drought assistance programs must be complementary with existing Commonwealth programs to comply with the framework.

Some stakeholders noted Commonwealth programs may need to be reviewed or may not be well-coordinated.⁷³ However, it is beyond the scope of this review to consider whether these programs are working effectively. Nevertheless, our framework could be used by the Commonwealth Government to review its programs.

⁷² Productivity Commission, *Drought Report*, 2009, p 156.

⁷³ Rural Assistance Authority, Public Forum, Transcript, 24 November 2015, p 13; personal communication, meeting between Rural Industries Research and Development Corporation, 23 November 2015.

5.2 Step 2 – Is the program complementary with other existing or proposed NSW drought assistance programs?

NSW drought assistance programs must also be complementary with other NSW drought assistance programs. In general, multiple **drought preparedness** programs could be complementary. There are many aspects to drought preparedness, and therefore it is possible that many of these programs could be justified (so long as they do not duplicate effort or address the same aspect of preparedness). For example, district-level weather and climate information programs could co-exist with a taxation farm management deposit scheme and programs that encourage the construction of on-farm or district water infrastructure.

In contrast, **drought relief** programs should generally be few in number and widespread in coverage. That is, each drought relief program should target a different group or outcome, to minimise the risk of duplication or conflicting objectives.

5.3 Step 3 – Is the program complementary with another existing NSW program not being evaluated through the framework?

NSW drought assistance programs should also be complementary with existing NSW programs that are not being evaluated through the framework. For example, these may be programs that are not specifically targeted at drought, but which may have relevant objectives (eg, water infrastructure and environmental programs).

Drought programs that duplicate existing NSW programs, or are inconsistent with them, are not complementary. NSW Farmers commented that if this occurs, the NSW Government should assess all the programs concerned (not just the drought assistance program) to ascertain which one delivers the more targeted, efficient and effective outcome.⁷⁴

We agree with this view, and have adjusted the framework to allow for this to occur. Where a NSW drought program is not complementary with an existing program (and that program is not being evaluated through the framework), the framework now requires the drought program to be either:

- ▼ redesigned to complement the existing program, or
- ▼ terminated, or
- ▼ designated as ‘non-compliant’ with Stage 2 and progressed to Stage 3, or
- ▼ designated as ‘compliant’ with Stage 2, following the redesign or termination of the other NSW program that it duplicated or was in conflict with.

⁷⁴ The NSW Farmers’ Association, submission to IPART, December 2015, p 9.

6 Stage 3: Conduct cost-benefit analysis and rank by net benefit

The final stage of the framework involves estimating and ranking the program's net benefit against that of other existing or proposed NSW drought assistance programs. It includes three steps:

- ▼ identifying whether the program's cost and benefits can be estimated (eg, is the necessary data collected)
- ▼ estimating the costs and benefits and calculating the net benefit, and
- ▼ using the net benefit to rank the program against other programs that have been evaluated.

Under our framework, compliant and non-compliant programs are ranked separately. Ranking the compliant programs enables the Government to determine the set of programs that generate the greatest net benefit for the available funds. The IGA notes drought programs should only be pursued where they deliver a net public benefit.⁷⁵ Ranking the non-compliant programs helps to prioritise the programs to be redesigned and re-evaluated, and identify which should be terminated.

For this stage of the framework:

- ▼ cost-benefit analysis will be used
- ▼ both direct and indirect costs and benefits will be included
- ▼ benefits will be evaluated on a case-by-case basis, and
- ▼ programs can be assessed individually or in combination.

⁷⁵ *Intergovernmental Agreement on National Drought Program Reform 2013, Attachment B, Principle B, p 8.*

6.1 Cost-benefit analysis will be used

For Stage 3 of the framework, a cost-benefit analysis will be used. This approach involves systematically quantifying a program's direct and indirect costs and benefits over the long term, or the economy wide impacts of the policy.⁷⁶ The analysis should refer to 'no intervention' as the base case.

6.2 Both direct and indirect costs and benefits will be included

Cost benefit analysis provides a robust method for quantifying both direct and indirect costs and benefits. It also allows for a program's qualitative impacts to be assessed.

A stakeholder considered that general equilibrium analysis and models should be used to measure the economic welfare gains or losses associated with drought programs. The aim of general equilibrium analysis is to also capture indirect costs and benefits, particularly the 'economy-wide' impacts of a program. Due to their complexity and the potential for data limitations at the regional level⁷⁷, our view is general equilibrium models may not be a practical tool for evaluating most drought programs. Nonetheless, we intend to apply well-known cost-benefit analysis methods to assess the indirect effects of these programs.

