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Performance Audit

Drought Assistance

Department of Agriculture, Fisheries and Forestry

Australian National Audit Office

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Canberra ACT
22 June 2011

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of Agriculture, Fisheries and Forestry with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit and the accompanying brochure to the Parliament. The report is titled *Drought Assistance*.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian McPhee'.

Ian McPhee
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

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Abbreviations

ABARES	Australian Bureau of Agricultural and Resource Economics and Sciences
BAF	Business Assurance Framework
BMA	Bilateral Management Arrangement
BoM	Bureau of Meteorology
CSIRO	Commonwealth Scientific and Industrial Research Organisation
DAFF	Australian Government Department of Agriculture, Fisheries and Forestry
DAFWA	Department of Agriculture and Food Western Australia
DCCRS	Drought and Climate Change Reporting System
DHS	Australian Government Department of Human Services
DoHA	Australian Government Department of Health and Ageing
FaHCSIA	Australian Government Department of Families, Housing, Community Services and Indigenous Affairs
FMA Act	<i>Financial Management and Accountability Act 1997</i>
IGA	<i>Intergovernmental Agreement on Rural Adjustment</i>
KPI	Key Performance Indicator
NAMS	National Agricultural Monitoring System
NDP	National Drought Policy
NDRRA	Natural Disaster Relief and Recovery Arrangements
OOF	Outcomes and Outputs Framework

RAA	Rural Adjustment Authority
RSS	Random Sample Survey
SACES	South Australian Centre for Economic Studies
the Minister	The Australian Government Minister for Agriculture, Fisheries and Forestry
the NPA	National Partnership Agreement on the pilot of drought reform measures in Western Australia
the RA Act	<i>Rural Adjustment Act 1992</i>
the strategy	Monitoring and Review Strategy for the pilot of new drought reform measures

Glossary

Business Partnership Agreement (BPA)	The agreement between the Australian Government Department of Agriculture, Fisheries and Forestry and Centrelink that underpins the delivery of exceptional circumstances drought assistance programs by Centrelink.
Exceptional Circumstances (EC)	Events that are rare, severe, have a prolonged impact on income and are outside those that a farmer could normally be expected to manage using responsible farm management strategies.
Exceptional Circumstances Declared Area	An area which the Australian Government Minister for Agriculture, Fisheries and Forestry has determined has experienced an Exceptional Circumstances event.
Exceptional Circumstances Interest Rate Subsidy (ECIRS)	Business support provided in the form of a subsidy of up to \$100 000 per annum to assist eligible farm business owners and small business operators who are considered profitable in the long-term but who, due to exceptional circumstances, are experiencing financial difficulties and are in need of assistance to achieve long-term profitability and sustainability.
Exceptional Circumstances Relief Payments (ECRP)	Assistance for eligible farm and small business families to meet their day-to-day living expenses. Income support is paid at the same rates as the <i>Newstart Allowance</i> .
Exceptional Circumstances Exit Package	Grants for farmers to relocate, retrain and obtain advice if they have sold their farm and the farm was located in an Exceptional Circumstances declared area.
Interim Income Support (IIS)	Income support payments for eligible farmers and small businesses in an area that has been <i>prima facie</i> Exceptional Circumstances declared.

National Rural Advisory Council (NRAC)	The National Rural Advisory Council is a skills-based independent advisory council that advises the Australian Government Minister for Agriculture, Fisheries and Forestry on rural issues including Exceptional Circumstances applications and extensions to Exceptional Circumstances declarations.
Payment accuracy	Centrelink defines payment accuracy as its ability to pay eligible customers the right amount of money, through the correct program, at the right time. Accuracy considers customer, administrative and legislative/policy error.
Payment correctness	Centrelink defines payment correctness as a measure of how well its staff and systems deliver the right payments to the right person at the right rate on the right date. Centrelink aims to achieve a target of 95 per cent of payment correctness, and measures its performance using Random Sample Surveys in sufficient numbers to ensure confidence in the results.
Payment Integrity	Centrelink defines payment integrity as the control activities that Centrelink uses to detect potential incorrect payments.
Professional Advice and Planning Grants (PAPG)	Grants for drought affected farmers to access professional advice to assist their drought management and recovery processes.
Quality-on-line (QOL)	Centrelink defines Quality-on-line as a quality control process used by Centrelink to detect and prevent payment errors at their source. A Quality-on-line check prevents work being finalised, pending the outcome of a check by a certified Quality-on-line checker.

Random Sample Survey Centrelink defines the Random Sample Survey as the primary assurance mechanism for measuring the accuracy of program outlays on social security payments administered by Centrelink. The survey provides a point-in-time analysis of a stratified sample of customers' circumstances designed to establish whether customers are paid accurately across programs administered by Centrelink.

Rural Adjustment Authority (RAA) State/territory government-based agencies responsible for administering the Exceptional Circumstances Interest Rate Subsidy on behalf of the Australian Government. A Rural Adjustment Authority may be a state/territory department of agriculture or a separate entity.

Summary and Recommendations

Summary

Australia's experience of drought

1. Australia has repeatedly experienced severe and prolonged periods of drought.¹ As well as the direct impact on agricultural production and the natural environment, prolonged periods of dry weather and drought have also posed increasing difficulties in maintaining the social fabric of rural and regional Australia, and threatened the viability of some rural economies and communities.²

The Australian Government's drought policy

2. The National Drought Policy (NDP) was agreed by Australian, state and territory government ministers for agriculture and primary industries in August 1992. The NDP aims to assist the farm sector to: plan, prepare, respond, and recover from drought.

3. Although self-reliance is a key objective, the NDP also recognises that there are rare and severe events, such as drought, severe and abnormal frosts, locust plagues and inundation, that are beyond the ability of even the most prudent farmer to manage. Exceptional Circumstances (EC) assistance is the Australian Government's principal mechanism for assisting farmers and small business operators who are experiencing exceptional hardship due to a rare and severe event. The rationale for providing EC assistance is:

...to ensure that eligible farmers and small business operators with long term prospects for viability are not forced to leave the land or their business due to short term adverse events that are beyond their ability to reasonably manage.³

4. Guidance on EC policy, the EC criteria and the processes for applying for an EC declaration, approving and reviewing EC declarations have been documented in the *Exceptional Circumstances Information Handbook*. Funding for EC assistance is demand driven and the Australian government has provided approximately \$4.85 billion in EC drought assistance since 2001–02.

¹ Notable periods of drought include: 1895-1902 (the 'Federation Drought'); 1914–1915; 1937–1945; 1982–1983; 1991–1995; 1997 and 2001–2010.

² Expert Social Panel Report, *It's about people: Changing perspectives on dryness*, 2008, p. 26.

³ Australian Government Department of Agriculture, Fisheries and Forestry, *Exceptional Circumstances Information Handbook: A guide to policy, processes and assistance measures*, p. 3.

Approving and reviewing EC declarations

5. State/territory governments can apply for an EC declaration if the criteria for a rare and severe event have been met. The Australian Government Minister for Agriculture, Fisheries and Forestry (the Minister) determines whether the event has or has not met the EC criteria. As there are both successful and unsuccessful applications from state/territory governments, the announcement of the Minister's EC decision can be sensitive. Farmers and small businesses affected by drought seek early advice of the Minister's decision as an EC declaration means that applications may be submitted for financial assistance.

6. The Department of Agriculture, Fisheries and Forestry (DAFF) and the National Rural Advisory Council (NRAC) provide advice to the Minister on whether the state/territory government's application for an EC declaration satisfies the EC criteria.⁴ A new, 'full EC declaration' is valid for up to 24 months and declarations are reviewed by NRAC before they expire. If conditions have not improved, the Minister may extend an EC declaration for 12 months. As of January 2011, some areas of Australia had been EC declared for ten years or more.

7. During the most recent drought, the total area of Australia's agricultural land covered by EC declarations peaked at 69.2 per cent (87 declarations) on 1 May 2008.⁵ Recent improvements to conditions have resulted in the total number of EC declared areas decreasing to 0.3 per cent of Australia's agricultural land (three declarations) as of 16 June 2011.⁶

Delivery arrangements with the state and territory governments and Centrelink

8. DAFF manages the arrangements established with the state and territory governments and Centrelink to assess applications from farmers and small businesses and to make payments for the EC assistance programs they

⁴ The National Rural Advisory Council (NRAC) is a skills-based independent council that advises the Australian Government Minister for Agriculture, Fisheries and Forestry on rural issues.

⁵ This included areas that were *prima facie* declared and areas that had been declared as Interim Assistance areas in 2007 by the then Prime Minister as part of the then Government's pre-election commitments.

⁶ There are two EC declared areas in New South Wales, *Bundarra* and *Eurobodalla*, which are not due for review until April 2012. The EC declaration for *River Murray and Lower Lakes Corridor* was extended until March 2012.

deliver. Table 1 outlines the EC programs delivered by the state/territory governments and Centrelink and the Australian Government's payments for each program since 30 June 2001.

Table 1

Exceptional Circumstances assistance delivered by the state/territory governments and Centrelink from 1 July 2001 to 31 March 2011

Assistance	Description	Delivered by	Payments (\$ million)
Exceptional Circumstances Interest Rate Subsidies (ECIRS)	Subsidies on interest payments of up to \$100 000 per year for farmers and small businesses.	State/ territory governments	2842.3
Exceptional Circumstances Relief Payments (ECRP)	Fortnightly income support payments and access to a health care card for farmers and small businesses in EC declared areas.	Centrelink	1870.4
Interim Income Support (IIS)	Fortnightly income support payments for farmers and small businesses in prima facie declared areas.	Centrelink	47.8
Exceptional Circumstances Exit Package	Grants for farmers of up to \$170 000 for relocation, advice and retraining, if the farm is sold.	Centrelink	46.4
Professional Advice and Planning Grant (PAPG)	Grants for farmers of up to \$5500 for professional advice and planning for drought management and recovery.	Centrelink	39.4
Total			4 846.3

Note: The PAPG commenced in June 2006 and the EC Exit Package commenced in June 2007.

Source: ANAO analysis of DAFF information to 31 March 2011.

Arrangements with the state/territory governments

9. Arrangements with the state/territory governments to deliver EC Interest Rate Subsidies (ECIRS) are set out in the 1993 *Intergovernmental Agreement on Rural Adjustment* (the IGA). The IGA was to be replaced by a National Partnership Agreement (NPA) in January 2011.⁷ However, the IGA was extended and is now due to expire on 30 June 2011.

⁷ The National Partnership Agreement has been deferred pending agreement on the new drought policy.

10. The agencies responsible for delivering ECIRS on behalf of the state/territory governments are collectively referred to as Rural Adjustment Authorities (RAAs). An RAA may be the state/territory department of agriculture or a separate entity. In Victoria, the RAA is a commercial agribusiness bank—the Rural Finance Corporation of Victoria. Following the Minister’s EC announcement, DAFF issues guidelines that set out the minimum assessment criteria and other factors that an RAA must consider when assessing an ECIRS application.

11. The IGA reflects the premise that program delivery will be most effective when decisions on the form and level of support are made at the state/territory level. The RAAs have developed different approaches for assessing ECIRS applications and determining the total payment due. The impact of the RAAs’ differing interpretations of the ECIRS eligibility arrangements was highlighted as an issue by the Productivity Commission, when the Commission reported that ‘differences generated inequalities and lessened the scope for the policy to meet its objectives’.⁸

Business Partnership Agreement with Centrelink

12. In 2005, DAFF engaged Centrelink through a Business Partnership Agreement (BPA) to deliver four drought programs: EC Relief Payment (ECRP), Interim Income Support (IIS), EC Exit Package and the Professional Advice and Planning Grant (PAPG).⁹ While these EC payments are a core business responsibility for DAFF, EC payments represent only a small proportion of all payments made by Centrelink on behalf of many other government entities. The total value of payments made by Centrelink in 2009-10 was \$84.2 billion, of which less than 0.3 per cent related to the delivery of EC payments.

13. Centrelink’s new partnership agreement document—a Bilateral Management Arrangement (BMA)—is to be negotiated with DAFF to replace the 2005 BPA.

⁸ Productivity Commission, *Government Drought Support, Report No. 46, Final Inquiry Report*, Melbourne, 2009, p. 206.

⁹ Centrelink’s primary responsibility is to deliver a broad range of government payments and services to Australians. Prior to the 2005 BPA, DAFF and Centrelink worked together through a Memorandum of Understanding.

National review of drought policy

14. On 29 February 2008, the Australian, State and Territory Governments agreed that the EC system was no longer the most appropriate way to provide drought assistance in the context of a changing climate.¹⁰ On 23 April 2008, the then Minister announced a national review of drought policy involving the Bureau of Meteorology (BoM), the Commonwealth Scientific and Industrial Research Organisation (CSIRO), an Expert Social Panel and the Productivity Commission.¹¹ A range of experts and stakeholders were consulted at 151 meetings and public forums across Australia and more than 400 written submissions were received. Following this consultation, the:

- BoM and CSIRO advised that severe prolonged droughts would become more prevalent in the future and under the current policy arrangements, EC declarations would be triggered more frequently;
- Expert Social Panel advised that future drought policy should promote dryness as inevitable and not as a crisis. The panel also reported that the stress had been caused by the existing declaration process, in the implementation of different approaches between and across state jurisdictions, namely in regard to meeting criteria and completing complex paperwork; and
- Productivity Commission reported that, as well as generating inequalities, EC declarations and related drought assistance programs did not help farmers to prepare for drought and manage climate change.

