

EXPLANATORY STATEMENT

Issued by Authority of the Minister for Agriculture, Drought
and Emergency Management
Future Drought Fund Act 2019

Future Drought Fund (Drought Resilience Funding Plan 2020 to 2024) Determination 2020

Legislative Authority

Section 31 of the *Future Drought Fund Act 2019* (the Act) provides that the Drought Minister must determine a Drought Resilience Funding Plan.

Purpose

The purpose of the *Future Drought Fund (Drought Resilience Funding Plan 2020 to 2024) Determination 2020* (the Plan) is to ensure that a coherent and consistent approach is adopted in: (a) making arrangements or grants under section 21; and (b) entering into agreements under section 22 of the Act.

The Plan sets out the vision, aims, objectives, funding principles and strategic priorities for the Future Drought Fund (the Fund). The Funding Principles within the Plan apply in relation to any arrangements and grants made to a person or body under section 21 of the Future Drought Fund Act 2019. Where such arrangements and grants relate to a program of further arrangements and grants to be made by the person or body for the purposes set out in that section, the principles also apply in relation to those further arrangements and grants. According to the Act, the Plan is a high level document and cannot require an arrangement or grant to be made with a particular person or for carrying out a particular project.

The Fund represents the Australian Government's secure and ongoing commitment to invest in strengthening drought preparedness and resilience. Following an initial credit of \$3.9 billion, the Fund is expected to grow over time to \$5 billion by 2028–29. From 1 July 2020, the Fund will make \$100 million available each year for initiatives that strengthen the drought resilience of Australian farms and communities.

Background

Australian agriculture is innovative and our primary producers are among the most self-reliant in the world. But there is evidence management capability could increase growth and drive better performance. Innovative practices are needed to encourage the expansion of profitable farm businesses that can operate within Australia's naturally drought-prone environment.

Australian agriculture and regional communities are facing more than the existing cyclical nature of drought—they are now dealing with an ongoing trend towards more frequent and severe droughts in most parts of Australia. There is a need to reassess strategies to strengthen drought resilience and consider the incremental, transitional and transformational changes needed to build capacity to deal with drought better.

The Plan is based on 'drought resilience' meaning the ability to adapt, reorganise or transform in response to changing temperatures and increasing variability and scarcity of rainfall, for improved economic, environmental and social wellbeing.

The Plan recognises the diversity of farming businesses, communities and landscapes, and their varying levels of drought resilience. It considers economic, environmental and social factors, including climate projections, for a range of options suited to localised needs to enhance long-term drought resilience.

As per the Act, the Plan sets out a coherent and consistent approach for making arrangements or grants in relation to drought resilience. The Plan is high level and cannot specify the types of programs to be implemented to achieve priorities. It cannot require arrangements to be made with—or grants be provided to—a particular person or project.

As per the Act, the Fund's Consultative Committee (the committee) provided the Minister for Drought with advice before determining the Plan. The committee will review the Plan every four years to ensure emerging priorities are appropriately captured and the Fund remains future-focused. The Plan can be repealed by a replacement plan if priorities change within these four years. To help inform these reviews, the Act provides for the Productivity Commission to conduct an assessment of every Plan before it expires, including having regard to the economic, social and environmental outcomes. The Productivity Commission will make recommendations and the report will be tabled in parliament.

The committee is also responsible for providing the Minister for Drought with advice on the proposed design of the Fund's programs, which must be consistent with the Plan. The final design of programs will be determined by the Australian Government. The Act provides flexibility on how funds can be distributed by the government. For example, funds could be distributed via an approach to market, by a grants process, or under an agreement with states and territories. Under the legislation, the Minister for Drought is required to have regard to the independent advice from the Regional Investment Corporation Board, and other expert advice if required, and to consider the Plan when making decisions to distribute funds.

Alignment and complementarity

The Plan aims to build on existing policies, frameworks and programs to achieve better outcomes. The funding must complement, and not duplicate, existing initiatives. The Plan has been developed with a long-term focus for drought resilience. The Fund will not provide in-drought support or replace existing sources of funding. The Plan aims to build on existing government drought policies and improve the coordination and integration of Australian, state, territory and local governments' drought resilience frameworks and programs.

All Australian jurisdictions have a common interest in the success of our agricultural industries and need to work together to help farming businesses, families and communities manage and prepare for future challenges and risks in a variable and changing climate. The Plan is consistent with the National Drought Agreement as agreed by all jurisdictions on 12 December 2018. The National Drought Agreement sets out a joint government approach to

drought preparedness, response and recovery. The Plan focuses the Fund to align and complement state government initiatives, and to use or collaborate with existing community networks, Indigenous organisations and communities, natural resource management organisations, industry and farmer groups.