Several stakeholders commented on the need to examine social and environmental costs and benefits in addition to the financial costs and benefits (ie, 'triple bottom line' costs and benefits).⁷⁸ We agree, and where possible, data on programs to quantify or estimate these costs and benefits should be sought.

Some also suggested the cost-benefit analysis should also take into account:

- ▼ cost of natural resource degradation and rehabilitation
- ▼ cost of program delivery
- ▼ potential cost of program recipients continually relying on drought programs, and
- ▼ potential market distortions created by a program.

⁷⁶ As outlined by the Federal Government, a cost-benefit analysis involves evaluating the impacts of a proposal: "accounting for all the effects on the community and economy, not just the immediate or direct effects, financial effects or effects on one group" (Department of Prime Minister and Cabinet, *Cost-Benefit Analysis, Guidance Note*, July 2014).

⁷⁷ In its review of the computable general equilibrium (CGE) models commissioned by the Murray-Darling Basin Authority, KPMG noted: "A limitation of CGE models is the level of regional detail. CGE models require information that is detailed across productive activities, for example, trade and investment. However, quality data of this type is not usually available at the regional level." (KPMG, *Review of the MDBA's Socio-Economic Impact Modelling*, November 2011, p 9).

⁷⁸ Personal communication, meeting between The NSW Farmers' Association and IPART, 12 November 2015; personal communication, meeting between Country Women's Association and IPART, 19 November 2015.

Again, these costs should be taken into account and quantified where they are caused by a program.

NSW Farmers commented that other government policies – such as water and native vegetation policies – may reduce the ability of farmers to employ self-reliance and drought preparedness strategies.⁷⁹ These policies may impose costs upon farmers and farming communities, despite not being specifically drought-related. However, the Government typically considers the costs and benefits of such regulation prior to the commencement of legislation; as such, these policies will not be explicitly considered within the framework.

6.3 Benefits will be evaluated on a case-by-case basis

The benefit derived from particular drought programs should be evaluated on a case-by-case basis. For example, the benefits of a program that improves the information available to farmers on district weather forecasts over the next cropping season may be realised through improved decisions about actions, including planting and stock management. These benefits can be quantified.

In comparison, the benefit of a crop insurance program might be that it permits individual farmers to overcome the barrier to investment posed by risk-aversion. It may enable risk-averse farmers to make investment decisions that increase the expected value of their investments. Again, these benefits can be quantified.

6.4 Programs can be assessed individually or in combination

Drought programs can be assessed individually, or in combination where they enhance each other. Assessing programs together may provide a more accurate calculation of net benefits. This will occur where the programs are likely to generate higher returns in combination than individually.

6.5 Equity between government-funded programs will be considered

In Stage 1 of the framework, a program is assessed according to whether it meets the principle of equitable assistance. In that stage, the focus is on whether the program equitably shares the benefits it generates among drought-affected groups. However, it is also important to recognise that governments need to allocate funds between drought-affected groups and other sections of society in an equitable way, since there are many calls on government funds.

⁷⁹ The NSW Farmers' Association, Public Forum, Transcript, 24 November 2015, p 6.

The framework conducts this broader examination of equity in Stage 3, by:

- ▼ Comparing the benefits achieved through drought programs.
- ▼ Comparing the costs of the programs, including the external costs of generating the taxes needed to fund them. These tax raising-related external costs are assumed to be the same across all programs funded from the budget.⁸⁰
- ▼ Only providing funding for programs where benefits exceed costs.

⁸⁰ Most taxes impose a burden on society in excess of the tax itself by changing the behaviour of households and businesses. For example, taxes distort the decisions of consumers by changing their incentives to work, invest or consume. These distortions lead to a loss of consumer welfare. The marginal excess burden is a measure of the social costs resulting from a slight increase in tax to raise additional revenue.

7 Data collection to enable drought programs to be evaluated

As part of our Terms of Reference, we were asked to make recommendations about what data is required to be collected to enable NSW drought programs to be cost-effectively evaluated. After considering stakeholder comments, we are of the view that two types of data need to be collected to enable the evaluation of drought assistance programs in NSW:

- ▼ First, consistent data should be collected and shared between agencies to:
 - identify where and how often applicants are accessing drought assistance programs, and
 - enable a holistic evaluation of the effectiveness of these programs.
- ▼ Second, consistent data should be collected to enable analysis of the actual costs and benefits of each program implemented. The data required will vary according to the type of program.

The sections below discuss each of these data types, and explain how the framework promotes cost-effective program evaluations.