Piloting new drought policy measures

15. On 1 July 2010, the Australian and Western Australian governments commenced a 12-month pilot of new drought measures to inform the Australian Government's ongoing work on national drought policy reform.¹² The pilot is focused on improving farmers' preparedness and risk management

¹⁰ Primary Industries Ministerial Forum, *Communiqué*, 29 February 2008. Available from <http://www.daff.gov.au/about/media-centre/communiques/pimf_-29_february_2008_communique> [Accessed 17 January 2011].

¹¹ Further detail from each of these reports is included in Appendix 3.

¹² Existing drought measures, including assistance available through the EC system, remain unchanged and the Government has advised that the policy will not change until a new policy has been agreed and announced.

and improving the effectiveness of social support services. Programs in the pilot have been funded and delivered by using similar arrangements to those used currently to deliver EC programs.¹³

Audit objective, scope and methodology

16. The objective of the audit was to assess the effectiveness of the Department of Agriculture, Fisheries and Forestry's administration of EC measures and the implementation of the pilot of new drought reform measures.

17. The ANAO examined the department's:

- processes for approving and reviewing EC declarations;
- arrangements for the delivery of drought assistance by state/territory governments;
- arrangements for the delivery of drought assistance by Centrelink;
- monitoring and reporting on performance; and
- management of the pilot for new drought reform measures.

18. To examine the processes for approving and reviewing EC declarations, the ANAO reviewed an indicative sample of 28 areas (out of a total of 92) that, between 1 July 2007 and 30 June 2010, had been the subject of a new application and/or had an existing EC declaration reviewed.

19. The audit focussed on the arrangements DAFF had in place to provide an appropriate level of assurance that the RAAs' and Centrelink's assessments, payments and information reported were sufficiently reliable. The audit was not designed to test the accuracy of the states/territories' and Centrelink's eligibility assessments or their payment decisions.

20. The audit was conducted in accordance with ANAO auditing standards at a cost of \$445 000.

¹³ An extension of the pilot for a further 12 months (to 30 June 2012) was announced in the Australian Government's 2011-12 Budget on 10 May 2011.

Overall conclusion

21. Australia is the driest inhabited continent on earth and drought will continue to be a recurring feature of the country's climate. Drought and the variability of Australia's weather patterns shape the natural environment and influence the productivity of the agricultural sector. Prolonged periods of drought also affect small business operators that service the agricultural sector and, over time, can contribute to the decline of vulnerable rural and regional communities.

22. An Exceptional Circumstances (EC) declaration by the Australian Minister for Agriculture, Fisheries and Forestry allows eligible farmers and small businesses to apply for financial assistance. The rationale for providing EC assistance is to support farmers and small businesses with prospects for long-term viability during short-term adverse events so they are not forced to leave the land. Through the Australian Government's EC programs, approximately \$4.85 billion has been expended on income support, interest rate subsidies and grant assistance for drought affected farmers and small businesses since 2001–02. The majority of this expenditure has been made through the EC Interest Rate Subsidy (ECIRS) and EC Relief Payments (ECRP) programs (\$4.7 billion).

23. DAFF's administration of the EC programs was generally sound. In particular, EC applications from the states/territories were assessed and reviewed by DAFF and the National Rural Advisory Council (NRAC) in a timely and consistent manner. The assessment and review processes took into account expert advice, appropriate data and involved stakeholder consultation. There was sufficient information provided to the Minister to make an informed decision to declare an area as experiencing EC, or not. DAFF has published the rationale underpinning the Minister's recent decisions on its website, providing stakeholders with more information as to the reason(s) for the success or otherwise of a state/territory government's EC application.

24. Following recent rainfall, the percentage of Australia's agricultural land that is EC declared has reduced from a peak of 69.2 per cent in 2008 to 0.3 per cent in 2011. At the same time, Australian and state/territory governments have been considering the results of several evaluations that have been generally critical of the appropriateness and delivery of the current EC drought policy. In light of these reviews, a shift in policy direction from crisis management to risk management to help farmers and farm businesses

plan and prepare for a more challenging climate is currently being tested in a pilot program in Western Australia.

25. The implementation of future drought policies in Australia will continue to require a collaborative effort and partnerships that involve governments and their delivery partners. Based on this audit, and the lessons learned from evaluations undertaken during the past decade, focusing on the following areas will assist DAFF to oversee the delivery of drought assistance now and in the future:

- monitoring key aspects of the performance of DAFF's delivery partners that provide EC payments including state/territory government-based RAAs and Centrelink; and
- building on DAFF's evaluation work with a view to establishing key performance indicators (KPIs) that can better inform decision-makers about drought assistance outcomes on a more timely and regular basis.

26. While DAFF gains some assurance about ECIRS payments through its desktop monitoring of RAA data and state/territory government acquittal processes, a key risk for DAFF is that the RAAs interpret the minimum assessment criteria for the ECIRS program in a different way. At present, DAFF does not review RAA assessments to confirm that requirements are being met. By reviewing RAA assessments on a risk basis, DAFF would have confidence that the assessment criteria of the existing policy guidelines had been met. In this environment, DAFF also has an important role in gathering data on the extent of the variability in ECIRS payment assessments across jurisdictions with a view to informing future joint government drought policy initiatives. Such information will be important for the design of any future drought program that will depend upon a balance between flexibility to respond at the local level and the equitable treatment of drought assistance recipients under the program.

27. DAFF's 2005 BPA with Centrelink for the delivery of EC programs is now outdated and a new BMA is to be negotiated. The success of the BMA will be contingent upon a close alignment of the core business interests of DAFF with Centrelink's responsibilities as the government's service delivery agency.

28. DAFF has a key role in assuring that EC payments delivered by Centrelink are timely and accurate. At the program level, Centrelink can disaggregate and report its performance results for the larger ECRP program from its systems but is not able to report the results for the less material

EC Exit Payments, IIS and PAPG programs. Quality assurance arrangements, including the use of Centrelink's internal capability and controls and DAFF undertaking its own analysis of Centrelink's performance where appropriate, would be beneficial.

29. Currently, the department's KPIs for its drought programs capture the number and timeliness of EC payments delivered by the RAAs and Centrelink rather than the intended impact of the Government's drought policy. Importantly, DAFF's annual reporting against its drought program KPIs has not reflected information that has been obtained through reviews and evaluations. Although the information reported in DAFF's annual report indicates that delivery is effective, the reviews/evaluations have generally been critical of the consequences of Australia's existing drought policy. To bridge this gap in performance information, the department's KPIs could be better designed to progressively collect information that would provide stakeholders with a better indication of the impact of drought assistance.

30. In 2010, the Australian and Western Australian governments commenced a pilot of new drought measures to inform ongoing work on national drought policy reform. To date, DAFF's administration of the pilot of new drought measures has been sound. The final report on the pilot's results is due on 30 September 2011.¹⁴ A comprehensive monitoring and reporting framework has been developed to guide the assessment and reporting of the impact of the pilot's measures.

31. The ANAO has made three recommendations to improve the administration and implementation of current drought assistance arrangements to take forward, should the Government proceed with a new national drought policy.

¹⁴ On 10 May 2011, an extension of the pilot for a further 12 months (to 30 June 2012) was announced as part of the Australian Government's 2011–12 Budget. The Government also advised that the review of the pilot programs, due to be completed by 30 September 2011, will be focused on informing the further consideration of national drought policy reform.

Key findings by chapter

Approval and Review of Exceptional Circumstances Declarations (Chapter Two)

32. For an indicative sample of 28 areas (out of a total of 92) that had either submitted a new EC application and/or had an existing EC declaration reviewed between 1 July 2007 and 30 June 2010, the ANAO examined the:

- processes for approving and reviewing EC declarations; and
- information provided to stakeholders.

Approving and reviewing EC declarations

33. All EC applications and reviews examined in the ANAO's sample were assessed and reviewed by DAFF and NRAC in a timely and consistent manner. In each case, the assessment and review processes took into account expert advice from ABARES and BoM, as well as other climatic and agronomic data provided by state/territory governments. Stakeholders were consulted throughout the assessment and review processes. Analysis of DAFF's files indicated that sufficient information was provided by DAFF and NRAC, to support an informed decision by the Minister.

Information provided to stakeholders

34. As there are both successful and unsuccessful applications from state/territory governments, the announcement of the Minister's EC decision can be sensitive. Farmers and small businesses affected by drought seek early advice of the Minister's decision as an EC declaration means that an application can be submitted for financial assistance.

35. Posting the Minister's decision and reasons for it publicly has assisted the transparency of the process. However, advice from the Minister's office to state/territory ministers and DAFF was not always provided in a timely manner. This has impacted on the preparedness of delivery partners to address stakeholders' questions and impacted the provision of instructions from DAFF to Centrelink and the RAAs. Providing there is a clear understanding of any confidentiality requirements for proposed announcements, it would be desirable for all delivery partners to be notified before an announcement is made so that they can be prepared to answer questions relating to the outcome in an informed manner, and provide advice and assistance to stakeholders.

Arrangements with state and territory governments to deliver drought assistance (Chapter Three)

36. ECIRS provides grants of up to \$100 000 per year to farmers and small businesses that are viable in the long term but are in financial difficulty due to an EC event. As of 31 March 2011, state/territory government-based Rural Adjustment Authorities (RAAs) had made ECIRS payments totalling more than \$2.8 billion to 28 245 farmers and small businesses since July 2001.

37. In 1993, Australian and state/territory government ministers agreed to the IGA that underpins the delivery of the ECIRS program. DAFF issues policy guidelines that set out minimum assessment criteria and other factors the RAAs must consider when assessing ECIRS applications. The guidelines do not instruct the RAAs on how to determine the level of financial difficulty that justifies assistance or to calculate the level of subsidy to be provided.

Monitoring program delivery

38. The IGA and the policy guidelines did not specify indicators, targets or deliverables for performance monitoring and reporting on ECIRS delivery. DAFF gains some assurance about ECIRS payments through desktop monitoring of RAAs' weekly reports of application numbers and payment data and state/territory government acquittal processes. Since July 2010, DAFF has collated ECIRS data into the Drought and Climate Change Reporting System (DCCRS) database. The DCCRS enables DAFF to monitor compliance with the guideline's funding limits, in particular the \$500 000 cumulative funding limit for farmers. Previously DAFF relied on the RAAs to ensure overpayments were not made.

39. There is variation in the RAAs' interpretation of the minimum assessment criteria. A key risk for DAFF is that it does not employ any formal quality assurance mechanisms to confirm that RAA assessments of ECIRS applications met the guideline's minimum assessment criteria. DAFF surveyed the RAAs in December 2009 to gain an understanding on how aspects of the ECIRS guidelines have been interpreted. The survey highlighted that RAAs applied different weightings to criteria and different methodologies to determine the: level of financial difficulty that warranted support; proportion of a farmer's labour that was contributed to the farm; and funding levels for successful applicants.

Arrangements with Centrelink to deliver drought assistance (Chapter Four)

40. In 2005, DAFF engaged Centrelink through a Business Partnership Agreement (BPA) to deliver the following EC programs—ECRP, IIS, PAPG and the EC Exit Package.¹⁵ During 2009–10, the Australian Government provided a total of: \$257 million for ECRP payments to 19 000 farming families and small businesses; \$0.58 million for IIS payments to 161 farmers and one small business; \$12.5 million for PAPG payments; and paid 138 Exit grants of up to \$150 000.

Monitoring Centrelink's delivery of drought assistance

41. Centrelink reports publicly on its overall performance for the delivery of EC programs. Each of Centrelink's annual reports since 2007–08 advised that all targets for EC program delivery KPIs had been met. On a program-by-program basis, Centrelink provided DAFF with performance information on the timeliness of the larger ECRP program, but not the smaller Exit Package or IIS. In addition, Centrelink did not report performance information on payment correctness for any individual EC program to DAFF.

Assurance arrangements for payment integrity

42. Centrelink has a range of quality controls that were designed to ensure the quality of payments. One of the primary controls is Quality-on-line (QOL), put in place to prevent and detect staff errors at their source. For Centrelink officers, EC payments are a relatively uncommon payment to process when compared to other payments delivered by Centrelink and, like other payments administered by Centrelink, are subject to QOL.

43. In 2009, DAFF engaged an audit firm to conduct two reviews of the 'consistency and accuracy' of Centrelink's processing of ECRP for farmers and for small businesses. The audit firm found that Centrelink's processing was timely but, recommended that 'DAFF undertake future payment compliance audits to independently assess payment and eligibility correctness'.

44. In the last decade, the number of ECRP recipients peaked at 25 455 (2008–09) and by May 2011, had declined to 541 recipients. In order to maintain an appropriate level of assurance of the integrity of ECRP payments, and depending on the number of ECRP recipients in the future, it will be

¹⁵ Prior to the 2005 BPA, DAFF and Centrelink worked together through a Memorandum of Understanding.

appropriate for DAFF to negotiate arrangements with Centrelink to measure the level of accuracy and correctness of ECRP payments based on an agreed survey design and methodology, such as the Random Sample Survey (RSS) used by other policy agencies.¹⁶

45. DAFF and Centrelink advised that a new Bilateral Management Arrangement was to be negotiated to replace the now outdated BPA. In these negotiations, it will be important for DAFF to pursue arrangements to obtain greater assurance regarding Centrelink's delivery performance and EC payment integrity.