The Plan supports a renewed focus on a coordinated approach to drought resilience, with programs to take account of, and align with but not duplicate, initiatives and strategies relevant to drought resilience. These include, but are not limited to, the Indigenous-designed and led Empowered Communities initiative, the National Landcare Program, the Agriculture Stewardship Package, the Advocate for Soil Health and the Climate Solutions Fund.

By helping to reduce the inherent risk of drought to farm businesses, the Plan is consistent with the National Farmers' Federation goal of lifting the value of Australian agricultural production to \$100 billion by 2030. The Australian Government has committed to support industry in achieving this goal.

Co-investment

As a means of maximising the benefits of Future Drought Fund programs, the Plan requires, as far as practicable, co-investment by other parties. Depending on the circumstances, these co-contributions could come from (for example), a state or territory government, private investor, research organisation, philanthropic organisation or an individual funding recipient. By leveraging co-contributions in this way, the Fund acknowledges that the benefits of building drought preparedness and resilience in agriculture are shared across many sectors of the economy and all levels of government.

Operating environment

Australian farm businesses and communities are operating within a unique environment that requires increasing resilience to drought. This operating environment is complex, dynamic, inter-connected and difficult to predict. Drought resilience requires adaptation within the current system and the capacity to transform into a different system if necessary. This transformation starts with a willingness to change, an understanding of the options for change and having the capacity to change. Adaptation and transformation will be required at different levels—from farm businesses through to regional and agri-industry. Economic, environmental or social resilience cannot be built in isolation because building resilience in one of these aspects may lead to losing resilience in another. The Plan aims to foster a culture in which Australian farm businesses and communities thrive as a result of actively adapting and transforming to a changing and unpredictable operating environment.

This following section details the operating environment Australian farm businesses and communities are currently facing. The Plan has been developed with this operating environment in mind. Ensuring the actions of the Fund are consistent with the current and future pressures on the agriculture sector and communities will be key to its success. During future revisions of the Plan, this operating environment will be reconsidered by the committee to ensure the Plan continues to capture current priorities.

Drought

Australian agricultural producers are exposed to a climate that is highly variable compared to most other OECD countries. This can generate substantial variation in farm output which is greater than that experienced by primary producers in most other countries, and by business owners in most other sectors of the Australian economy. The resulting volatility of primary producers' incomes is intensified by drought and this can have significant economic, environmental and social impacts for rural communities.

Over time, drought policy has come to recognise drought as part of Australia's landscape and managing through drought is a feature of Australian agriculture. Many Australian farming businesses and farming communities are adopting increasingly sophisticated and effective strategies to deal with drought and variability. Climate change is likely to increase the need to manage climate risks, including extremes and variability, while maintaining the capacity to exploit favourable conditions when they occur.

Climate change

While the majority of primary producers are good at managing and adapting to variability in climate and weather, the impacts of climate change will pose new challenges for agriculture. Australia has warmed just over 1°C since 1910, with most warming occurring since 1950. This warming has seen an increase in the frequency of extreme heat events and increased the severity of drought conditions during periods of below-average rainfall. Eight of Australia's top ten warmest years on record have occurred since 2005.

Australian primary producers need to further build their capacity to plan and prepare for drought, while understanding that some change may need to be transformational. Other climate-related risks that also place pressure on primary producers can occur in conjunction with droughts, for example: increased extreme temperature days, increased frequency and severity of bushfires, increased biosecurity risk and changing frost windows.

Primary producers have demonstrated their ability to adapt. But with the expected impacts of climate change, they need further support including through additional research and development investment and practice change incentives. This will be critical for the ongoing competitiveness and resilience of the sector.

Farm management

Agricultural businesses manage 58 per cent of Australia's landmass and directly employ around 300,000 people. Aboriginal and Torres Strait Islander people make significant contributions to agriculture through Indigenous enterprises, as landholders and as employees. Mitigating risks, adapting to ongoing change and capitalising on opportunities are central to the concept of resilience to drought for both farms and rural communities dependent on farming. An important element of building drought resilience is avoiding drawing down on natural capital or the resource base. Farm businesses face varied risks and uncertainties, including climatic and weather risks; pest, disease and weed risks; market volatility; rural

adjustment risks; and management, operational and technical risks. These risks can be exacerbated by a changing climate. On farms, risk is managed by adjusting production decisions as circumstances change—drawing on capital reserves, off-farm income and by borrowing. In the longer term, primary producers may also change their farming systems, enterprise mix and locations. Off-farm risk management tools include maintaining a relatively high level of wealth, diversifying income sources and adjusting expenditure.