7.1 Data to identify who is accessing drought assistance programs and evaluate the long-term effectiveness of programs

Stakeholder feedback indicates there is currently a lack of available data to identify who is accessing drought assistance programs, and to assess the effectiveness of drought programs. This occurs in part because some programs (such as the Farm Innovation Fund) are newly established, and so are unable to be assessed. However, some stakeholders indicated it is also due to a lack of funding for program administration that results in inadequate data collection and program assessment.⁸¹ Typically, data is only collected from the applicant at the commencement of a program. There is no periodic data collection that could be used to monitor the program's effectiveness, examine its impact upon recipients or quantify its benefits.⁸²

⁸¹ Prof. Daniela Stehlik, Rural Industries Research and Development Corporation, Public Forum, Transcript, 24 November 2015, p 20.

⁸² Mr John Newcombe, Rural Assistance Authority, Public Forum, Transcript, 24 November 2015, p 15.

Many stakeholders suggested there is a need for consistent collection and linking of data across drought programs, and for this to be used to build a broad profile on who is accessing drought assistance. Under such an approach, all programs would collect and share data between agencies on who is accessing programs, the size of the farm, its geographic location, historic income and production records, and the assistance received.⁸³ The database would then be used to assess whether drought assistance is:

- ▼ widely dispersed among different users and uses, or
- ▼ going to the same farmers in the same areas producing the same type of crop or livestock – which could suggest it may be ineffectively supporting inefficient and marginal businesses on poor quality land that are long term unsustainable.

We agree that undertaking this ‘data profiling’ would enable agencies to understand the factors driving overall take-up of drought programs. Our view is data should be shared between agencies to:

- ▼ identify where and how often applicants are accessing multiple programs, and
- ▼ enable a holistic evaluation of the long-term effectiveness of drought programs.

Some stakeholders noted that existing data sets could be used to help assess the effectiveness of some programs.⁸⁴

7.2 Data to enable cost-benefit analysis

Data should be collected to enable analysis of the costs and benefits of each program. The type of data required varies according to the type of program. For example, data to be collected on information programs may be limited to survey data of users. However, data to be collected on loans may focus on what the loan is spent on and the resulting change in productivity from the investment.

Recommendations

- 5 That the Rural Assistance Authority work collaboratively with NSW and Commonwealth government agencies to ensure the sharing of data on all drought programs. Consistent data should be collected across programs to build a broad profile on who is accessing drought assistance, and to enable a holistic assessment of the effectiveness of drought programs.

⁸³ This data sharing between agencies should be in accordance with relevant privacy legislation and government guidelines (eg, NSW Government, *Guidelines for sharing information between government agencies*, <https://www.finance.nsw.gov.au/ict/guidelines-sharing-information-between-government-agencies>, accessed 21 January 2016).

⁸⁴ For example, NSW Famers mentioned the use of GST receipts and the Stubbs report (Stubbs, J. (2010) *Report 4: Relationship Between Community Resilience and Irrigated in the MDB: Social and Economic Impacts of Reduced Irrigation Water, Cotton Catchment Communities CRC: Narrabri*).

- 6 That data for each program administered or funded by NSW Government agencies be collected where cost effective to enable analysis of the costs and benefits of the program and whether it is achieving its objectives. The following information should be collected for each program type:
- **Information programs:** survey data to assess the uptake and value of the information provided, and to link findings to improved decision-making.
 - **Grants:** data on the purpose of the grant, what it was spent on, the resulting benefits, and whether the purpose was achieved.
 - **Loans:** data on the purpose and cost of the loan, the change in productivity from the investment, and repayment rates.
 - **Counselling and social support programs:** survey data from clients to assess satisfaction with these programs.

7.3 Promoting cost-effective program evaluations

The amount of work required to evaluate a program (and therefore the costs of this evaluation) should be proportionate to the size of the program. Our recommended framework includes several parameters to promote cost-effective program evaluations. These include efficiency and equity parameters.

7.3.1 Efficiency parameters

The framework looks at the overall efficient allocation of resources for drought programs – allocative efficiency – in relation to NSW programs only, not Commonwealth programs. That is, the cost-benefit analysis focuses on identifying the package of NSW programs likely to generate the greatest net benefit.

It does not directly assess the costs and benefits of Commonwealth programs. Instead, they are accounted for at Stage 2, which considers whether NSW programs duplicate or conflict with Commonwealth programs.