Monitoring and reporting on performance (Chapter Five)

Performance monitoring and reporting framework

46. EC assistance is the Australian Government's principal mechanism for assisting farmers and small business operators who are experiencing exceptional hardship due to a rare and severe climatic or other event.¹⁷ The KPIs used by DAFF for its drought programs are designed to measure the timeliness of EC service delivery and the number of EC grants provided—neither KPI assists stakeholders to assess the effectiveness of the program in achieving its objective.

47. While identifying measures of effectiveness for drought policy is particularly challenging, an indication of the impact of drought initiatives could be obtained through the use of a range of approaches including KPIs that focus on the target group. The target group for EC policy is farmers and small business operators with long-term prospects for viability. In the case of farm enterprises, the characteristics of a viable farm are known and include: farm size (scale allows larger enterprises to reduce their fixed costs relative to revenue); debt to equity ratio; and whether the farmer belongs to productivity groups and benchmarks his/her performance. One example of a lead indicator that DAFF could consider and use as a measure of the likely effectiveness of drought programs that target this group would be the extent to which EC payments were made available and used by farms with these

¹⁶ Centrelink defines the Random Sample Survey as the primary assurance mechanism for measuring the accuracy of program outlays on social security payments administered by Centrelink. The survey provides a point-in-time analysis of a stratified sample of customers' circumstances designed to establish whether customers are paid accurately across programs administered by Centrelink.

¹⁷ Australian Government Department of Agriculture, Fisheries and Forestry, *Exceptional Circumstances Information Handbook: A guide to policy processes and assistance measures*, p. 3.

characteristics. The data to support such a KPI could be obtained via ABARES' biannual Farm Survey.

Evaluation of EC programs

48. KPIs and program evaluation are complementary approaches that can be used to monitor and review the effectiveness of a program. A number of reviews/evaluations have been undertaken of the EC programs. Generally, these have been critical of the programs and have led to the consideration by the Government of policy alternatives. The information found in these reviews and evaluations was not conveyed through DAFF's annual reporting of EC program performance. By using a combination of planned evaluations and the ongoing refinement and reporting against a range of effectiveness KPIs, DAFF could provide stakeholders with a better indication of the impact of EC assistance on an ongoing basis.

Piloting new drought measures (Chapter Six)

49. Limitations of Australia's existing drought policy have been identified in recent reviews and a new approach to drought policy is being explored through a pilot of new drought assistance measures in Western Australia. Given the proposed change in policy direction from crisis response to risk management, the Western Australian pilot is a practical approach to test potential new initiatives and gain experience before scaling up to a national policy.

50. Importantly, the pilot provides an opportunity for stakeholders to see, use and comment on the new initiatives before the Australian Government makes a decision on Australia's future arrangements for drought management and assistance. The pilot's design considered: the Government's options; risks and benefits of different approaches; and comments from stakeholders and experts. The governance arrangements, implementation approach and oversight and review arrangements were well documented through the National Partnership Agreement, the project plan and the underpinning delivery partnership arrangements.

51. Should the Australian Government decide to 'roll out' the pilot nationally, a consideration for DAFF will be the need to manage the transformation of the small pilot into a scaled-up program operating across Australia, taking into account the concerns raised by stakeholders about the transferability of the pilot from Western Australia.

Summary of agency responses

Department of Agriculture, Fisheries and Forestry

52. The Department welcomes the ANAO's performance audit report into the effectiveness of the administration of Exceptional Circumstances measures and the implementation of the Western Australian pilot of possible new drought reform measures.

53. The Department notes the views formed by the ANAO, agreeing with the recommendations provided within this report, with qualification on one recommendation. A full commentary detailing the Department's response to the recommendations has been provided.

54. The Department is committed to addressing the matters raised in this report, especially given the Australian Government's commitment to national drought policy reform.¹⁸

Centrelink

55. Centrelink considers that the development of a new Bilateral Management Agreement with the Department of Agriculture, Fisheries and Forestry will further strengthen the delivery of Drought Assistance.¹⁹

¹⁸ The ANAO provided a copy of the proposed report to DAFF. DAFF's full response is included in Appendix 1.

¹⁹ The ANAO provided an extract of the proposed report to Centrelink. Centrelink's full response is included in Appendix 2.

Recommendations

Recommendation No. 1
Paragraph 3.29 In light of concerns raised in recent reviews that highlighted the impact of the different interpretations of the Exceptional Circumstances Interest Rate Subsidy (ECIRS), the ANAO recommends that DAFF:

- (a) implements arrangements to provide assurance that the minimum assessment criteria for ECIRS eligibility are being met; and
- (b) gathers data on the variability in ECIRS payments across jurisdictions, with a view to informing future Australian and state/territory government drought policy initiatives.

DAFF response. *Agreed*

Recommendation No. 2
Paragraph 4.36 In developing a new Bilateral Management Arrangement (BMA) with Centrelink, the ANAO recommends that DAFF negotiates arrangements that would provide greater assurance in relation to:

- (a) Centrelink's performance in delivering each individual drought assistance program against established key performance indicators; and
- (b) the integrity of drought assistance payments.

DAFF response. *Agreed*

Recommendation No. 3
Paragraph 5.28 To provide more timely information on the design and appropriateness of Australia's current and future drought polices, the ANAO recommends that DAFF:

- (a) builds on existing evaluation work and develops a range of complementary effectiveness key performance indicators (KPIs); and
- (b) uses these KPIs to report annually on drought assistance outcomes.

DAFF response. *Agreed with qualification.*

Audit Findings

1. Background and Context

This chapter provides the background and context for drought policy and assistance provided in Australia including the implementation of a pilot for new drought assistance measures. The audit's objectives, scope and methodology are also outlined.

Australia's experience of drought

1.1 Australia has repeatedly experienced severe and prolonged periods of drought. Although the extent and severity of each drought event differs, drought is a recurring feature of Australia's variable climate.²⁰ As well as the direct impact on agricultural production and the natural environment, prolonged periods of dry weather and drought have also posed increasing difficulties in maintaining the social fabric of rural and regional Australia, and threatened the viability of some rural economies and communities.²¹

1.2 Australia has approximately 136 000 farm businesses of various scales that are involved in a range of agricultural activities and generate approximately \$30 billion in exports per annum.²² The most recent drought was unprecedented in geographic extent, length and severity with some areas being EC declared for most years since 1995. For central and eastern Australia, the prolonged drought broke during 2010, with some areas experiencing higher than average rainfalls and severe flooding. Conditions had improved in Western Australia prior to 2010 but are, once again, dry.

The Australian Government's drought policy

1.3 Early drought policy focused on attempts to 'drought proof' the agriculture sector by building dams and encouraging the adoption of irrigation practices. Between 1971 and 1989, drought was treated as a natural disaster and temporary relief payments (subsidies for fodder, agistment and interest repayments) were delivered through the Natural Disaster Relief and Recovery

²⁰ Notable periods of drought include: 1895-1902 (the 'Federation Drought'); 1914-1915; 1937-1945; 1982-1983; 1991-1995; 1997 and 2001-2010.

²¹ Expert Social Panel Report, *It's about people: Changing perspectives on dryness*, 2008, p. 26.

²² Australian Bureau of Agricultural and Resource Economics and Sciences, *Commodity exports to exceed quarter of a trillion dollars*. Available from <<http://www.abares.gov.au/media-releases/abares-releases/2011/commodity-exports-to-exceeds-quarter-of-a-trillion-dollars>> [Accessed 1 March 2011].

Arrangements (NDRRA). In 1989, the Australian Government removed drought from the NDRRA and reviewed its national drought policy.

Current National Drought Policy

1.4 The current National Drought Policy (NDP) was agreed by the Australian and state and territory government ministers for agriculture and primary industries in August 1992. The NDP is founded on the tenet that the effects of drought can be reduced through comprehensive risk management practices. Its key objective is to assist the farm sector to: plan; prepare; respond; and recover from drought. The Australian Government provides a range of programs to assist farm businesses to plan and prepare for periods of drought, such as special taxation measures, financial counselling and grants for natural resource management activities.

1.5 The NDP also recognises that there are rare and severe events such as drought, severe and abnormal frosts and locust plagues that are beyond the ability of even the most prudent farmer to manage. Exceptional Circumstances (EC) assistance is the Australian Government's principal mechanism for assisting farmers and small business operators who are experiencing exceptional hardship due to a rare and severe event. For an event to be eligible for EC assistance, the event must:

- **be rare and severe.** A rare event is defined as one that occurs, on average, only once in every 20 to 25 years. A rare event is severe if it is of a significant scale. It must also affect a significant proportion of farm businesses in a region to warrant government intervention;
- **result in a rare and severe downturn in farm income over a prolonged period.** The effects of the event must result in a rare and severe income downturn that cannot be managed by normal risk management practices. The impact must extend beyond 12 months; and
- **not be predictable or part of a structural adjustment process.** EC support is not available for problems that have arisen from the fundamental need for structural adjustment or for events that: have been foreseeable; are covered by existing government assistance mechanisms or the NDRRA; and are manageable using normal risk management strategies such as insurance.

1.6 The rationale for providing EC assistance is to ensure that eligible farmers and small business operators with long-term prospects for viability are not forced to leave the land or their business due to short-term adverse events

that are beyond their ability to reasonably manage.²³ Guidance on the EC policy, the EC criteria and the processes for applying for an EC declaration and approving and reviewing EC declarations have been documented in the *Exceptional Circumstances Information Handbook*.

Approval and review of EC declarations

1.7 The state/territory governments can apply for an EC declaration if the EC criteria have been met. The Australian Government Minister for Agriculture, Fisheries and Forestry (the Minister) determines whether the event should be EC declared. The Department of Agriculture, Fisheries and Forestry (DAFF) and the National Rural Advisory Council (NRAC) provide advice to the Minister if the EC criteria have been satisfied.²⁴ A new, 'full EC declaration' is valid for up to 24 months. Declarations are reviewed by NRAC before they expire. If conditions have not improved, the Minister may extend an EC declaration for up to 12 months.

1.8 Funding for EC assistance is demand driven and the Australian Government has provided approximately \$4.85 billion in EC drought assistance since 2001–02. The total area of Australia's agricultural land covered by EC declarations for drought peaked at 69.2 per cent (87 declarations) on 1 May 2008.²⁵ As of January 2011, some areas of Australia had been EC drought declared for ten years or more (as illustrated in Figure 1.1). Recent improvements to conditions have resulted in the total number of EC declared areas decreasing to 0.3 per cent of Australia's agricultural land (three declarations) as of 16 June 2011.²⁶

²³ Australian Government Department of Agriculture, Fisheries and Forestry, *Exceptional Circumstances Information Handbook: A guide to policy processes and assistance measures*, p. 3.

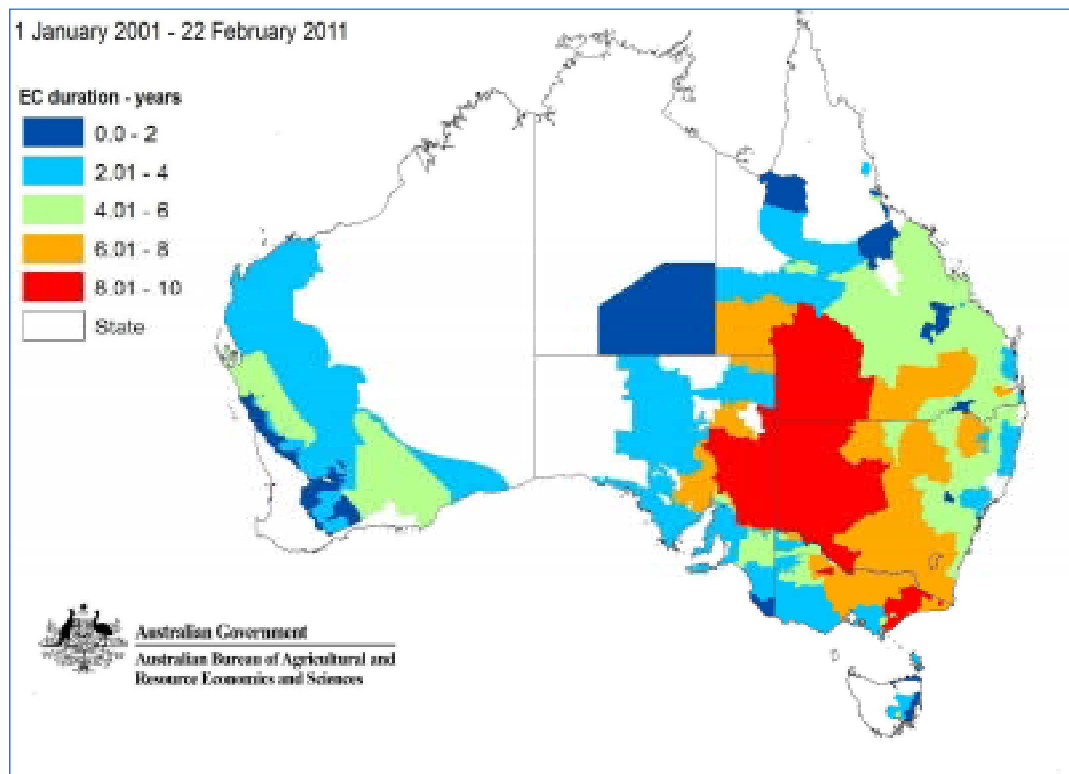
²⁴ The National Rural Advisory Council (NRAC) is a skills-based independent council that advises the Australian Government Minister for Agriculture, Fisheries and Forestry on rural issues.

