



Farm Household Support Amendment (Exceptional Circumstances Relief Payment) Bill 2005

Peter Hicks
Economics, Commerce and Industrial Relations Section

Peter Yeend
Social Policy Section

Contents

Purpose.	2
Background.	2
The drought situation.	2
Exceptional Circumstances (EC) assistance	3
EC rationale	3
EC components.	3
EC origins and drought	3
Recent drought assistance policy	4
2000–2004	4
February 2000 – review of drought policy	4

October 2003 – PIMC endorsed review	4
December 2004 – PIMC meeting	5
2005	5
April 2005 – PIMC agreement	6
May 2005 – Prime Minister announces 2005 drought package	6
June 2005 – further initiatives announced by Minister Truss	7
Government EC assistance direct to farmers thus far	8
Delays in issuing EC certificates	8
National Farmers Federation generally supports the May 2005 drought assistance package	8
Drought relief measures criticised	8
Main Provisions	9
Schedule 1 – Exceptional circumstances relief payment	9
Concluding Comments	9
Endnotes	10

Farm Household Support Amendment (Exceptional Circumstances Relief Payment) Bill 2005

Date Introduced: 16 June 2005

House: House of Representatives

Portfolio: Department of Agriculture, Fisheries and Forestry

Commencement: Sections 1 to 3 of the Bill and **Items 1 and 4 of Schedule 1** commence on Royal Assent. **Items 2, 3 and 5 of Schedule 1** commence on 1 October 2005.

Purpose

The purpose of the Bill is to make the legislative amendments to the *Farm Household Support Act 1992* (FHSA) to give effect to some of the measures in the 2005 Drought Assistance Package announced by the Prime Minister on 30 May 2005.

Background

The drought situation

The unprecedented dry conditions over much of eastern and southern Australia have long ceased to be an issue solely of interest to rural communities. For example, with water restrictions now in place in capital cities, as well as other major centres, the drought is constantly the subject of public comment.

In its latest Drought Statement¹ the Bureau of Meteorology reports that:

... a failure of the autumn rains in southern Australia (except WA), has resulted in widespread short-term rainfall deficiencies over SA, NSW, Victoria and Tasmania. In terms of state-wide averages dating from 1900, it was the driest autumn on record in Victoria and SA, the second driest over NSW and the fourth driest in Tasmania. For the period dating from 1st January, rainfall deficiencies are also evident over much of southern Queensland, the south of the NT and central and northern WA.

This most recent period of rainfall deficits is set against a backdrop of average to below average falls since the severe drought of 2002-03. There has been no prolonged period of widespread above average falls to fully remove rainfall deficiencies. As far as the Murray-Darling Basin is concerned, Bureau rainfall data indicate that this region is in the midst of its worst multi-year period of rainfall deficiencies since the 1940s. Furthermore, the effects of rainfall deficits have been exacerbated by some of the highest temperatures on record.

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.

For the **3-month** period from March to May, rainfall deficiencies cover most of SA, Victoria, and Tasmania, and much of NSW west of the Dividing Range. Lowest on record falls are widespread over Victoria and the southern fringes of SA, while large patches are evident in central and far western NSW.

The failure of this year's autumn rains follows the failure of rainfall received in 2004 to alleviate the long-term deficiencies characterising much of southeast Australia in recent years. By the end of 2004 some districts had experienced an unprecedented eight consecutive years of below average rainfall. In addition, the all-Australian annual mean temperature for 2004 was 0.45°C above the 1961-90 long-term average, making it the tenth warmest year since 1910, when reliable Australia-wide climate records became available.²

Exceptional Circumstances (EC) assistance

EC rationale

Exceptional circumstances are those climatic and other events of sufficient rarity and severity as to be considered outside the scope of reasonable and responsible risk management strategies. Relatively short periods of income decline due to fluctuations in both seasonal and market conditions are not included as farmers are expected to have strategies in place to deal with these. This means, for example, that a drought as defined in meteorological terms does not automatically qualify for EC.

For a region or industry to be declared eligible for EC assistance the event must be rare and severe, the effects of the event must result in a severe downturn in farm income over a prolonged period and the event must not be a predictable part of the process of structural adjustment.