7.3.2 Equity parameters

The framework adopts a cost-effective approach to examining equity issues between drought-affected groups and other sections of society. It does this by comparing the relative benefits achieved through drought programs, and selecting only those:

- ▼ that provide the highest returns to society through time (within the given budget constraint), and

- ▼ that provide a return that is higher than the social opportunity cost of capital (see Stage 3).⁸⁵

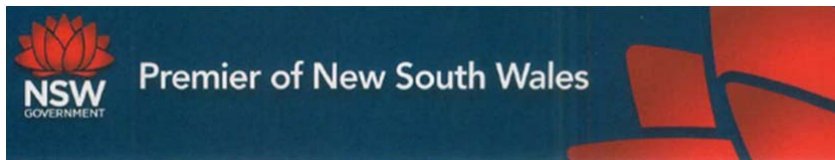
Approaching the comparison in this way simplifies the analysis, avoiding the need to explicitly compare the benefits generated by drought programs with those generated across all government programs and portfolios (eg, health, education, public safety).

⁸⁵ The social opportunity cost of capital would incorporate the costs, including excess burden, of the taxes needed to fund the program(s). Benefit calculations would include social and public benefits from the programs.



Appendices

A Terms of Reference



Reference: A1296396

2 OCT 2015

Dr Peter Boxall
Chairman
Independent Pricing and Regulatory Tribunal
PO Box K35
HAYMARKET POST SHOP NSW 1240

Dear Dr Boxall *Peter*

Pursuant to section 9 of the *Independent Pricing and Regulatory Tribunal Act 1992*, I am referring the following matter to the Tribunal for investigation and report: NSW drought program evaluation framework. The terms of reference are enclosed.

The NSW Government announced a new strategy for drought assistance in February 2015, including the development of an evaluation framework to assess assistance measures.

The Tribunal is requested to submit a formal review report to the Minister for Primary Industries by January 2016.

If your officers wish to discuss this matter they should contact Alanna Linn, Acting Director, Resources and Land Use Branch, Economic Policy Group, Department of Premier and Cabinet on 9228 5520.

Yours sincerely


MIKE BAIRD MP
Premier

NSW Drought Program Evaluation Framework

Terms of Reference

I Michael Bruce Baird, Premier of New South Wales, pursuant to Section 9(1)(b) of the *Independent Pricing and Regulatory Tribunal Act 1992*, request the Independent Pricing and Regulatory Tribunal (IPART) to :

- Develop a cost effective methodology and evaluation framework that will allow for consistent assessments of the effectiveness of NSW's drought assistance measures, including making recommendations about what data needs to be collected to inform evaluation.

1. Context

Australia has a highly variable climate. Crops and livestock can be significantly affected by variable weather patterns, of which drought is a natural feature.

The NSW Government has historically supported farming businesses and rural communities suffering from drought with a range of drought assistance measures:

- From 2002-03 to 2011-12, the NSW Government spent over \$600 million on drought assistance. This included transport subsidies for food and water for stock, along with rebates for fees and provision of community support (including counselling services) for affected areas.
- In February 2013, the NSW Government launched a new Drought Policy and in May 2013 signed the Intergovernmental Agreement on National Drought Program Reform (the IGA).
- Between 19 November 2013 and 7 July 2014 (when the IGA commenced) temporary emergency assistance measures were introduced in response to the recurrence of severe drought. Assistance totalling in excess of \$60 million was provided, with an additional \$20 million allocated to a Farm Innovation Fund to provide loans to assist farmers to implement a range of preparedness strategies.
- Following the Australian Farm Institute's 'Review of the NSW Response to Drought Policy Reforms', the NSW Drought Strategy was announced in February 2015. This review of drought assistance measures forms part of that Strategy.

2. The Task

IPART should develop a framework for assessing NSW drought assistance measures in relation to their:

- complementarity with the Commonwealth's assistance measures, functions and principles under the IGA.
- ensuring that incentives to invest in drought preparedness measures are maintained;
- ability to effectively target relevant individuals or groups in need;
- efficiency, equity and effectiveness (as regards eligibility criteria and measures);
- minimisation of transaction costs; and
- transparent and consistent application.

In the process of developing an evaluation framework IPART will establish what data is required to be collected to ensure the evaluation can be undertaken in a cost effective manner.

This framework should be able to be used to both evaluate drought assistance measures on an individual basis, and to undertake a more holistic review of the total suite of drought assistance measures offered by the NSW Government.

While the current task is to develop an evaluation framework only, it is anticipated that IPART will be asked in early 2016 to apply the framework to a number of new drought measures, including a number of potential Multi-Peril Crop Insurance related measures. IPART will also be asked, within the next 5 years, to apply this framework to evaluate the efficiency and effectiveness of drought programs in NSW, in consultation with stakeholders.