Primary producers also explore entrepreneurial opportunities, which may be on-farm or off-farm and include diversification options (including multiple uses for the one landscape) or new farming practices, farming systems and markets (e.g. emerging carbon markets).

Australian primary producers have a strong track record on risk management, reflected in relatively high business survival rates and the above-average wealth of farm-owning households, compared to other households. Most have the capacity to manage risk using their own resources, at least in the short-term. However, there are some primary producers who lack sufficient resources or capabilities to manage risk well, noting that many of the tools used to manage risk, such as high equity, diversification and reserves of liquid assets, can entail substantial costs. Australian agriculture will be exposed to increasing risks in the future and there will be a need to adapt current risk management practices accordingly to support long-term sustainability and resilience in the face of a variable climate. Strong risk management and risk preparedness should be business as usual and not something that is only thought about during times of drought or hardship. Well-managed farms are prepared for droughts and other risks, such as global price shocks, and not all primary producers in regions affected by drought experience severe economic or financial hardship.

Natural resources

Across more than one-half of the Australian landscape, primary producers play a crucial role in the sustainable management of natural resources for the benefit of all Australians.

Managing the improved functioning of natural resources is essential to long-term resilience to drought and climate shocks. Building resilience to climate shocks will drive improved farm productivity and profitability. This stronger farm performance can reduce the negative biophysical impacts of drought, such as soil moisture loss, weed spread, groundcover depletion and soil erosion.

Natural resource management practices that build drought resilience and make farm systems more sustainable include:

- increasing soil carbon, groundcover and building feed reserves
- controlling feral animals
- increasing water use efficiency
- reducing loss of pasture during dry times
- protecting biodiversity and ecosystem services
- planning for risks associated with drought.

These natural resource management practices are valuable to primary producers because they make farm systems more resilient, sustainable and profitable. The practices are also valuable for the public benefits they provide. Conversely, degrading natural resources during drought can delay recovery after drought. Over time, productivity will decline if environmental resources are eroded too far.

Global competition

Globally, Australia is a relatively small agricultural producer. However, we are a significant exporter and must therefore produce at an internationally competitive cost to be profitable. Maintaining international competitiveness—often against subsidised competitors—requires ongoing productivity growth to keep up with improvements in other countries. In recent years, agricultural productivity growth has slowed for a number of reasons. These include poor seasonal conditions, high labour and energy costs, and less intense research and development efforts. There is evidence that crop producers have adapted to changing climate conditions, with strong growth in productivity since 2006–07 offsetting the decline in climate conditions. Ongoing efforts to continually stimulate productivity growth will be needed, as identified in the National Farmers' Federation goal of lifting the value of Australian agriculture production to \$100 billion by 2030.

Social licence

The increasing community expectations of farming practices will be an ongoing challenge for Australian agriculture. Supporting primary producers to boost their drought resilience, including through improved environmental management and animal welfare, may have potential to improve social licence at an industry or geographical level.

Consumer preferences

At a domestic and international level, consumers are showing a greater interest in the source of their food and whether it has been sustainably and ethically produced, including animal welfare and animal production. Pre-emptively addressing consumer concerns about safe and sustainable produce can lead to new market and livelihood opportunities as well as protecting access to existing markets. Drought resilience policy can drive increased environmental credentials and help producers to achieve sustainability or emissions reduction goals, which may translate into market opportunities.

Rural communities

Like primary producers, Australian communities also feel the effects of drought on local economies and community spirit. Australia's regions are diverse and the degree of exposure to drought risk depends on the local context. Some communities exhibit a strong resilience during droughts while others are less well equipped to deal with the effects of drought. Resilient communities have employed many different strategies to counter the effects of drought. Tourism diversification is one such example that has been used successfully by some communities to mitigate the economic impacts of future droughts. In some cases the effects of

drought have actually been a catalyst for change in rural communities, such as generating innovative tourism ideas and marketing opportunities.

Australian settlement patterns show a long-term decline in the number of people living in rural areas and small towns. Dynamics vary from region to region and as such there are many factors contributing to small town decline or success including lifestyle factors and employment opportunities. The impacts of drought on local economies can exacerbate small town decline.

The risks drought poses to rural communities, including Indigenous communities, are varied. They include reduction to incomes, job losses, pressure on social networks, poor mental and physical health, along with other climate effects such as bushfires. Domestic water resources for rural communities are coming under increasing stress. Without intervention, shortages are likely to become more common. For communities that lack a strong economic base, the impacts of drought may add to pre-existing economic disadvantage.