EC components

EC assistance is the mechanism by which direct, short-term, financial assistance is provided to farmers for the purposes of both welfare support to farm households and farm business assistance. The EC Relief Payment (ECRP) is the welfare component of EC and equivalent to the Newstart Allowance. EC Interest Rate Subsidies (ECIRS) is the business assistance element of EC.

EC origins and drought

EC provisions were first announced in September 1992 as one of the major changes to the (then) Rural Adjustment Scheme. In 1993 EC declarations were made in relation to two non-drought events: heavy rainfall in Southern Australia and the collapse of wool prices. Since then all EC declarations are believed to have either been for drought or for a combination of developments with drought being a major factor.

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.

Recent drought assistance policy³

2000–2004

February 2000 – review of drought policy

In February 2000 the Commonwealth Government initiated a review of drought policy which was formally agreed with the states in August 2000.⁴ It sought to address:

- concerns about the time taken to reach decisions
- the perceived difficulties in gathering the necessary data to support a successful application
- the scope of ‘Exceptional Circumstances’
- the application and assessment process
- the use of interest rate subsidies for farm business support and
- suggestions that states have lobbied for EC support knowing that the particular case for support does not meet the criteria.

October 2003 – PIMC endorsed review

In October 2003, the Commonwealth Government announced that the Primary Industries Ministerial Council (PIMC) had endorsed a review of drought policy.⁵ In November 2003, the Drought Review Panel (the Panel) was established and commenced a three-month consultation programme.⁶ The Panel’s report was presented to the National Drought Roundtable in April 2004.⁷

In May 2004, drought policy reform was then discussed at the Panel’s meeting, when it was agreed that the issues identified at the Roundtable should be taken into account in developing future drought policy and support measures. The Panel also agreed to consider further options in July 2004 and that these options would be costed to assist in addressing appropriate cost-sharing arrangements between the states and territories and the Commonwealth Government.

In July 2004, Minister Truss announced that agriculture ministers had agreed to a simpler and more responsive approach to EC by:

- i) removing the requirement for EC applications to establish that a majority of producers covered by the application have experienced a severe downturn in income as a result of drought and
- ii) replacing it with an assessment of the impacts on production and a range of event factors such as rainfall, temperature, soil moisture and remote sensing information.⁸

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.

With this revised approach, the burden on farmers to provide State agencies with their income details as part of the EC application and assessment process would be reduced. For the most part, EC applications would be assessed using common data that is more readily available and nationally agreed. These changes were expected to result in faster access to EC support. Further work on streamlining EC application and assessment arrangements was announced in August 2004.⁹ Streamlining and speeding up the EC application process has been a long-standing claim of the National Farmers Federation.¹⁰

December 2004 – PIMC meeting

The main aspects of drought policy considered at the December 2004 meeting of the Primary Industries Ministerial Council (PIMC) were:

- progress in addressing issues arising from the Roundtable to simplify EC processes and shifting the emphasis from business support during drought towards preparedness for drought and
- reform of funding arrangements with a proposal by Western Australia, which includes the joint funding of interest rate subsidies and funding for business through the provision of bilateral agreements between the Commonwealth and each state, referred to Standing Committee for consideration.

2005

A six-point plan “to cut through the wrangling over drought assistance reform” at the April meeting PIMC was announced by Minister Truss on 6 April 2005.¹¹ His proposed reforms were:

1. continued 100 per cent Federal funding of EC income support, including interim income support once a prima facie case has been established for an EC declaration
2. the cost sharing formula for EC business support to be 90:10 (Commonwealth: state/territory) in the first year, and 50:50 in the second and any subsequent year within a five-year period
3. business support consisting of interest rate subsidies of up to \$100 000 a year (as at present), or be changed to a grant scheme for drought related and recovery expenses
4. significant streamlining of the EC application and assessment process based on the implementation of a National Monitoring System (NMS)
 - the NMS would facilitate movement towards more cohesive drought early warning and support through agreed data sets and analyses
 - the States would use the NMS to support their own drought declaration systems
 - replacement of the existing severe and prolonged downturn in regional income criterion for an EC declaration with a production based criterion

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.