3. Relevant reviews and documentation

In undertaking the review, IPART should note and refer to at least the following:

- the IGA (2013);
- the Australian Farm Institute's 'Review of the NSW Response to Drought Policy Reforms';
- the NSW Drought Strategy (2015);
- the Productivity Commission, *Government Drought Support* (2009);
- Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES), *Options for insuring Australian agriculture* (2012);
- Drought Pilot Review Panel (Mick Keogh et al, Department of Agriculture, Fisheries and Forestry secretariat), *A review of the pilot of drought reform measures in Western Australia* (2011);
- Commonwealth of Australia, *It's About People: Changing Perspectives on Dryness* (2008);
- responses from other jurisdictions in relation to the IGA and broader drought policy; and
- relevant reviews by the NSW Audit Office.

4. Process and timing

To assist the evaluation, the NSW Department of Primary Industries will provide key data. The Evaluation Framework should be completed by January 2016.

The framework will be developed in consultation with the NSW Drought Inter-agency Working Group. IPART should also liaise with relevant Chairs of the Local Land Services regions, the NSW Farmers Association and the Regional Assistance Advisory Committee.

B | NSW Drought Framework



DROUGHT FRAMEWORK

PRINCIPLES

- Drought is an inevitable feature in our landscape, therefore it should be considered in the same light as other risks to farm businesses.
- The NSW Government will maintain a suite of assistance measures and programs to support farmers build their businesses and manage risks, focused on long-term low interest loans, skills and training, animal welfare assistance, information and advisory services, research and development and wellbeing support.
- The NSW Drought Strategy encourages primary producers to plan ahead in normal conditions to prepare and build flexibility to deal with adverse conditions.
- A whole-of-government response to drought has been introduced to ensure coordination of service delivery to the broader rural community.
- The NSW Government is committed to working with industry and stakeholders to enhance farmers' capacity to prepare for and manage droughts, and will continue to monitor whether adjustments to assistance measures and programs are required.
- NSW Government responses to drought will complement the Commonwealth assistance measures, and will be aligned with the Intergovernmental Agreement on Drought Program Reform (the IGA).



Farm Innovation Fund: \$250 million over five years¹.
Rural Financial Counselling Service.
Support the commercial development of the multi-peril insurance industry.



Farm Business Skills Professional Development Program: \$45 million over five years².



\$5 million over five years³ to provide transport assistance for animal welfare and donated fodder within NSW.



\$2.5 million over two years⁴ to work with the Bureau of Meteorology to develop an enhanced network of weather stations across NSW.
Advice through Local Land Services.
Pest and Weed Management.
Monthly seasonal conditions published.
Regional Assistance Advisory Committee.
Farm decision support tools.
DroughtHub.



Ongoing investment in research and development through DPI.
Research and development for drought preparedness with a focus on climatic resilience.



Rural Resilience Program and Rural Support Workers.
Rural Adversity Mental Health Program.
Research projects and other initiatives of the Centre for Rural and Remote Mental Health.

COMMONWEALTH ASSISTANCE

Commonwealth loans
Farm Household Allowance
Farm Management Deposits (FMD)
Taxation measures
Rural Financial Counselling Service
Audit for multi-peril insurance (MPI)
www.agriculture.gov.au

¹ Commenced February 2015
² Commenced November 2015
³ Commenced February 2015
⁴ Commenced November 2015



ESCALATION PROCESS

BOX 1

Has experienced less than 20% of relative growth, relative rainfall, relative soil moisture for each of the last six months which is verified by on ground conditions, assessed by LLS technical reports. For more detail see DroughtHub.

BOX 2

Continue to experience the conditions identified in Box 1 with no period of recovery as identified in Box 4.

BOX 3

Conditions identified in Box 1 extend for a period of more than 24 months with no period of recovery, as identified in Box 4.

BOX 4

Over a period of six months 40% or more of annual rainfall has been received and LLS verify that on ground recovery is evident. For more detail see DroughtHub.