Drought conditions can reduce some tourism opportunities, which may affect the local economy. Decline in the amenity value of local communities due to drought, for example, drying water bodies or reduction in green spaces, may also affect tourism opportunities and diminish town pride and community spirit. Drought can also reduce expenditure by farm families, which is an important source of income for many small businesses. Service industries, such as retail and wholesale trade, transport and storage, finance and machinery are all affected by primary producers' spending patterns. A reduction in this spending during a drought can put pressure on the sustainability of the community.

Research, Development, Extension and Adoption

The complexity of Australia's research, development, extension and adoption structure makes coordination and setting drought research priorities and direction difficult. Primary producers and rural communities need effective access to information in a form they can readily utilise. Historically, state and territory government agencies provided regional extension services, which complemented the research and development investment by primary industries research and development corporations (RDCs). A concerted focus on user-driven drought resilience research, complemented by extension, would maximise the relevance and adoption of outcomes.

Linkages

Drought resilience policies and associated programs can have multiple outcomes and indirect impacts on primary producers, rural communities and the broader Australian public. Drought resilience in farm business and communities flows through to benefit the supply chains that support them. There is growing recognition of the need to develop policies that draw together and make sense of the multiple challenges and opportunities for Australian agriculture. The Fund is an opportunity to align with and, where possible, leverage off existing or developing policies and programs to enhance the outcomes for the Australian agricultural sector and rural and regional communities.

Impact and Effect

Success of the Plan will result in an agricultural sector that, despite the challenges of future drought, will continue to maintain a sustainable resource base, adopt innovative technology, improve productivity and remain competitive on the global stage.

Agricultural landscapes will be managed in a holistic, whole-of-system approach that safeguards natural resources against drought and has flow-on benefits for farm productivity and the broader environment. Communities will adapt by strengthening their risk management strategies, which will enable them to endure future droughts. Healthy farming landscapes with innovative farming techniques and strong rural communities will contribute to a drought resilient and sustainable Australia.

Consultation

The development of the Plan involved an extensive stakeholder consultation process during 2019-20. In accordance with s32 of the Act, the Plan was published on the Department of Agriculture's website on 28 October 2019 and public submissions were invited from 29 October 2019 to 13 December 2019. Given the expansive nature of the consultation process prescribed by s32 of the Act, and having regard to the importance of the Plan to the Fund, it is considered that s32 consultation is appropriate and reasonably practicable to undertake for the purposes of s17 of the *Legislation Act 2003*. That consultation process is designed to ensure that persons likely to be affected by the Plan have an adequate opportunity to comment on its proposed content.

Various issues were raised throughout the consultation on the draft Plan, some of which are outside of the scope of the Fund, either due to the responsibility of other Australian Government portfolios or governments, or the legislative limitations of the Fund. For example, building large scale water infrastructure programs (such as dams or urban water supplies), tax benefits for small businesses, improved connectivity, education or an increase in services (doctors, nurses, teachers, police or mental health). However, the public's feedback on these issues has been provided to other parts of the Australian Government for consideration in future policy and program responses.

The Consultative Committee conducted a series of face-to-face consultations across the country in November and December 2019 to assist in preparing advice to the Drought Minister on the Plan. The Committee met with key stakeholders including primary producers, community representatives, state, territory and local governments, research organisations, industry peak bodies and rural organisations. The outcomes of these consultations was included in the Committee's advice, which was provided to the Minister under s36D of the Act.

The Office of Best Practice Regulation was consulted in the preparation of this instrument and confirmed that no Regulation Impact Statement was required (OBPR ID 25953).

Details and Operation

The Plan outlines the vision, aim and objectives of the FDF, as well as funding principles and strategic priorities that aim to build drought resilience across Australia. The Drought Minister is bound to comply with the Plan that is in force in accordance with s25 of the Act when making an arrangement or grant of financial assistance under s21 to a person or body. Where such arrangements and grants relate to a program of further arrangements and grants to be made by the person or body for the purposes set out in that section, the Funding Principles within the Plan also apply in relation to those further arrangements and grants.

These principles and priorities recognise the opportunities and benefits within the agricultural sector and rural and regional communities to build drought resilience and enhance the public good. These principles and priorities will guide all expenditure from the Agriculture Future Drought Resilience Special Account and the design of the Fund's programs to ensure a coherent and consistent approach is adopted.

As far as practicable, the design of each of the Fund's programs should seek to address all three strategic priorities as set out in the Plan. Attention to all three strategic priorities will deliver a holistic approach to building drought resilience.

Any reports or documents mentioned in the Plan are mentioned for background purposes only and are not applied, adopted, or incorporated in the Plan.