- the States and Territories to continue lodging EC applications but in a streamlined form supported by the information in the proposed NMS and
 - the National Rural Advisory Council (NRAC) to continue to assess applications and make field visits, and make recommendations on declarations.
5. EC declarations will continue to be based on a rare and severe event (one in 20-25 years) which could not have been predicted and
 6. governments, and the National Farmers' Federation, to continue to work on the harmonisation of state drought declarations and state support measures, while working to achieve a managed transition from drought business support to drought preparedness activities.

April 2005 – PIMC agreement

On 14 April 2005 the PIMC agreed to:¹²

- revised objectives for the National Drought Policy that include recognition of the need for appropriate assistance to be provided to producers experiencing exceptional drought and for this assistance to be equitable, efficient and timely using best science and information. The objectives of the 1992 National Drought Policy relating to self-reliance by farmers, maintenance and protection of the resource base and the need to facilitate early recovery from drought remain central to the new objectives
- governments and the National Farmers' Federation working together on the harmonisation of Commonwealth and state/territory support measures, while working to achieve a managed transition from drought business support to drought preparedness activities
- the continued development, testing and implementation by July 2006 of a National Monitoring System for broadacre industries
- existing drought cost sharing arrangements remaining in place for the duration of the current drought and
- consider in October 2005, a proposal for cost sharing of EC business support at 90:10 in the first year and 50:50 in the second and subsequent years, with states and territories being granted credit for expenditure on measures from a pre-agreed menu of state/territory drought assistance measures.

PIMC's decisions were hailed as a 'drought policy reform breakthrough' by Minister Truss.

May 2005 – Prime Minister announces 2005 drought package

On 30 May 2005 the Prime Minister announced the 2005 Drought Assistance Package.¹³ The main elements are:

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.

- income support measures
 - a \$10 000 annual offset against the income test for the ECRP from 1 July 2005 to 30 June 2006 for all farmers in EC areas and
 - the new income test to be reviewed before June 2006 to determine if the prevailing drought conditions and outlook warrant any extension
- business support measures
 - a doubling of the off-farm assets for EC business support from \$217 500 to \$435 000 and
 - the rate of the interest rate subsidy to rise from 50 per cent to 80 per cent for subsidies paid in the second and subsequent years of an EC declaration
- other measures
 - the streamlined re-assessment process for those EC declared areas nearing the end of their second year of assistance to become permanent with the 11 areas where EC declarations are due to cease by the end of 2005 to be assessed as a matter of priority
 - NRAC to immediately review the status for those 22 EC regions that it did not previously recommend for a roll-over under the streamlined EC assessment process. NRAC will also be able to consider the roll-over of parts of EC declared regions with any revised boundaries to be developed in consultation with industry, state and territory governments
 - \$800 000 in additional funds for existing rural financial counselling services in recognition of increased workload and additional resulting from the drought
 - \$1.2 million for ten additional counsellors in key areas affected by the drought
 - a further \$4 million to the Family Relationships Services Program to fund organisations to provide vital face-to-face counselling and other support measures related to the drought
 - \$3 million to the Country Women's Association's (CWA) Emergency Aid Fund to allow the CWA to help meet immediate household needs of those farmers and their families who may otherwise be reluctant to apply for assistance and
 - a National Young Farmers forum to be held in Canberra in early September 2005.

June 2005 – further initiatives announced by Minister Truss

Further initiatives to help more farmers gain access to ECIRS were announced on 16 June 2005 by Minister Truss:¹⁴

- a 28 day grace period for ECIRS applications after the closing date due to some confusion connected with various EC declaration dates covering different producer types within the same area

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.

- greater access to ECIRS for farmers who have bought an additional farm since the drought began and
- a reduction from 12 to 9 months in the period farmers need to wait between ECIRS applications.