NSW & COMMONWEALTH PROGRAMS & SERVICES

	NORMAL	MILD	MODERATE	SEVERE	RECOVERY
NSW	<ul style="list-style-type: none"> • Farm Innovation Fund • Farm Business Skills Professional Development Program • Transport assistance for animal welfare • Seasonal conditions reports • Advice through Local Land Services • Rural Resilience Program • Rural Adversity Mental Health Program • Mental Health Access Line • Family & Community Services 	<ul style="list-style-type: none"> • Farm Innovation Fund • Farm Business Skills Professional Development Program • Transport assistance for animal welfare • Seasonal conditions reports • Advice through Local Land Services • Rural Resilience Program • Rural Adversity Mental Health Program • Mental Health Access Line • Family & Community Services 	<ul style="list-style-type: none"> • Farm Innovation Fund • Farm Business Skills Professional Development Program • Transport assistance for animal welfare • Transport assistance for donated fodder • Seasonal conditions reports • Advice through Local Land Services • Rural Resilience Program • Rural Support Workers • Rural Adversity Mental Health Program • Mental Health Access Line • Family & Community Services • Emergency Town Water Supplies 	<ul style="list-style-type: none"> • Farm Innovation Fund • Farm Business Skills Professional Development Program • Transport assistance for animal welfare • Transport assistance for donated fodder • Seasonal conditions reports • Advice through Local Land Services • Rural Resilience Program • Rural Support Workers • Rural Adversity Mental Health Program • Mental Health Access Line • Family & Community Services • Emergency Town Water Supplies 	<ul style="list-style-type: none"> • Farm Innovation Fund • Farm Business Skills Professional Development Program • Transport assistance for animal welfare • Transport assistance for donated fodder • Seasonal conditions reports • Advice through Local Land Services • Rural Resilience Program • Rural Support Workers • Rural Adversity Mental Health Program • Mental Health Access Line • Family & Community Services • Emergency Town Water Supplies
NSW & COMMONWEALTH	<ul style="list-style-type: none"> • Rural Financial Counselling Service 	<ul style="list-style-type: none"> • Rural Financial Counselling Service 	<ul style="list-style-type: none"> • Rural Financial Counselling Service 	<ul style="list-style-type: none"> • Rural Financial Counselling Service 	<ul style="list-style-type: none"> • Rural Financial Counselling Service
COMMONWEALTH	<ul style="list-style-type: none"> • Farm Household Allowance 	<ul style="list-style-type: none"> • Farm Household Allowance 	<ul style="list-style-type: none"> • Farm Household Allowance 	<ul style="list-style-type: none"> • Farm Household Allowance • Drought Support Officers • Drought Concessional Loans 	<ul style="list-style-type: none"> • Farm Household Allowance • Drought Support Officers • Drought Concessional Loans • Drought Recovery Concessional Loans

www.droughthub.nsw.gov.au

10879-0-000

C Development of national drought policy

When drought occurs, it can significantly impact primary producers and the agricultural sector more broadly. In response, Commonwealth and state governments provide various forms of assistance.

In the 1970s, severe drought was considered to be a natural disaster.⁸⁶ As a result, Commonwealth and state governments framed policy responses in that context. In the 1980s, these policies were reviewed and the approach changed to recognise that droughts are a natural feature of Australia's highly variable climate rather than an unpredictable natural disaster.⁸⁷

The Commonwealth Government initiated the National Drought Policy (NDP) in 1992 to improve preparedness and self-reliance during drought events. In practice, however, the programs focused primarily on providing direct relief to farm households and businesses where there were Exceptional Circumstances declarations.

Exceptional Circumstances events were defined as rare and severe events outside those that a farmer could normally be expected to manage using responsible farm management strategies.⁸⁸ States and territories applied to the Commonwealth Government for an event to be declared as an Exceptional Circumstance.⁸⁹ In 1999, agriculture ministers agreed a set of criteria to be used when assessing areas for an Exceptional Circumstances declaration. These included the definition of a rare event as one that occurs on average only once in every 20 to 25 years.⁹⁰

⁸⁶ Keogh, M., and Goucher, G., *Review of NSW Response to Drought Policy Reforms*, Research report, Australian Farm Institute, Sydney, November, 2014, p 1.

⁸⁷ Ibid.

⁸⁸ Department of Agriculture, Fisheries and Forestry, *Exceptional Circumstances Information Handbook*, February 2013, p 3.

⁸⁹ Ibid, pp 4-5.

⁹⁰ Ibid, p 3.

C.1 Reforms since 2008

Recent reforms to Australian drought policy began in 2008. These have seen a return in focus to preparedness and self-reliance. In 2008 and 2009, the COAG Primary Industries Ministerial Council agreed to new principles for drought assistance. These were reconfirmed in April 2011:

- ▼ removing Exceptional Circumstances declarations or lines on maps and instead focusing more on the specific needs of farming families, businesses and communities
- ▼ acknowledging that drought is just one of a number of hardships that can adversely affect farmers
- ▼ recognising the importance of farmers as the nation's food producers
- ▼ recognising that welfare assistance should require a degree of mutual responsibility
- ▼ targeting government support to assist business planning and increase resilience
- ▼ exempting farm assets from the assets test for income support welfare
- ▼ recognising the role of farmers in managing natural resources and maintaining rural communities during drought and climate change
- ▼ recognising the importance of building resilience and sustainability against drought.⁹¹

As part of the 2008 national review of drought policy, the COAG Primary Industries Ministerial Council commissioned three reports focused on the climatic, social and economic dimensions of drought. These were:

- ▼ a climatic study of the likely future climate patterns and the exceptional circumstances standard by the Bureau of Meteorology (BOM) and CSIRO (2008)⁹²
- ▼ an assessment by an expert panel of the social impacts of drought (2008),⁹³ and
- ▼ the Productivity Commission review of Government Drought Support (2009).⁹⁴

⁹¹ Keogh, M., Granger, R. and Middleton, S., *Drought Pilot Review Panel: a review of the pilot of drought reform measures in Western Australia*, Canberra, September 2011, p 2.