²⁵ This included areas that were *prima facie* declared and areas that had been declared as Interim Assistance areas in 2007 by the then Prime Minister as part of the then Government's pre-election commitments.

²⁶ There are two EC declared areas in New South Wales, *Bundarra* and *Eurobodalla*, which are not due for review until April 2012. The EC declaration for *River Murray and Lower Lakes Corridor* was extended until March 2012.

Figure 1.1

Duration of Exceptional Circumstances declarations



Source: Australian Bureau of Agricultural and Resource Economics and Sciences.

1.9 As there are both successful and unsuccessful applications from state/territory governments, the announcement of the Minister’s EC decision can be sensitive. Farmers and small businesses affected by drought seek early advice of the Minister’s decision as an EC declaration means that applications may be submitted for financial assistance.

Delivery arrangements for Exceptional Circumstances programs

1.10 DAFF manages the arrangements established with the state and territory governments and Centrelink to assess applications and to make payments for the EC assistance programs they deliver. Table 1.1 outlines the EC programs and the Government’s expenditure on each program since 2001-02.

Table 1.1**Exceptional Circumstances assistance programs delivered by the state/territory governments and Centrelink for the period 1 July 2001 to 31 March 2011**

Assistance	Description	Delivered by	Payments (\$ million)
Exceptional Circumstances Interest Rate Subsidies (ECIRS)	Subsidies on interest payments of up to \$100 000 per year for farmers and small businesses.	State/ territory governments	2842.3
Exceptional Circumstances Relief Payments (ECRP)	Fortnightly income support payments and access to a health care card for farmers and small businesses in EC declared areas.	Centrelink	1870.4
Interim Income Support (IIS)	Fortnightly income support payments for farmers and small businesses in prima facie declared areas.	Centrelink	47.8
Exceptional Circumstances Exit Package	Grants for farmers of up to \$170 000 for relocation, advice and retraining, if the farm is sold.	Centrelink	46.4
Professional Advice and Planning Grant (PAPG)	Grants for farmers of up to \$5500 for professional advice and planning for drought management and recovery.	Centrelink	39.4
Total			4 846.3

Note: The PAPG commenced in June 2006 and the EC Exit Package commenced in June 2007.

Source: ANAO analysis of DAFF information.

1.11 Arrangements with the state/territory governments to deliver EC Interest Rate Subsidies (ECIRS) are set out in the 1993 *Intergovernmental Agreement on Rural Adjustment* (the IGA). The current IGA was to be replaced by a National Partnership Agreement (NPA) in January 2011.²⁷ However, the IGA was extended and is now due to expire on 30 June 2011.

1.12 The agencies responsible for delivering ECIRS on behalf of the state/territory governments are collectively referred to as Rural Adjustment Authorities (RAAs). An RAA may be the state/territory department of agriculture or a separate entity. In Victoria, the RAA is a commercial agribusiness bank—the Rural Finance Corporation of Victoria. Following the

²⁷ The National Partnership Agreement has been deferred pending agreement on the new drought policy.

Minister's EC announcement, DAFF issues ECIRS policy guidelines to the RAAs that set out the minimum assessment criteria, the maximum payment allowed and other factors that must be considered when assessing ECIRS applications.

1.13 The IGA allows the RAAs flexibility in making decisions on the form and level of support to be provided to an applicant. This flexibility was given on the expectation that delivery would be most effective when the RAAs were allowed to be responsive to the specific circumstances pertaining to an applicant, given the RAAs' knowledge of local, regional and industry conditions. As a consequence, the RAAs have developed different approaches for assessing ECIRS applications and determining the total payment due.

1.14 Arrangements for EC programs delivered by Centrelink have been agreed in a 2005 Business Partnership Agreement (BPA).²⁸ Centrelink delivers the EC Relief Payment (ECRP), Interim Income Support (IIS), EC Exit Package and the Professional Advice and Planning Grant (PAPG). While these EC payments are a core business responsibility for DAFF, EC payments represent only a small proportion of all payments made by Centrelink on behalf of many other government entities.

1.15 The BPA's core agreement sets out roles and responsibilities. Attached to the core agreement are schedules that set out financial, assurance and performance requirements and protocols that describe delivery requirements for individual programs. DAFF and Centrelink are due to negotiate a replacement for the 2005 BPA through Centrelink's current partnership agreement document—a Bilateral Management Arrangement (BMA).

National review of drought policy

1.16 On 29 February 2008, the Australian, State and Territory Governments agreed that the EC system was no longer the most appropriate way to provide drought assistance in the context of a changing climate.²⁹ On 23 April 2008, the then Minister for Agriculture, Fisheries and Forestry announced a national review of drought policy involving the Bureau of Meteorology (BoM), the

²⁸ Centrelink was established under the *Commonwealth Services Delivery Agency Act 1997*. Centrelink's primary responsibility is to deliver a broad range of government payments and services to Australians. Prior to the 2005 BPA, DAFF and Centrelink worked together through a Memorandum of Understanding.

²⁹ Primary Industries Ministerial Forum, *Communiqué*, 29 February 2008, Available from <<http://www.daff.gov.au/about/media-centre/communiqués/pimf>> [Accessed 17 January 2011].

Commonwealth Scientific and Industrial Research Organisation (CSIRO), an Expert Social Panel and the Productivity Commission.³⁰ A range of experts and stakeholders were consulted at 151 meetings and public forums across Australia and more than 400 written submissions were received. Following this consultation, the:

- BoM and CSIRO advised that severe prolonged droughts would become more prevalent in the future and, under the current policy arrangements, EC declarations would be triggered more frequently;
- Expert Social Panel advised that future drought policy should promote dryness as inevitable and not as a crisis. The panel also reported that the stress had been caused by the existing declaration process, in the implementation of different approaches between and across state jurisdictions, namely in regard to meeting criteria and completing complex paperwork; and
- Productivity Commission found that policy objectives were not being met as EC declarations and related drought assistance programs did not help farmers to prepare for drought and manage climate change. Importantly, the Commission reported that different interpretations of the ECIRS eligibility arrangements generated inequalities.³¹

Developing a new drought policy

1.17 During 2008 and 2009, the Australian and state/territory government ministers for agriculture and primary industries agreed to principles for drought reform, potential drought measures and considered their respective roles and responsibilities in the delivery of a comprehensive drought policy.³² The Australian Government considered a range of drought policy options but to date no clear best approach has been agreed. Existing drought measures, including assistance available through the EC system, remain unchanged and the Government has advised that the policy will not change until a new policy has been agreed and announced.

³⁰ The Hon. Tony Burke MP, Minister for Agriculture, Fisheries and Forestry, *Drought policy for Australia's future*, 23 April 2008.

³¹ Further detail on each of these reports is provided in Appendix 3.

³² Primary Industries Ministerial Forum, *Communiqué*, 12 November 2009 and 13 February 2009. Available from <<http://www.daff.gov.au/about/media-centre/communiques/pimf>> [Accessed 17 January 2011].

Pilot of new drought reform measures

1.18 On 5 May 2010, the then Minister for Agriculture, Fisheries and Forestry announced that a pilot of new drought reform measures would commence on 1 July 2010 in Western Australia and run for 12 months.³³ The pilot is to inform the Australian Government's ongoing work on national drought policy reform. Measures included in the pilot focus on improving farmers' preparedness and risk management; and improving the effectiveness of social support services. These measures are: farm family support; farm planning; building farm businesses; farm social support; stronger rural communities; beyond farming; and farm exit support. Programs in the pilot are being funded and delivered by the:

- Australian Government—DAFF; Department of Health and Ageing (DoHA); Department of Human Services (DHS); Centrelink; and the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA); and
- Western Australian Government—Department of Agriculture and Food Western Australia (DAFWA).³⁴

1.19 An Intergovernmental Working Group was established to coordinate the pilot. DAFF is the lead agency and is responsible for planning, implementing and reviewing the pilot. It also provides secretariat services to the working group.

Previous ANAO reports

1.20 The ANAO reviewed the administration and implementation of drought assistance in 2004–05.³⁵ This audit concluded that: Australian Government departments had made considerable efforts to deliver drought assistance to affected communities; agencies and governments had worked well together; and delivery of assistance was accurate and timely. The report

³³ On 10 May 2011, an extension of the pilot for a further 12 months (to 30 June 2012) was announced as part of the Australian Government's 2011–12 Budget. The Government also advised that the review of the pilot due to be completed by 30 September 2011 will be focused to inform the further consideration of national drought policy reform.

³⁴ The Australian Government is contributing \$17.9 million and the Western Australian Government is contributing \$5 million (cash and in-kind).

³⁵ Australian National Audit Office, Audit Report No. 50 2004–05, *Drought Assistance*, 2 June 2005.

made ten recommendations that focused on improving the administration and implementation of EC and other drought assistance measures.

Audit objective, scope and methodology

1.21 The objective of the audit was to assess the effectiveness of the Department of Agriculture, Fisheries and Forestry's administration of EC measures and the implementation of the pilot of new drought reform measures.

1.22 The ANAO examined the department's:

- processes for approving and reviewing EC declarations;
- arrangements for the delivery of drought assistance by state/territory governments;
- arrangements for the delivery of drought assistance by Centrelink;
- monitoring and reporting on performance; and
- management of the pilot for new drought reform measures.

1.23 The audit did not examine drought-related or rural assistance programs that other Australian government agencies may deliver. The audit focused on the arrangements DAFF had in place to provide an appropriate level of assurance that RAA's and Centrelink's assessments, payments and information reported were sufficiently reliable. The audit was not designed to test the accuracy of the states/territories' and Centrelink's eligibility assessments or their payment decisions.

1.24 The audit was conducted in accordance with ANAO auditing standards at a cost of \$445 000. The audit methodology included an examination of:

- policy and operational documentation including: guidelines, reports, files, briefing papers, applications and assessment and review documentation; and
- an indicative sample of 28 areas (of the 92 areas) that, between 1 July 2007 and 30 June 2010, had been the subject of a new EC application (19 assessments) and/or had an existing EC declaration reviewed (37 reviews). The ANAO's sample (outlined in Appendix 4) covered a total of 84 separate decisions made by the Minister for Agriculture, Fisheries and Forestry.

1.25 Officers from DAFF and Centrelink and key stakeholder groups were interviewed. The ANAO also met with officers from state government departments of agriculture and primary industry, Rural Adjustment Authorities and farming peak bodies.

1.26 The audit team visited the following EC areas with NRAC members as part of two EC review inspections: *Murray Mallee* and *River Murray and Lower Lakes Corridor* in South Australia; and *Mallee Northern Wimmera Revised* and *Central Victoria North Revised* in Victoria. The audit team also visited the pilot region with a Centrelink Rural Service Officer. As part of these visits, the team spoke to farmers and small business operators.

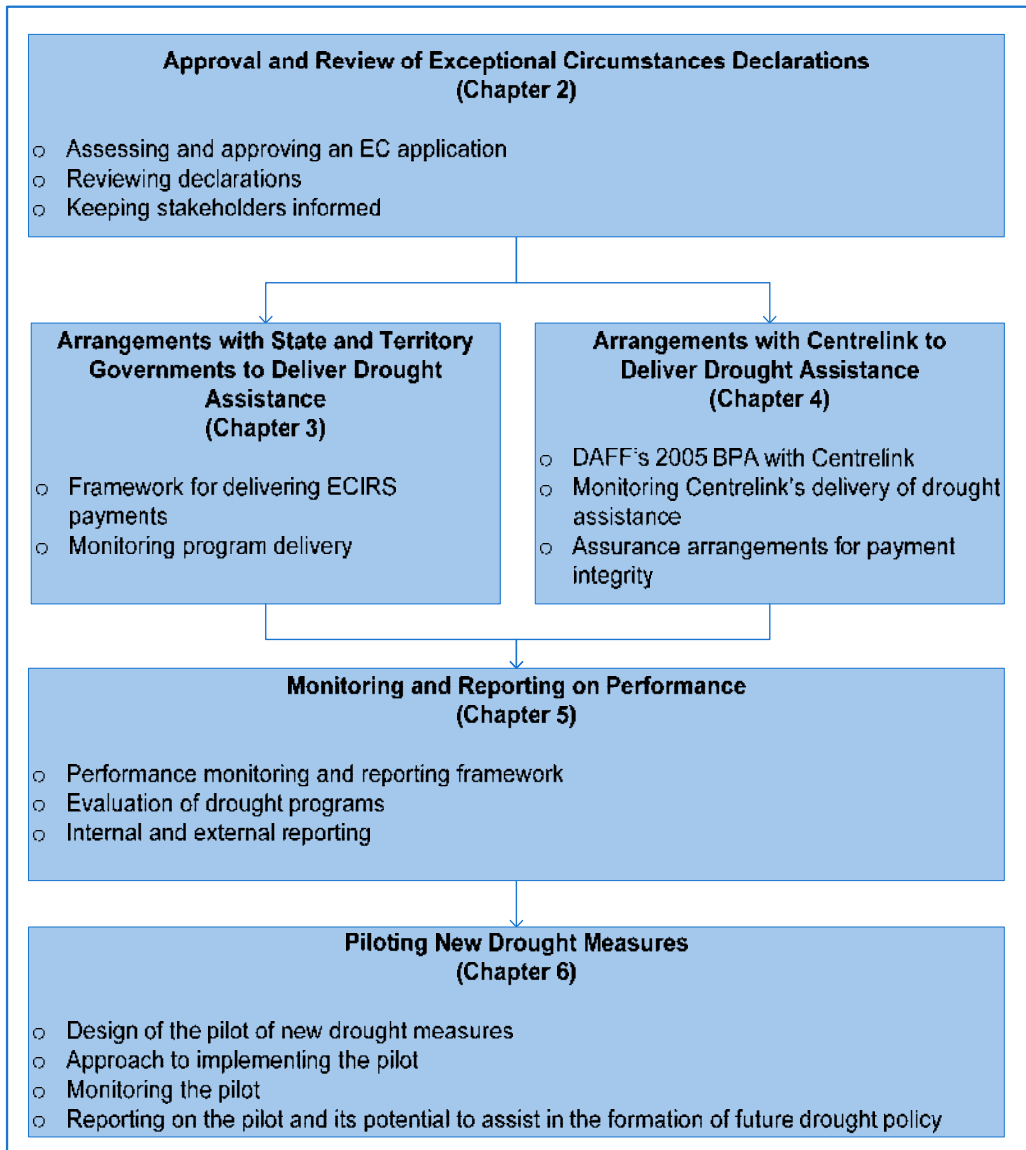
1.27 The ANAO would like to express its appreciation to the department and all stakeholders involved for their assistance in the conduct of this audit.