Government EC assistance direct to farmers thus far

The government claims it has provided for around 33 800 applications for EC income support, and 16 600 applications for EC business support thus far during the current drought. This amounts to a claimed over \$680 million in drought assistance payments direct to farmers across the country.¹⁵

Delays in issuing EC certificates

One of the long-standing complaints of farmers has been the red tape and bureaucracy involved between the states and the federal government in issuing EC certificates.¹⁶ The proposed amendments to the FHSA in this Bill to allow Centrelink officers to issue EC certificates will be welcomed by farmers.

National Farmers Federation generally supports the May 2005 drought assistance package

The National Farmers Federation (NFF) generally supports the measures contained in the government's 30 May 2005 drought assistance package.¹⁷ The NFF was critical that business support was not provided in the form of grants, rather than interest rate subsidies, a request the NFF has been asking for, it claims, for over five years.¹⁸

Drought relief measures criticised

Some of the drought relief measures and drought relief policies of the government have been criticised. Interest rate subsidies have been criticised as they provide most relief to those farmers most in debt.¹⁹ The more efficient and less in debt a farmer is, the less assistance they qualify for.²⁰ Another criticised element is the \$10 000 income exemption for off-farm income. This is far more generous than other 'welfare' income exemptions and why should farmers deserve more welfare assistance whilst sole parents are being pushed into less generous assistance?²¹

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.

Main Provisions

Schedule 1 – Exceptional circumstances relief payment

Item 1 proposes to insert the new term of ‘off-farm salary and wages’ into section 24A of the FHSA, being the section that works out the rate of ECRP assistance.

Item 2 inserts a new section into the FHSA prescribing who can issue an EC certificate, being the Secretary. The Secretary is to be the Secretary of Human Services, delegating powers to officers in Centrelink. This is designed to address one of the major complaints of the EC processes over the past few years, being the complications and delays in getting State Rural Adjustment Authorities to issue EC certificates. Delays in issuing EC certificates have also been the subject of criticism by the Australian National Audit Office 2005 report into Drought Assistance.²² It is anticipated that if Centrelink officers can issue EC certificates, this will speed up the process of assessing individual farmer’s applications for EC relief.

Item 4 inserts sections into the FHSA to exempt up to \$10 000 a year in off-farm salary and wages for the period 1 July 2005 to 30 June 2006. This off-farm income exception is not to assist existing Farm Help recipients and is only to apply for farmers who have been granted ECRP and for the 12 month period commencing 1 July 2005.

Item 5 inserts a transitional provision into the FHSA so that the EC certificates issued by State Rural Adjustment Authorities prior to 1 October 2005 are not invalidated by the new EC issuing provisions to be inserted by **Item 4** and continue to have validity.

Concluding Comments

The amendments to the FHSA presented in this Bill break some new ground in terms of drought assistance. Firstly, the power to issue EC certificates is to be given to Centrelink to address a long-standing concern of farmers that the State Rural Adjustment Authorities are too slow in issuing these certificates. Secondly, the exemption of up to \$10 000 in off-farm income from the income test for ECRP addresses concerns that farmers with off-farm income are being discriminated against in accessing ECRP.

Farmers’ organisations are not entirely happy with these initiatives, still preferring to see business grants and cash handouts, rather than interest rate subsidies.

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.