⁹² Hennessy, K., Fawcett, R., Kirono, D., Mpelasoka, F., Jones, D., Bathols, J., Whetton, P., Stafford Smith, M., Howden, M., Mitchell, C. and Plummer, N., *An assessment of the impact of climate change on the nature and frequency of exceptional climatic events*, Bureau of Meteorology and CSIRO, July 2008.

⁹³ Drought Policy Review Expert Social Panel, *It's About People: Changing Perspective. A Report to Government by an Expert Social Panel on Dryness*, Report to the Minister for Agriculture, Fisheries and Forestry, Canberra, September 2008.

⁹⁴ Productivity Commission, *Drought Report*, 2009.

In addition, a pilot of drought reform measures was jointly conducted by the Commonwealth and Western Australian Governments from July 2010 to June 2012. The measures were directed at helping farmers move from a crisis management approach to a risk management approach. An independent advisory panel reviewed the pilot in 2011.⁹⁵

C.2 Climatic assessment

In 2008, the BOM and CSIRO examined changes in the extent and frequency of exceptionally high temperatures, low rainfall and low soil moisture for seven Australian regions.⁹⁶ The analysis used observed and projected data covering varying periods from 1900 to 2040.

In their report, the BOM and CSIRO:

- ▼ Demonstrated the extent and frequency of exceptionally hot years has been increasing over recent decades and that this trend is expected to continue.
- ▼ Projected increases in the extent and frequency of years with exceptionally low soil moisture.⁹⁷
- ▼ Found there was more variability in the observed trends for exceptionally low rainfall years. However, the mean projections for 2010-2040 indicated that more declarations would be likely covering larger areas in the southern and western parts of Australia.⁹⁸

The BOM and CSIRO concluded:⁹⁹

- ▼ there is an increased risk of severe drought projected over the next 20 to 30 years
- ▼ the current definition of 'Exceptional Circumstances' based on the historical climate record is out of date, and
- ▼ farmers need access to better information about climate change preparedness.

⁹⁵ Keogh, M., Granger, R. and Middleton, S., *Drought Pilot Review Panel: a review of the pilot of drought reform measures in Western Australia*, Canberra, September 2011.

⁹⁶ Hennessy, K., Fawcett, R., Kirono, D., Mpelasoka, F., Jones, D., Bathols, J., Whetton, P., Stafford Smith, M., Howden, M., Mitchell, C. and Plummer, N., *An assessment of the impact of climate change on the nature and frequency of exceptional climatic events*, Bureau of Meteorology and CSIRO, July 2008, p 1.

⁹⁷ Ibid.

⁹⁸ In the southwest of Australia (which incorporates parts of West Australia, South Australia and Victoria), southwest of Western Australia and Victoria/Tasmania regions. Ibid, p 5.

⁹⁹ As cited in Keogh, M., Granger, R. and Middleton, S., *Drought Pilot Review Panel: a review of the pilot of drought reform measures in Western Australia*, Canberra, September 2011, p 9.

C.3 Social assessment

In 2008, an expert panel commissioned by the Commonwealth Government completed its assessment of the social impacts of drought on farm families, rural business and communities.¹⁰⁰ The panel concluded:

- ▼ drought adversely affects the wellbeing of farm families, and there is widespread distress in drought-affected rural communities¹⁰¹
- ▼ too many farm decisions are made under stress
- ▼ policy needs to address the social needs of farm families, rural businesses and communities in ways that do not inhibit the efficiency of agricultural industries
- ▼ the connection between the farm as a place of work, residence and family tradition has important implications for the effectiveness of institutional support
- ▼ improved drought policy must focus on preparing for drought and planning for personal and family well-being, and
- ▼ crisis-framed assistance in times of difficulty should be replaced with early intervention to counteract the worst effects of drought.