Report structure

1.28 The report structure is outlined in Figure 1.2.

Figure 1.2

Audit report structure



2. Approval and Review of Exceptional Circumstances Declarations

This chapter discusses the assessment and approval of applications for an EC declaration. The process for reviewing EC declarations that were due to expire was also examined.

Introduction

2.1 State/territory governments may apply for an EC declaration if they consider the EC criteria for a rare and severe event have been met. The Australian Government Minister for Agriculture, Fisheries and Forestry (the Minister) determines whether the event has or has not met the EC criteria.³⁶ The EC criteria and the processes for applying for an EC declaration and approving and reviewing declarations have been documented in the publicly available *Exceptional Circumstances Information Handbook* (EC Handbook).

2.2 Farmers and small businesses affected by drought seek early advice of the Minister's decisions as declarations give access to financial assistance. DAFF and the National Rural Advisory Council (NRAC) provide advice to the Minister if the application for an EC declaration has satisfied the EC criteria. A new, 'full EC declaration' is valid for up to 24 months. Declarations are reviewed by NRAC before they expire and, if conditions have not improved, the Minister may extend an EC declaration for a further 12 months.

2.3 For an indicative sample of 28 areas (out of a total of 92)³⁷ that had been assessed for a new declaration and/or had an existing EC declaration reviewed between 1 July 2007 and 30 June 2010, the ANAO examined the:

- process for assessing and approving new EC declarations (19 applications);
- process for reviewing declarations due to expire (37 reviews); and
- information provided to stakeholders about EC decisions.

³⁶ Criteria for identifying an EC event were agreed by the Australian, state and territory government Ministers for agriculture and primary industries.

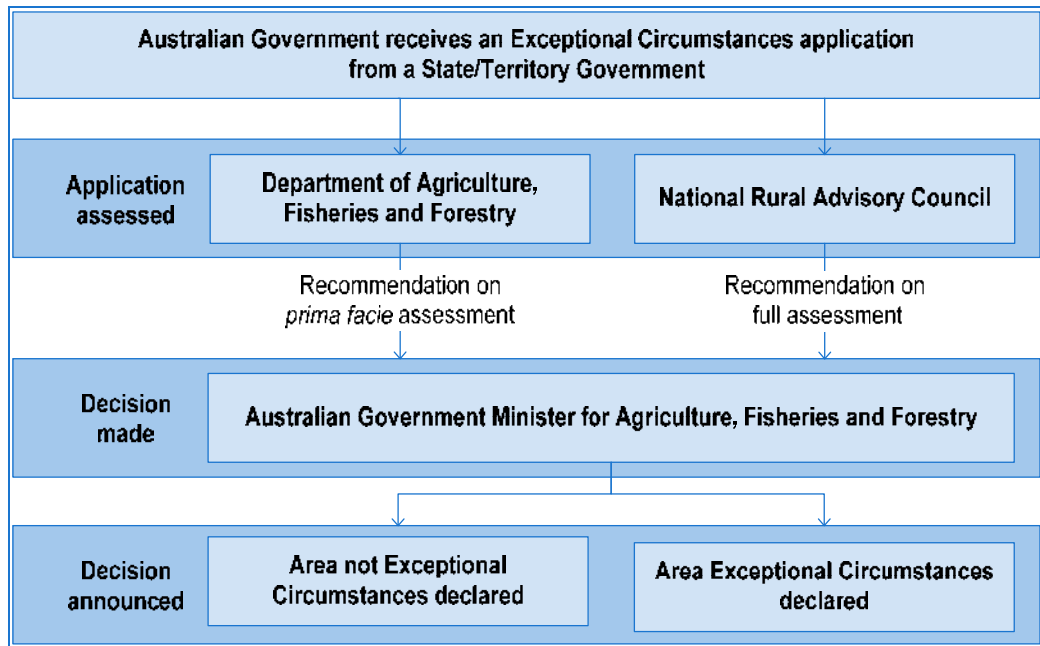
³⁷ A list of areas included in the ANAO's sample is included in Appendix 4.

Assessing and approving an EC application

2.4 The process for assessing and approving EC applications received from state/territory governments is outlined in Figure 2.1. Before the Minister announces an EC declaration, the Prime Minister must first approve the appropriation of funds for EC assistance. The Minister for Finance and Deregulation is also consulted on costings.

Figure 2.1

Process for assessing and approving EC applications



Source: ANAO analysis of DAFF data.

2.5 As shown in Figure 2.1, applications for EC declarations are assessed concurrently by DAFF and NRAC. DAFF conducts a desk top review and, based on ABARES and BoM data, advises the Minister whether or not there is a *prima facie* case for an EC declaration. A '*prima facie* declaration' provides Interim Income Support (IIS) for up to six months during which time NRAC conducts its assessment. NRAC's advice, which is based on ABARES and BoM data and an on-ground inspection, is the basis of the Minister's final decision. A new, 'full EC declaration' offers income support, interest rate subsidies and grant assistance for up to 24 months.

2.6 The ANAO reviewed the application process for the 19 applications in the ANAO's sample and examined the: assessment of applications; advice

provided to the Minister by DAFF and NRAC; and documentation of the Minister's decision.

Applying for an EC declaration

2.7 An EC application must establish a case in terms of each of the EC criteria. Guidance set out in the EC Handbook advised that an application should include: a clear outline of the event and the boundary of the area affected by the event; information on production cycles and the financial downturn; data, such as meteorological analysis and rainfall statistics; and farm case studies or surveys to highlight the impact on production systems. Officers from state departments of agriculture advised the ANAO that applications take, on average, two months to prepare.

2.8 The National Agricultural Monitoring System (NAMS) was introduced in 2007 to streamline the application and assessment process. Through NAMS, potential applicants had online access to Australian Government data. NAMS assisted applicants to demonstrate that an event met the EC criteria and helped to make applications consistent.

2.9 In 2009, state and territory governments withdrew funding for NAMS. State officers advised the ANAO that the states had withdrawn from the joint funding arrangements because the states had systems that could provide the information required for an EC application. Nevertheless, DAFF advised that, in the absence of NAMS, applications had been less comprehensive and did not have suitable data to substantiate the claims made. Against this background, there would be benefit in DAFF and its state and territory government counterparts agreeing on a template for EC applications and the evidence required to substantiate an event has met the EC criteria.

Assessing EC applications

2.10 For each of the 19 applications in the ANAO's sample, NRAC and DAFF reviewed the application against data from ABARES and the BoM and NRAC inspected each area to collect 'on-the-ground' information. Inspections were organised by the relevant state/territory department and generally comprised: farmer meetings; tours to properties to assess impact on stock/crops/vines; and meetings with industry bodies and state/territory-based agricultural organisations. Officers from the relevant state/territory government department and an officer from the DAFF secretariat accompanied NRAC members on the tour.

Advice to the Minister

2.11 For the 19 applications in the ANAO's sample:

- DAFF had recommended that 13 applications, *prima facie*, met the EC criteria and six applications did not *prima facie* meet the EC criteria; and
- NRAC recommended that 14 areas be EC declared and five areas not be EC declared. NRAC recommended the declaration of one area (*The Gulf, Queensland*) that had not *prima facie* met the criteria according to DAFF's initial assessment. Subsequently, *The Gulf*, was EC declared due to drought-like conditions that followed an extended inundation event.

2.12 Recommendations from DAFF and NRAC were provided to the Minister in a briefing minute. Each minute clearly outlined: the area that the application referred to; the reason for the application; key issues and potential sensitivities; and the recommendation and its rationale. NRAC's Chair provided a report detailing the council's recommendation and the rationale. If a *prima facie* or EC declaration was recommended, there would also be letters seeking final approval from the Prime Minister and approval on costings from the Minister for Finance and Deregulation. A letter to advise the state/territory minister of the Minister's decision was also attached. For each application reviewed, the Minister had agreed with the recommendations made by DAFF and NRAC.

Timeliness of the assessment process

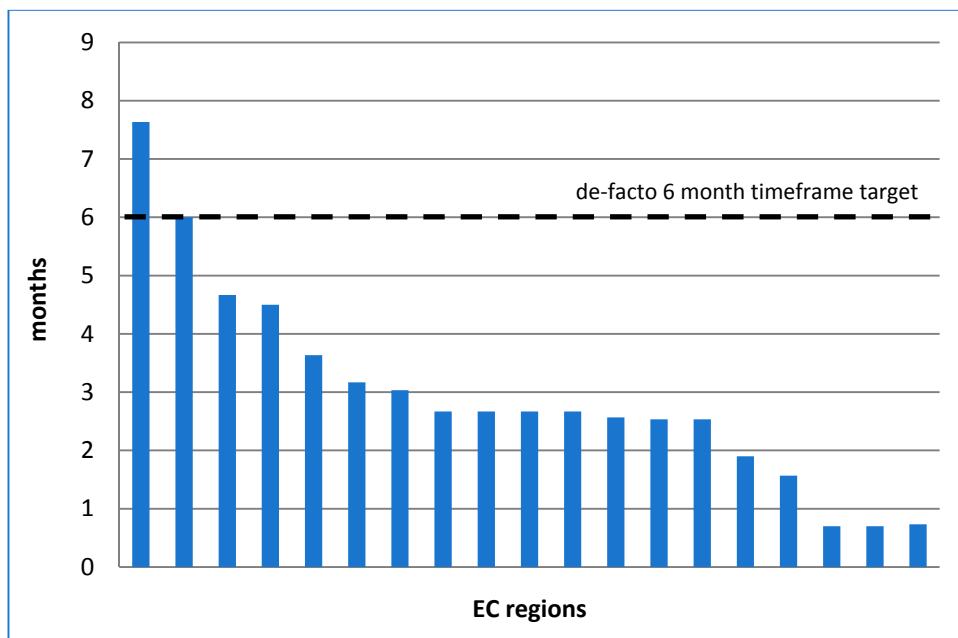
2.13 DAFF advised that an assessment timeframe had not been set because of the complexities of assessing EC applications. Nevertheless, the department and NRAC aimed to complete each assessment within six months of the Minister's *prima facie* decision.

2.14 For the 19 applications in the ANAO's sample, the elapsed time between the Minister's initial decision and the final decision was analysed. For these 19 applications, the assessment period was (as shown in Figure 2.2):

- six months or less in eighteen instances; and
- more than six months in one instance. DAFF advised that this application was complex and lacked sufficient details and evidence. The original application for *Eurobodalla-Part Shoalhaven* was ultimately unsuccessful and a revised application was submitted. NRAC assessed the two areas separately and *Eurobodalla* alone was successful.