Endnotes

- 1 Bureau of Meteorology, *Drought Statement*, 2 June 2005.
http://www.bom.gov.au/announcements/media_releases/climate/drought/20050602.shtml
- 2 Bureau of Meteorology *Annual climate summary 2004* 6 January 2005
- 3 Recommended references for the earlier history of drought policy are [Burdon, Alan, *Dry Paddocks, Damp Policies: Drought Assistance Strategies and their Effectiveness*, Research Paper No.6, 1995-96, Parliamentary Research Service](#) and [Botterill, Linda, 'Uncertain climate: the recent history of drought policy in Australia', Australian Journal of Politics and History Vol 49\(1\), March 2003](#)
- 4 'Truss Pledges Revamp of EC', *Media release*, the Hon. Mr Warren Truss, MP, Minister for Agriculture, Fisheries and Forestry, 18 February 2000.
<http://parlinfoweb.parl.net/parlinfo/Repository1/Media/pressrel/FSU060.pdf>
- 5 'Minister Truss Calls Drought Roundtable', *Media release*, the Hon. Mr Warren Truss, MP, Minister for Agriculture, Fisheries and Forestry, 27 February 2004.
<http://www.maff.gov.au/releases/04/04028wt.html>
- 6 National Drought Review Panel,
<http://www.affa.gov.au/content/output.cfm?ObjectID=85E88C00-9B03-4067-8C3A22241789136C#panel>
- 7 'National Drought Policy – the way ahead', *Media release*, the Hon. Mr Warren Truss, MP, Minister for Agriculture, Fisheries and Forestry, 15 April 2004.
<http://www.maff.gov.au/releases/04/04094wt.html>
- 8 'Truss welcome EC reform support', *Media release*, the Hon. Mr Warren Truss, MP, Minister for Agriculture, Fisheries and Forestry, 27 July 2004.
<http://www.maff.gov.au/releases/04/04216wt.html>
- 9 'Truss announces more work to streamline EC', *Media release*, the Hon. Mr Warren Truss, MP, Minister for Agriculture, Fisheries and Forestry, 31 August 2004.
<http://www.maff.gov.au/releases/04/04262wt.html>
- 10 'The prime minister must act on drought reform', *Media release*, National Farmers Federation, No. 58/05, 19 May 2005. <http://www.nff.org.au/pages/nr05/058.html>
- 11 'Six-point Truss plan to end drought aid wrangle', *Media release*, the Hon. Mr Warren Truss, MP, Minister for Agriculture, Fisheries and Forestry, 6 April 2005.
<http://www.maff.gov.au/releases/05/05074wt.html>
- 12 Primary Industries Ministerial Council Meeting Communiqué, *Media release*, the Hon. Mr Warren Truss, MP, Minister for Agriculture, Fisheries and Forestry, 15 April 2005.
<http://www.maff.gov.au/releases/05/pimc8.html>
- 13 'New drought package raises assistance to 1.25 billion', *Media release*, the Prime Minister, the Hon. Mr John Howard, MP, 30 May 2005.
http://www.pm.gov.au/news/media_releases/media_Release1405.html

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.

- 14 'Drought assistance changes to boost farmers' access to EC interest rate subsidies', *Media release*, the Hon. Mr Warren Truss, MP, Minister for Agriculture, Fisheries and Forestry, 16 June 2005. <http://www.maff.gov.au/releases/05/05181wt.html>
- 15 'Third year of Australian Government drought support for farmers in the Moira East region', *Media release*, the Hon. Mr Warren Truss, MP, Minister for Agriculture, Fisheries and Forestry, 8 June 2005. <http://www.maff.gov.au/releases/05/05174wt.html>
- 16 'The prime minister must act on drought reform', *Media release*, op. cit.
- 17 'Government recognises severity of on-going drought', *Media release*, National Farmers Federation, No. NR 66/05, 30 May 2005. <http://www.nff.org.au/pages/nr05/066.html>
- 18 *ibid.*
- 19 Alan Mitchell, 'Farm aid a barren policy', *The Australian Financial Review*, 1 June 2005, p. 62.
- 20 *ibid.*
- 21 *ibid.*
- 22 Australian National Audit Office, Audit Report No. 50 2004-05, *Drought Assistance*, Auditor General Performance Audit, Australian National Audit Office, Canberra, 2 June 2005. [Audit Report - Drought Assistance](#)

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.

© Copyright Commonwealth of Australia 2005

Except to the extent of the uses permitted under the *Copyright Act 1968*, no part of this publication may be reproduced or transmitted in any form or by any means including information storage and retrieval systems, without the prior written consent of the Department of Parliamentary Services, other than by senators and members of the Australian Parliament in the course of their official duties.

This brief has been prepared to support the work of the Australian Parliament using information available at the time of production. The views expressed do not reflect an official position of the Information and Research Service, nor do they constitute professional legal opinion.

Members, Senators and Parliamentary staff can obtain further information from the Information and Research Services on (02) 6277 2462.

Warning:

This Digest was prepared for debate. It reflects the legislation as introduced and does not canvass subsequent amendments.

This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.