C.4 Economic assessment

The Productivity Commission review of Government Drought Support found there was a mismatch between the previous NDP's objectives and its programs. The objectives focussed on self-reliance to prepare for droughts, whilst the policy's programs were mostly emergency payments to farmers in hardship.¹⁰²

The Productivity Commission also found most of the farmers managed without government support. Only 32% of farms which were drought affected received government relief over the six years to 2007-08.¹⁰³ However, the Productivity Commission noted the complexity of farm success underpinning this statistic:

- ▼ In 2005-06, the largest 30% of farms generated 82% of the value of agricultural operations, whereas the smallest 50% generated 7%.
- ▼ As a group, the bottom 25% of broadacre farms had not recorded a profit in any year from 1988-89 to 2007-08.¹⁰⁴

¹⁰⁰ Drought Policy Review Expert Social Panel, *It's About People: Changing Perspective. A Report to Government by an Expert Social Panel on Dryness*, Report to the Minister for Agriculture, Fisheries and Forestry, Canberra, September 2008.

¹⁰¹ The panel found it can be difficult separating the social impacts of drought from long-term trends contributing to the decline in some rural populations.

¹⁰² Productivity Commission, *Drought Report*, 2009, p XXIV.

¹⁰³ *Ibid.*

¹⁰⁴ *Ibid.*

Further, the Productivity Commission noted:

Farm performance is strongly correlated to vulnerability to drought. Apart from local climatic circumstances, how drought affects farming families and farm businesses depends on farm management practices, the degree of income diversification and the store of capital that farmers can draw on – the natural and physical capital of their farm, their financial and human capital and that embodied in their social networks.¹⁰⁵

Box C.1 lists some key findings from the Productivity Commission’s review of drought programs.

¹⁰⁵ Ibid.

Box C.1 Key findings from the Productivity Commission Review of Government Drought Programs

- 1. Declaration of drought.** The Exceptional Circumstances (EC) declaration of a drought was generously interpreted, and there was no transparency in the advice given to government about when a drought commenced triggering relief programs. The Productivity Commission considered government relief should not be triggered by declaration of drought and the EC declaration process should be terminated.
 - 2. Interest subsidies.** Interest subsidies for drought-affected farmers have grown substantially as the scheme's criteria were loosened. The Productivity Commission found unassisted farmers in the same drought areas had better financial performance than those who applied for interest subsidies. The Productivity Commission also found the provision of interest subsidies generated perverse incentives and this program should be terminated.
 - 3. Transaction subsidies.** The provision of state funded subsidies for the transport of fodder, water and livestock also led to perverse outcomes and potential misuse. For example, some farmers retained excess stock and bid up the cost of local fodder to the detriment of others.
 - 4. Exit packages.** The provision of special grants to farmers exiting their industry distorted markets and raised inequities with other groups in the community. There was no indication that transition out of farming would not occur just as readily in the absence of exit grants as currently structured.
 - 5. Irrigation management scheme.** The provision of grants (up to \$20,000) to Murray-Darling basin irrigators was found to be generous and largely unrestricted in eligibility and use. This rewarded inefficient irrigators and delayed decisions to transact water entitlements, leading to higher costs. The Productivity Commission recommended the program be concluded as scheduled on 30 June 2009.
 - 6. Relief payments.** The eligibility requirements for relief payments were generous compared with Newstart allowances. These payments encouraged dependency rather than self-reliance and preparedness. The Productivity Commission recommended they should be replaced.
 - 7. Small business income support.** There was little justification for assisting small businesses who are located around drought-affected areas. Small businesses do not face the same constraints in accessing broader income support measures and should not receive preferential support.
-

Glossary

BOM	Bureau of Meteorology.
Drought (under the NSW Drought Strategy)	<p>Mild drought: area has experienced less than 20% of the following for each of the last six months:</p> <ul style="list-style-type: none">- relative pasture growth- relative rainfall, and- relative soil moisture. <p>Moderate drought: area continues to experience the conditions identified with mild drought with no period of recovery.</p> <p>Severe drought: conditions of drought extend for a period of more than 24 months with no period of recovery.</p> <p>Recovery: over a period of six months, 40% or more of annual rainfall has been received and Local Land Services verify that on ground recovery is evident.</p>
Drought preparedness	Farming businesses, families and communities developing strategies to enable them to prepare for, manage and recover from drought.
IGA	Intergovernmental Agreement on National Drought Program Reform.
Institute	Australian Farm Institute.
Lines on maps	Defining the boundaries of drought declared areas leads to lines being placed on maps, making a distinction between those who can and cannot receive assistance.
Mutual responsibility	Assistance measures being dependent upon recipients taking actions to improve their circumstances.
RAAC	Regional Assistance Advisory Committee.

Self-reliance Farming businesses, families and communities having primary responsibility for managing the risks and impacts of drought on them.