Figure 2.2

Timeliness of the assessment process for applications



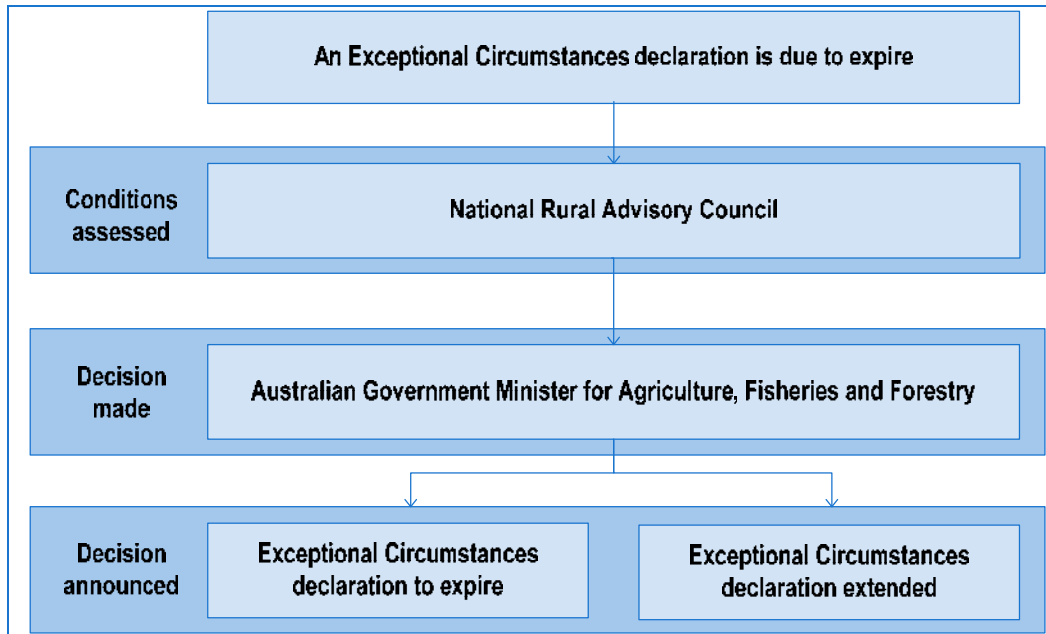
Source: ANAO analysis of DAFF information.

Appealing decisions

2.15 An unsuccessful application cannot be appealed. However, state and territory ministers may submit a revised application for the same area. For eight of the 19 applications reviewed in the ANAO’s sample, the state/territory minister revised the original unsuccessful application and resubmitted a new application. Of these eight revised applications, three were successful and five were unsuccessful.

Reviewing declarations

2.16 NRAC reviewed EC declarations that were due to expire and provided advice to the Minister on whether or not conditions in the EC declared area have improved. The Minister can extend a declaration for up to 12 months if conditions have not improved. If there is a partial recovery in the declared area, the boundary of the declared area may be revised. The process for reviewing an EC declaration is outlined in Figure 2.3.

Figure 2.3**Process for reviewing EC declarations that are due to expire**

Source: ANAO analysis of DAFF data.

2.17 For the 37 reviews in the ANAO's sample³⁸, the ANAO examined the: process for reviewing declarations; advice to the Minister and the documentation of the Minister's decision and the reason(s); and timeliness of the review process.

Process for reviewing declarations

2.18 The October 2010 version of the EC Handbook was updated to include the criteria used by NRAC to review EC declarations. NRAC's assessment considered whether, for the majority of producers in the declared area:

- seasonal, agronomic and resource conditions have provided an opportunity for farmers to begin to carry out typical farm management practices;
- climatic conditions have enabled typical farm activities to take place, such as planting and harvesting an average crop area;

³⁸ The ANAO's sample included ten declarations that were reviewed once and nine declarations that were reviewed twice or more during the sample period.

- rainfall and temperature in the main growing season have resulted in an increase in plant growth to enable a return to average livestock numbers (taking into account long-term trends); and
- there is sufficient water for livestock and domestic water use.

2.19 State officers advised that the updated EC Handbook provided greater transparency but they had not been consulted on the changes. DAFF advised that the revisions were not substantive changes to existing practices that would normally require negotiation or agreement with the states, rather the revision of formally documented established processes.

2.20 For the 37 reviews in the ANAO's sample, NRAC had considered climatic and agronomic advice from ABARES, BoM and from state/territory governments and stakeholders. NRAC's review process included an on-ground inspection of each area.³⁹ Stakeholders advised that the on-the-ground visits were valuable as NRAC members observed local conditions and spoke to the people who were immediately affected.

Timeliness of reviews

2.21 In 2008, DAFF introduced a streamlined review process to provide stakeholders with the Minister's review decision before the EC declaration was due to expire. With this streamlined process, DAFF aimed to provide stakeholders with four to six weeks advance notice. This timeframe was considered sufficient for stakeholders to take any necessary steps to manage their individual financial affairs if the EC declaration was to cease. For the 37 reviews in the ANAO's sample, 19 reviews were conducted following the introduction of the streamlined review process. As shown in Figure 2.4, all 19 areas were provided with at least four weeks notice, and 16 areas received more than six weeks notice.

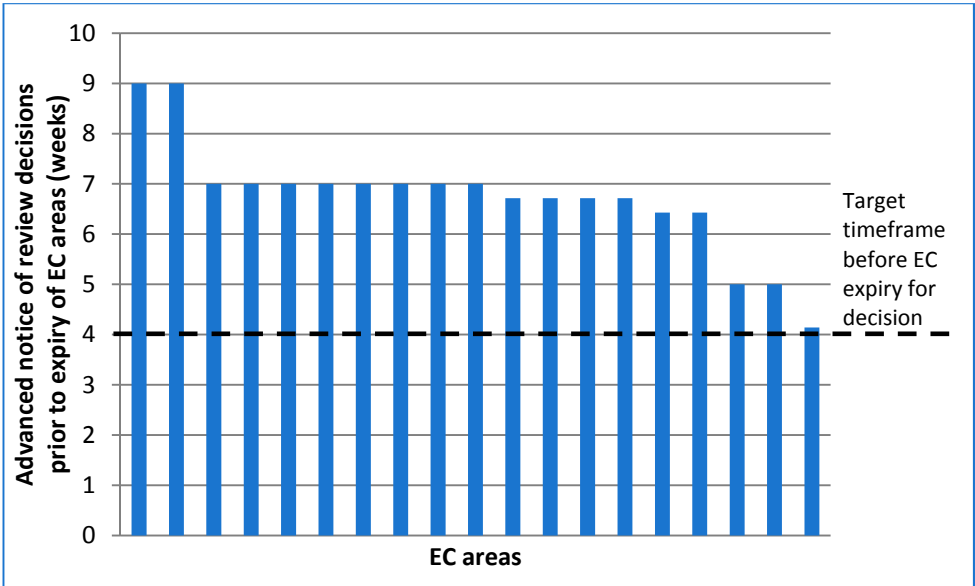
2.22 Due to the large number of reviews to be completed, NRAC's inspections could take place several months before the declaration was due to expire. Stakeholders raised concerns that NRAC's observations may have been collected too early, often prior to or during harvest, and therefore NRAC could not gain a proper appreciation of issues affecting the areas, as conditions could

³⁹ ANAO officers accompanied NRAC members on tours to review four areas with EC declarations that were due to expire on 31 March 2011: *Murray–Mallee* and *River Murray and Lower Lakes Corridor* EC areas in South Australia; and *Mallee Northern Wimmera Revised* and the *Central Victoria North Revised* EC areas in Victoria.

change dramatically. State officers advised that to inform NRAC of changes in conditions, they provided further data and information on the harvest and yields for the area. However, it was not clear to these officers how the additional information had been taken into account. While unlikely to be a full response to the issue raised, DAFF’s recent practice of posting documentation underpinning the Minister’s decision on its website may assist stakeholders to understand how the information provided was taken into account during the review process.⁴⁰

Figure 2.4

Notice provided by the Minister of the decision for expiring EC declarations



Source: ANAO analysis of DAFF information.

Advice to the Minister

2.23 For the 37 reviews in the ANAO’s sample, NRAC recommended that 30 EC declarations be extended and seven EC declarations be allowed to expire. DAFF provided the Minister with a briefing minute that outlined background information about the EC declared area and provided clear advice on key issues and sensitivities. NRAC’s report outlining its recommendation and rationale was attached to the briefing minute. In each case, the Minister

⁴⁰ This practice is discussed further in paragraph 2.27.

agreed with NRAC's recommendation and signed the minute and the attached letter of advice to the state/territory minister. If the recommendation was to extend the EC declaration, there would also be letters seeking final approval from the Prime Minister and the Minister for Finance and Deregulation's approval on costings.

Appealing decisions

2.24 The October 2010 version of the EC Handbook was updated to include the process for appealing review decisions. State/territory government ministers can appeal the Australian Government Minister's review decision. An appeal must be submitted formally before the declaration expires and must include all relevant information to support the appeal case. For the ANAO's sample, two decisions were appealed and were reviewed by NRAC. In both cases, NRAC reaffirmed its original recommendation and the Minister agreed.

Keeping stakeholders informed

2.25 As previously noted, farmers and small businesses affected by drought seek early advice of the Minister's decision as an EC declaration gives farmers and small businesses access to income support, interest rate subsidies and grants. The media release for each EC decision examined by the ANAO was generally issued within a week of the Minister's decision.⁴¹

2.26 The announcement of EC decisions can be sensitive as there can be both successful and unsuccessful applicants. The media release did not always outline the rationale for the Minister's decision, particularly if the media release covered more than one EC decision. Due to the sensitivities of those decisions, outlining the rationale, particularly for non-selection, would assist stakeholders to better understand the decision.

2.27 Since January 2011, the rationale (NRAC's advice) underpinning the Minister's decision has been posted on DAFF's website following the announcement. Further, DAFF's website has been updated to provide NRAC's advice relating to EC decisions made since July 2010. Stakeholders advised that the release of this information has increased the transparency of the decision-making process for applications and reviews.

⁴¹ Announcements cannot be made immediately, because the Minister is required to seek a final approval from the Prime Minister and, if a declaration was to be made or extended, approval from the Minister for Finance and Deregulation on costings.

2.28 Providing there is a clear understanding of any confidentiality requirements for proposed announcements, it would be desirable for all delivery partners to be notified before an announcement is made so that they can be prepared to answer questions relating to the outcome in an informed manner, and provide advice and assistance to stakeholders. The ANAO examined the timeliness of advice to the relevant state/territory minister and DAFF's delivery partners in the context of the public announcement of the Minister's decision.

Timeliness of advice to DAFF and its delivery partners

From the Minister's office to relevant state/territory ministers

2.29 As previously discussed, the Minister writes to the state/territory minister to advise of the EC decision and the rationale behind the decision. For an EC declaration or extension, the boundary of the declared area and the length of time support would be available were also outlined.

2.30 Based on the date the letter was signed, the ANAO analysed the timeliness of the Minister's advice to relevant state/territory ministers between 2007–08 and 2009–10. Advice on:

- *prima facie* decisions and the assessment of each new EC application were generally timely. However, there were four instances where the letter was dated after the public announcement; and
- review decisions had become less timely. By 2009–10, letters were generally dated after the public announcement, whereas, in 2007–08 and 2008–2009, letters had generally been dated on or immediately before or after the announcement. However, the impact of advice being less timely was reduced as the advice was still provided before the EC declaration was due to expire.

2.31 State officers advised the ANAO that the media release was often their first notification of the decision and the lack of forewarning and the absence of further detail had limited their ability to prepare and answer questions from farmers and small business. To overcome this, there would be merit in uploading the rationale for the decision onto DAFF's website in parallel with the media release. This would allow all delivery partners and stakeholders to be better informed.

From the Minister's office to DAFF

2.32 After the minute is signed by the Minister, the Minister's office returns the minute and copies of signed letters back to the department. The signed minute authorises DAFF to direct Centrelink and relevant state/territory government-based RAAs to prepare for, and provide advice and assistance to, stakeholders.

2.33 The ANAO analysed the date the signed minute was returned to DAFF against the date of the media release. The ANAO's analysis indicated that DAFF received the documentation back:

- on the same day or prior to the media release in one-third of cases;
- one to seven days after the media release in one-third of cases; and
- one to four weeks after the media release in one-third of cases.

2.34 Where DAFF does not receive the Minister's authorisation in a timely manner, it cannot direct delivery partners to prepare for, and provide advice and assistance to stakeholders. With this in mind, there are benefits for both the Minister's office and DAFF in ensuring the timely flow of information prior to the public announcement of EC decisions. DAFF advised that to provide advance notice of an imminent announcement, the department would need to plan for and seek the authority of the Minister in advance. Further consideration should be given, particularly where public announcements are made by Ministers, to improving the flow of information between key stakeholders prior to the announcement where delivery arrangements may be impacted.

From DAFF to Centrelink and States

2.35 For all 28 areas examined in the ANAO's sample, there was evidence on DAFF's files that: Centrelink had been advised of the outcomes of the Minister's decision in writing; and the EC guidelines had been updated and issued to the RAAs. Advice from DAFF confirmed the details of the EC declaration and authorised the delivery partners to make payments. The ANAO analysed the timeliness of the provision of information to Centrelink and RAAs once the decision had been publicly announced.

2.36 The ANAO's analysis indicates that the elapsed time after the Minister's announcement and before Centrelink received advice was for:

- new EC declarations, on average, 19 days; and
- review decisions up to: 33 days in 2007–08; 27 days in 2008–09; and 19 days in 2009–10.

2.37 It is evident that the provision of formal information regarding the Minister's decision to Centrelink has improved over time. Centrelink is well placed to deliver assistance following an announcement and only requires authorisation to make payments.

2.38 State-based RAAs provided mixed feedback to the ANAO regarding the timeliness of DAFF's advice. The ANAO's analysis showed that the elapsed time between the Minister's announcement and the provision of signed guidelines to the RAAs was for:

- new EC declarations, on average, 32 days; and
- EC reviews, up to: 57 days in 2007–08; 30 days in 2008–09 and 28 days in 2009–10.

2.39 The analysis indicates that DAFF has improved the timeliness for providing the guidelines to the RAAs. State RAAs advised that they pre-assessed applications received prior to receipt of authorisation from DAFF to make payments.