Monitoring, evaluation and learning framework

A comprehensive monitoring, evaluation and learning framework with a defined measurement methodology and metrics will help determine the effectiveness of the Fund and improve its impact. Programs will be designed based on an accepted methodology such as program logic and theory of change. A framework for the Fund's programs will be prepared as part of the Fund's program design. The framework will be informed by the evaluation work of past programs and drought-resilience indicators.

The framework will be designed to evaluate both short-term and long-term social, economic and environmental benefits of the Fund on farm businesses and communities. The framework will also monitor indicators of processes and outputs used to administer the program. Evaluation of processes, outputs and outcomes will be fed back into the design and delivery of the Fund's programs to ensure funding is adaptive, responsive and continually improving. The monitoring, evaluation and learning framework will be considered in the context of achieving the Fund's aim to enhance the public good by building drought resilience in Australia's agricultural sector, the agricultural landscape and communities.

Productivity Commission review

The Plan is to be referred to the Productivity Commission to review its effectiveness and its economic, social and environmental outcomes. This will occur every third year of the Plan and will inform any required revision of the next Plan.

Other

The *Future Drought Fund (Drought Resilience Funding Plan 2020 to 2024) Determination 2020* is compatible with the human rights and freedoms recognised or declared under section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*. A full statement of compatibility is set out in Attachment B.

The *Future Drought Fund (Drought Resilience Funding Plan 2020 to 2024) Determination 2020* is a legislative instrument for the purposes of the *Legislation Act 2003*.

Details of the *Future Drought Fund (Drought Resilience Funding Plan 2020-2024) Determination 2020.*

Section 1 – Name

This section provides that the name of the legislative instrument is the *Future Drought Fund (Drought Resilience Funding Plan 2020-2024) Determination 2020*.

Section 2 – Commencement and repeal

This section provides for the determination to commence on the day after it is registered. This is in accordance with subsection 31(4) of the *Future Drought Fund Act 2019*. The Plan is repealed at the end of the 4-year period that begins when the Plan comes into force, unless it is repealed earlier.

Section 3 – Authority

This section provides that the determination is made under section 31 of the *Future Drought Fund Act 2019*.

Section 4 – Schedules

This section gives effect to the Schedule as the *Future Drought Fund (Drought Resilience Funding Plan 2020-2024) Determination 2020* for the purposes of s31(1).

Schedule 1

The *Future Drought Fund (Drought Resilience Funding Plan 2020-2024) Determination 2020* sets out a high-level approach for making arrangements or grants in relation to drought resilience, or entering into agreements in relation to such grants.

Statement of Compatibility with Human Rights

Prepared in accordance with Part 3 of the Human Rights (Parliamentary Scrutiny) Act 2011

Future Drought Fund (Drought Resilience Funding Plan 2020 to 2024) Determination 2020

This Legislative Instrument is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.

Overview of the Legislative Instrument

The purpose of the *Future Drought Fund (Drought Resilience Funding Plan 2020 to 2024) Determination 2020* (the Plan) is to ensure that a coherent and consistent approach is adopted in: (a) making arrangements or grants under section 21; and (b) entering into agreements under section 22 of the *Future Drought Fund Act 2019* (the Act).

The Plan sets out the vision, aims, objectives, funding principles and strategic priorities for the Future Drought Fund (the Fund). According to the Act, the Plan is a high level document and cannot require an arrangement or grant to be made with a particular person or for carrying out a particular project. The Plan was developed following an extensive stakeholder consultation process in 2019-20 and will be reviewed every four years.

The Fund represents the Australian Government's secure and ongoing commitment to invest in strengthening drought preparedness and resilience. Following an initial credit of \$3.9 billion, the Fund is expected to grow over time to \$5 billion by 2028–29. From 1 July 2020, the Fund will make \$100 million available each year for initiatives that strengthen the drought resilience of Australian farms and communities.

The principles and priorities contained within the Plan recognise the opportunities and benefits within the agricultural sector and rural and regional communities to build drought resilience and enhance the public good.

These principles and priorities will guide all expenditure from the Agriculture Future Drought Resilience Special Account and the design of the Fund's programs to ensure a coherent and consistent approach is adopted.

However, before the Minister for Drought allocates funding, the minister must first: seek advice from the Future Drought Fund Consultative Committee on the design of programs to ensure they comply with the plan and seek independent technical expert advice from the Regional Investment Corporation Board—and other expert advice if necessary—on the making of individual grants or arrangements.

Human rights implications

This Legislative Instrument does not engage any of the applicable rights or freedoms.

Conclusion

This Legislative Instrument is compatible with human rights as it does not raise any human rights issues.

The Hon. David Littleproud MP
Minister for Agriculture, Drought and Emergency Management