Conclusion

2.40 DAFF's processes for assessing EC applications and reviewing EC declarations were generally sound. EC applications from the state/territory governments were generally assessed and reviewed by DAFF and NRAC in a timely and consistent manner. The assessment and review processes took into account expert advice and appropriate data and stakeholders were consulted. There was sufficient information provided to the Australian Government Minister to make an informed decision to declare an area as experiencing EC, or not experiencing EC. EC decisions were publicly announced and where DAFF has posted the rationale underpinning the Minister's decisions on its website, stakeholders have access to better information, particularly on why applications have not met EC criteria or have not been extended.

2.41 Under the current arrangements, the timeliness of information provided to the many partners could be improved particularly in the lead up

to the Minister's media releases announcing an EC decision. Posting the Minister's decision and reasons for it publicly has assisted the transparency of the process. However, advice from the Minister's office to state/territory ministers and DAFF was not always provided in a timely manner. This has impacted on the preparedness of delivery partners to address stakeholders' questions and impacted the provision of instructions from DAFF to Centrelink and the RAAs. Providing there is a clear understanding of any confidentiality requirements for proposed announcements, it would be desirable for all delivery partners to be notified before an announcement is made so that they can be prepared to answer questions relating to the outcome in an informed manner, and provide advice and assistance to stakeholders.

3. Arrangements with State and Territory Governments to Deliver Drought Assistance

This chapter examines DAFF's arrangements with the state and territory governments to deliver the EC interest rate subsidy and the assurance mechanisms DAFF has in place for these arrangements.

Introduction

3.1 The Australian Government has engaged the state and territory governments to assess applications and make payments for the Exceptional Circumstances Interest Rate Subsidy (ECIRS) program to EC declared areas. To be eligible, farmers and small businesses must demonstrate that they are viable in the long term but are in financial difficulty due to the EC event. ECIRS is funded jointly—90:10 (Australian Government: state/territory government) and the state/territory governments are paid a processing fee of \$750 per application.

3.2 The maximum subsidy available to farmers and small business operators is \$100 000 per year (up to 50 per cent of the interest payable on new and existing loans for the first year of an EC declaration and 80 per cent of the interest payable in the second and subsequent years of assistance). Farmers can claim a cumulative maximum of \$500 000 over five years. No cumulative maximum had been set for small businesses.⁴²

3.3 As of 31 March 2011, the ECIRS program had paid over \$2.8 billion to 28 245 farmers and small businesses since July 2001. The average payment per recipient per year is approximately \$31 000 and, on average, ECIRS recipients have received three payments each. Total payments per state/territory are shown in Table 3.1. The ANAO reviewed the delivery framework for the ECIRS program, focusing on DAFF's processes to monitor program delivery, and reporting of program outcomes and effectiveness.

⁴² ECIRS was extended to small businesses on 7 November 2006 and the program is due to expire on 30 June 2011. DAFF advised that it would consider introducing a five-year cumulative maximum if the ECIRS small business program was to be extended.

Table 3.1**ECIRS payments made by state/territory governments since 1 July 2001**

State/territory	Total assistance (\$m)
New South Wales and the Australian Capital Territory	1559.84
Victoria	521.64
Queensland	477.55
South Australia	206.05
Western Australia	63.30
Tasmania	12.76
Northern Territory	1.16
Total	2 842.30

Source: ANAO analysis of DAFF data from 1 July 2001 to 31 March 2011.

Framework for delivering ECIRS payments

3.4 The *Rural Adjustment Act 1992* (the RA Act) enables the Australian Government to enter into an agreement with a state or territory government to provide funding for rural adjustment.⁴³ In 1993, an *Intergovernmental Agreement on Rural Adjustment* (the IGA) was agreed by the Australian, state and territory governments. The IGA allows each state/territory to nominate an agency to deliver rural adjustment, including ECIRS, on its behalf and these agencies are collectively referred to as Rural Adjustment Authorities (RAAs). An RAA may be the state/territory department of agriculture or a separate entity. For example, in Victoria the RAA is a commercial agribusiness bank—the Rural Finance Corporation of Victoria. The RAA for each state/territory is shown in Table 3.2.

3.5 The IGA was to be replaced by a National Partnership Agreement (NPA) in January 2011.⁴⁴ However, the current IGA was extended pending agreement on the new drought policy and is currently due to expire

⁴³ Section 20E and Section 21(1), *Rural Adjustment Act 1992*.

⁴⁴ The Council of Australian Government (COAG) agreed a new framework for federal financial relations that have been implemented in a staged manner since 1 January 2009. Under these arrangements, the terms and conditions for the Commonwealth to provide financial assistance to the states/territories are to be set out in a National Partnership Agreement (NPA).

on 30 June 2011.⁴⁵ The introduction of an NPA is unlikely to affect the administration of the ECIRS program significantly, with the current draft outlining similar outcomes and responsibilities to the IGA.

Table 3.2

Rural Adjustment Authorities responsible for delivering ECIRS

State/territory	Rural Adjustment Authority (RAA)
New South Wales and Australian Capital Territory	New South Wales Rural Assistance Authority
Victoria	Rural Finance Corporation of Victoria
Queensland	Queensland Rural Assistance Authority
South Australia	Department of Primary Industry and Resources South Australia
Western Australia	Rural Business Development Corporation
Tasmania	Department of Primary Industries and Water
Northern Territory	Department of Regional Development, Primary Industry, Fisheries and Resources

Source: DAFF.

ECIRS policy guidelines

3.6 Following the Minister’s announcement of the decision to approve a new EC declaration or to extend an existing declaration, DAFF issues ECIRS policy guidelines to the RAAs. The guidelines are issued on behalf of the Minister and tailored to reflect the coverage and timeframe of a specific declaration. The guidelines are publicly available on the DAFF website.

3.7 The ECIRS policy guidelines set out the framework for the RAAs to assess applications and make payments, including the minimum assessment criteria and other factors the RAAs *must* consider. For example, the minimum criteria for assessing ECIRS applications for farm businesses are set out in Figure 3.1.

3.8 The guidelines also require the RAAs to consider: the total amount of interest payable; debt and equity levels; and the likelihood of medium to long-term profitability. Funding limits are specified per applicant—up to

⁴⁵ ANAO Audit Report No. 50 2004–05, *Drought Assistance*, found that the IGA had not been renewed following its original expiry on 31 December 2000. In July 2004, the agreement was extended until 31 December 2007. Since 31 December 2007, the IGA has been extended for a period of two years (1 January 2008 to 31 December 2009) and for three successive periods of six months up to 30 June 2011.

\$100 000 per year, and, for farmers, there is a cumulative total of \$500 000 allowed over five years. Further, farmers who apply for cumulative assistance totalling over \$300 000 must have their farm viability independently assessed.

Figure 3.1

Minimum criteria for assessing ECIRS applications from farm businesses

- When assessing applications for ECIRS support, the RAAs must be satisfied that:
- the applicant is within an EC declared area;
 - the applicant is in financial difficulty due to an EC event;
 - the support is necessary for productivity improvements, recovery, carry-on finance or debt restructuring;
 - without support the applicant would not have the capacity to maintain long-term profitability;
 - the applicant has disposed of all non-essential farm assets on commercial terms and passes an off-farm assets test;
 - under normal circumstances, the applicant contributes at least 75 per cent of labour to the farm and derives at least 50 per cent of income from farming; and
 - the loans are on competitive terms with the general types of loans being subsidised.

Note: As of December 2010, the net value of allowed off-farm assets was \$750 000.

Source: ECIRS farmer policy guidelines.

3.9 Separate guidelines are issued for ECIRS applications from farmers and small businesses as there are some minor differences in the arrangements between the two ECIRS programs. For example, unlike farmers, small businesses do not need to be located in an EC area. Small businesses that derive at least 70 per cent of their income from customers engaged in farming in EC areas can apply for ECIRS. However, small businesses that operate in towns that are substantially reliant on farm income, have a population of less than 10 000 people and are located in an EC declared area, are also eligible.

3.10 The guidelines do not instruct the RAAs on how to determine the level of financial difficulty that justifies assistance or the amount of assistance to be provided. Reflecting the IGA’s premise that program delivery will be most effective with decisions on form and level of support being made at the state/territory level, the RAAs have been allowed to develop different approaches for assessing ECIRS applications and determining the total subsidy due. The implications of these arrangements are referred to in paragraphs 3.22-24.

Monitoring program delivery

3.11 DAFF is responsible for monitoring and assessing the efficiency and effectiveness of the program. Indicators, targets or deliverables for performance monitoring and reporting were not specified in the IGA or the policy guidelines.⁴⁶

3.12 The ANAO reviewed the arrangements DAFF has in place to monitor program delivery to assess whether the department:

- collected information from the RAAs on a regular basis;
- monitored compliance with the program's payment limits; and
- quality checked assessments made by the RAAs to provide reasonable assurance that subsidies were being delivered as intended.

Desktop monitoring of RAAs

3.13 Desktop monitoring can form part of an effective assurance framework by allowing an agency to identify trends over time and focus its monitoring resources on those recipients that present the highest level of risk. The RAAs report application numbers and payments on a weekly basis. DAFF collates this data into a database which is used to report activity to the department's Executive and to the Minister.

3.14 Initially, DAFF recorded ECIRS data in a spreadsheet, but the continuation of the drought resulted in the volume of data exceeding the capacity of the spreadsheet. An interim, off-the-shelf database was adopted on 1 July 2008 and was replaced in July 2010 by a new purpose-built database—the Drought and Climate Change Reporting System (DCCRS). The DCCRS conducts data validation checks automatically when data is imported and warnings are generated if the user attempts to import potentially invalid data.

3.15 DAFF advised that to improve the reliability of the data held, historic ECIRS data from 2001–02 onwards was recollected from the RAAs to populate the DCCRS. Further, DAFF advised that new data collected from the RAAs can be converted and saved to the DCCRS without the need to manually input the data.

⁴⁶ The ANAO also noted this situation in its previous audit of drought assistance programs. Refer to ANAO Audit Report No. 50 2004-05, *Drought Assistance*, paragraph 5.72, p. 77.

3.16 Using the data contained in DCCRS, the ANAO analysed the payments made to recipients. There were no overpayments against the \$100 000 per annum limit identified in the ANAO's analysis. Historically, monitoring compliance with the \$100 000 per annum limit has been straightforward as, in most cases, the RAAs make a single payment to an applicant per application. Multiple payments would only be made if a new debt was taken out and the applicant had not claimed the full \$100 000 for that year.

3.17 Eleven overpayments had been made against the \$500 000-over-five-years funding limit resulting in ten farmers from New South Wales and one from Victoria receiving assistance totalling between \$500 030 and \$540 000. DAFF advised that it had not sought to recover these overpayments but it had clarified the overall cumulative funding limit of \$500 000 with the RAAs and had created an alert in the DCCRS to flag future breaches of the cumulative funding limit.

Monitoring RAA expenditure

3.18 From 1 January 2009, responsibility for making ECIRS payments to the state/territory treasuries was transferred from DAFF to the Commonwealth Treasury.⁴⁷ However, DAFF continues to monitor the RAAs' expenditure through a monthly payment and reconciliation process. Each RAA submits a monthly acquittal of ECIRS expenditure and provides an estimate of the working capital required for the next month (or two months, depending on the state/territory). DAFF calculates the working capital required by each RAA and the fee due for assessing applications (\$750 per assessment).

3.19 DAFF's internal processes include a signoff under *Financial Management and Accountability Regulation 9*.⁴⁸ DAFF then advises the Treasury of the payments to be made to the relevant state/territory.

⁴⁷ Under the Council of Australian Government's (COAG) agreed framework for federal financial relations, specific purpose payments (SPPs) are made through combined monthly payments from the Commonwealth Treasury to and through state/territory treasuries.

⁴⁸ This is consistent with guidance issued by the *Federal Financial Relations Circular No 2011/01: Payment Accountabilities and Certification Arrangements*, January 2011.

Quality assurance over RAA assessments

3.20 Currently, DAFF relies on desktop monitoring of RAA data and state/territory government acquittal processes to provide assurance that applications are assessed appropriately and ECIRS payments are made in accordance with policy guidelines. However, DAFF does not employ any formal quality assurance mechanisms such as spot checking documentation or conducting site visits to confirm that RAA assessments of ECIRS applications met the guideline's minimum assessment criteria.

3.21 Some RAAs advised during discussions with the ANAO that they conduct their own spot checks and quality assurance processes. DAFF is aware of, and advised that the department had considered seeking information on these audit processes. However, DAFF has not specifically requested any reports generated from the RAAs' internal checking to date.

Survey of RAA assessments

3.22 In December 2009, DAFF surveyed the RAAs to gauge how judgements were made about applicant eligibility against the guideline's assessment criteria. DAFF also asked the RAAs to suggest improvements to the policy guidelines. In response, the RAAs indicated that the high level of detail required to satisfy the criteria set out in the policy guidelines was appropriate, given the large amounts of money being administered.

3.23 The survey results highlighted that RAAs applied different weightings to criteria and different methodologies to determine the: level of financial difficulty that warranted support; proportion of a farmer's labour that was contributed to the farm; and funding levels for successful applicants. For example, in calculating the total payment due:

- New South Wales, South Australia, Western Australia and the Northern Territory automatically provide successful applicants with the maximum subsidy allowed;
- Queensland calculates the level of assistance assessed as being needed to mitigate the identified financial need; and
- Victoria and Tasmania provide assistance up to an assessed break-even situation.

3.24 The impact of the different interpretations of the ECIRS eligibility arrangements by the RAAs was highlighted as an issue by the Productivity

Commission with its report noting that ‘differences generated inequalities and lessened the scope for the policy to meet its objectives’.⁴⁹

Appeals to the Minister

3.25 Under the ECIRS administrative arrangements, an unsuccessful applicant can lodge an appeal with the RAA. However, unsuccessful applicants have also sought the Minister’s intervention where RAAs have not approved their ECIRS applications. The Minister may only intervene where the guidelines have not been applied fairly or equitably. Where an appeal has been sent to the Minister, DAFF has consulted the relevant RAA regarding the details of the failed application, advised the Minister of the specific reasons the application was rejected and prepared a response. To date, the Minister has not considered there to be cause to intervene in any RAA assessment decision.

Conclusion

3.26 An *Intergovernmental Agreement on Rural Adjustment (IGA)*, designed to reflect the state/territory governments’ knowledge of local conditions, outlines the roles and responsibilities of the respective parties, including provision for RAAs to administer the ECIRS program.

3.27 While DAFF gains some assurance through its desktop monitoring of RAA data and state/territory government acquittal processes, a key risk for DAFF is that the RAAs interpret the EC guidelines in an inconsistent way. A 2009 survey of RAAs by DAFF highlighted that RAAs used differing methodologies to determine eligibility for ECIRS. The impact of the different interpretations of the ECIRS eligibility arrangements by the RAAs was also highlighted as an equality issue by the Productivity Commission. At present, DAFF does not review RAA assessments to confirm that the minimum requirements were met. By reviewing RAA assessments on a risk basis, DAFF would also have confidence that the minimum assessment criteria of the existing policy guidelines had been met.

3.28 In this environment, DAFF could also play an important role in gathering data on the extent of the variation in ECIRS payment assessments across jurisdictions with a view to informing future joint government drought policy initiatives. Such information will be important for the design of any

⁴⁹ Productivity Commission, *Government Drought Support, Report No. 46, Final Inquiry Report*, Melbourne, 2009, p. 206.

future drought program that will depend upon a balance between flexibility to respond at the local level and the equitable treatment of drought assistance recipients under the program.

Recommendation No.1

3.29 In light of concerns raised in recent reviews that highlighted the impact of the different interpretations of the Exceptional Circumstances Interest Rate Subsidy (ECIRS), the ANAO recommends that DAFF:

- (a) implements arrangements to provide assurance that the minimum assessment criteria for ECIRS eligibility are being met; and
- (b) gathers data on the variability in ECIRS payments across jurisdictions, with a view to informing future Australian and state/territory government drought policy initiatives.

DAFF's response

3.30 Agreed. The department acknowledges that it issues guidelines for the ECIRS program to State jurisdictions that establish minimum assessment criteria for ECIRS eligibility. The department will examine jurisdictions' implementation of the guidelines. State jurisdictions are responsible for delivering the ECIRS program on behalf of the Commonwealth. An intergovernmental agreement affords jurisdictions flexibility on the level of ECIRS to be applied beyond the minimum criteria established by the Commonwealth's guidelines. This flexibility produces variable outcomes that result from additional criteria and/or rigour that some jurisdictions choose to apply to the assessment of ECIRS applications. The department will gather data on this variability, with a view to informing future initiatives.

3.31 Further, the department acknowledges the need to gather data on the variability of ECIRS payments across jurisdictions, and is committed to undertaking such a review. This information will help to prompt further discussion and also help to inform future Australian and state/territory government drought policy initiatives.

4. Arrangements with Centrelink to Deliver Drought Assistance

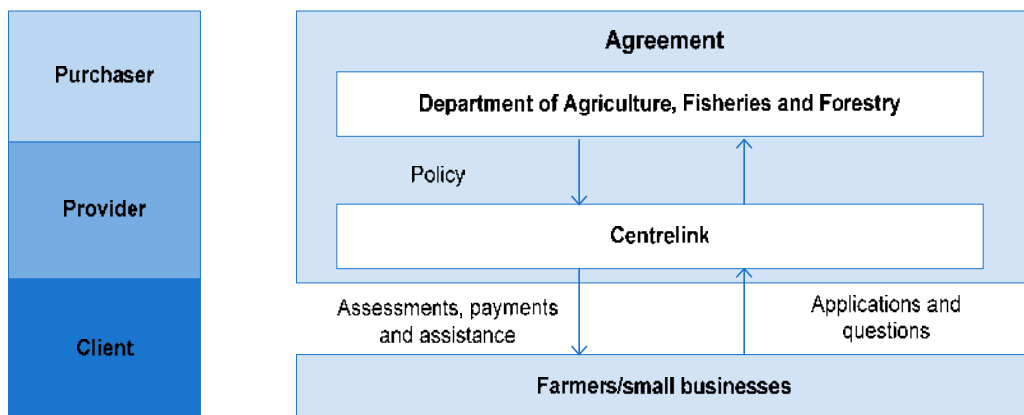
This chapter examines DAFF’s arrangements with Centrelink for the delivery of drought assistance and the assurance mechanisms DAFF has put in place.

Introduction

4.1 Centrelink’s primary responsibility is to deliver a range of government payments and services on behalf of the Australian Government’s policy departments.⁵⁰ In 2005, DAFF engaged Centrelink through a Business Partnership Agreement (BPA) to deliver income support—Exceptional Circumstances Relief Payments (ECRP) and Interim Income Support (IIS) for farmers and small business—and grant assistance to farmers—Exit Package and Professional Advice and Planning Grant (PAPG).⁵¹ The relationship between DAFF and Centrelink for the delivery of EC assistance is shown in Figure 4.1.

Figure 4.1

Relationship between DAFF and Centrelink to provide EC assistance to farmers and small businesses



Source: ANAO analysis of DAFF information.

⁵⁰ Centrelink was established under the *Commonwealth Services Delivery Agency Act 1997*.

⁵¹ Prior to the 2005 BPA, DAFF and Centrelink worked together through a Memorandum of Understanding.

4.2 During 2009–10, the Australian Government provided a total of: \$257 million for ECRP payments to 19 000 farming families and small businesses; \$0.58 million for IIS payments to 161 farms and one small business; \$12.5 million for PAPG payments; and paid 138 Exit grants of up to \$150 000, with an additional \$108 000 paid for advice and relocation assistance. Centrelink charges a fee to deliver these programs. In 2009–10, Centrelink was appropriated \$10.55 million to deliver EC programs on behalf of DAFF.⁵²

4.3 The central characteristic of a successful partnership agreement between government agencies is the close alignment of the interests of the partners, generally obtained through appropriate sharing of risks, useful and reciprocal performance measures, and quality assurance arrangements to ensure the integrity of government payments. With this in mind, the ANAO:

- reviewed the currency and completeness of the 2005 DAFF-Centrelink BPA;
- examined whether useful and measurable performance indicators were in place and had allowed DAFF to successfully monitor the delivery of EC payments processed by Centrelink; and
- assessed DAFF’s arrangements to obtain assurance regarding payment integrity, including through the use of Centrelink’s own internal controls as well as obtaining independent external assurance.

DAFF’s 2005 BPA with Centrelink

4.4 In 2005, DAFF’s Secretary and Centrelink’s Chief Executive Officer signed a BPA to underpin the delivery of drought programs by Centrelink. DAFF and Centrelink advised that Centrelink’s new partnership agreement document—a Bilateral Management Arrangement (BMA)—is to be negotiated to replace the 2005 BPA.

4.5 The 2005 BPA comprised:

- a core agreement that set out the business principles underpinning the partnership arrangements, which was agreed by the agency heads. The

⁵² Centrelink’s 2009–10 Annual Report reported its total service fee as \$2.98 billion in 2009–10.

agreement has been extended until 30 June 2011 through an exchange of letters⁵³;

- schedules for the Business Assurance Framework (BAF), the financial arrangements and the Outcomes and Outputs Framework (OOF). The schedules apply across all the BPA's programs and could be varied as required; and
- protocols that outline specific arrangements for each program delivered through the BPA. Each protocol outlined the program's specific delivery arrangements including the management and performance information to be reported. The protocols were reviewed and agreed in late 2009.

4.6 The 2005 BPA's core agreement, the schedules and the protocols established and clarified the principles the two agencies would follow to deliver government policy. The results of the ANAO's review of the current 2005 BPA are outlined in Table 4.1.⁵⁴

4.7 Both parties considered that the agreement was operating effectively. However, the schedules included conflicting statements on the need for Centrelink to provide DAFF with an annual assurance statement confirming that high level risks had been managed and performance expectations met. Further, the schedules had not been updated to reflect current practices for:

- the direct appropriation of funds to Centrelink for these programs;
- reporting performance under the Government's new *Outcomes and Programs Framework*; and
- assessing and managing risks.

⁵³ DAFF was unable to provide the letters formally extending the 2005 BPA from 1 January 2009 to 30 June 2009. However, the 2005 BPA includes a clause that enables the BPA to continue until it is formally cancelled.

⁵⁴ Expected requirements were drawn from the ANAO's previous work on cross agency agreements including: ANAO Audit Report No.41 2009–10, *Effective Cross-Agency Agreements*, p. 29; ANAO *Better Practice Guide—Cross-Agency Governance Guidance Paper No. 7*, July 2003, Canberra, p. 3; and ANAO Audit Report No. 4 2008–09, *The Business Partnership Agreement between the Department of Education, Employment and Workplace Relations (DEEWR) and Centrelink*.

Table 4.1**Results of the ANAO's review of the 2005 BPA**

The 2005 BPA documented	Result	ANAO comments
Roles and responsibilities	Met	The core agreement, the schedules and the protocols established the roles and responsibilities of both parties.
Clear links between the three layers of documentation—core agreement, schedules and protocols	Partly met	Each of the six protocols generally linked to the core agreement and to the schedules, although these links could be more clearly documented.
Objectives, outcomes, program deliverables and key performance indicators	Partly met	<p>Objectives were outlined in each document.</p> <p>The OOF schedule described outcomes and outputs for the agreement and included details of how DAFF and Centrelink would work together. Deliverables were not identified.</p> <p>The BAF outlined four key performance indicators (KPIs) for Centrelink that required:</p> <ul style="list-style-type: none"> • payments to be made in a timely manner; • products and services to be delivered with a high level of correctness; • agreed management information to be provided in a timely manner; and • customer satisfaction with the quality of Centrelink's people, services and information. <p>Each protocol deferred to these four KPIs. One protocol (Exit Package) included additional KPIs for the program.</p>
Risks and controls	Partly met	<p>Risks to the overall effectiveness of the program's delivery arrangements were identified but the controls and ratings for each risk were not documented. The BAF focused on financial risks and identified controls intended to provide assurance that eligible recipients received the correct payment.</p> <p>The schedules indicated that the protocols would identify specific program risks. However, only one of the six protocols documented program-specific risks and controls.</p>
Dispute resolution mechanisms	Met	<p>The core agreement described the process for partners to resolve/ escalate disputes. Resolution timeframes were not outlined.</p> <p>The protocols generally outlined the appeals process for applicants. The Exit Package protocol did not outline an applicant appeals process but the policy guidelines did outline the appeals process.</p>

Source: ANAO analysis of the DAFF-Centrelink 2005 Business Partnership Agreement.

4.8 The schedules are intended to be varied, facilitating flexibility and responsiveness. There would be merit in reviewing the schedules regularly to keep agreements up to date and recording when extensions and revisions had been agreed. Recording the date and type of revision would assist DAFF and Centrelink to track the currency of their arrangement in the future.

4.9 For the protocols reviewed by the ANAO, the links from each program to the core agreement and schedule requirements could be improved. Risk management requirements and delivery standards could be more explicit and the protocols did not require Centrelink to report to DAFF on its performance for each program against the KPIs. More rigour around the reporting and monitoring of this information would assist DAFF to identify any weaknesses in the delivery of individual programs.

Arrangements for monitoring performance and program delivery

4.10 Four KPIs were used to measure the quality of Centrelink’s delivery. The KPIs and the targets are set out in Table 4.2. The schedules were unclear on when Centrelink was to report against these KPIs.⁵⁵

Table 4.2

Centrelink’s Key Performance Indicators and targets

KPI no.	KPI	Description	Agreed measure	Target (%)
1	Assist DAFF in achieving program/policy outcomes	Payments are made in a timely manner	Outcome to be provided by program (as specified in the appropriate program protocol)	80
2	Deliver products and services with high levels of correctness	Payments are made to those who are eligible for assistance, the amount paid equals the amount to which an individual or family is entitled and payment errors are rectified once they have been identified	Payments are made to those who are eligible for assistance	95
			The amount paid equals the amount to which an individual or family is entitled	95
			Payment errors are rectified once they have been identified	98

⁵⁵ In practice, Centrelink reports against all four KPIs in its Annual Report. It also provides information for some programs against KPI 1 on a weekly basis. This is discussed further in paragraphs 4.20-4.23.

KPI no.	KPI	Description	Agreed measure	Target (%)
3	Provide management information	Timely provision of agreed information as specified in the management information schedules	Delivery of management reports (reporting monthly, year to date and annualised)	80
4	Meet reasonable customer expectations	Customers are satisfied with the overall quality of Centrelink's people, services and information	The percentage of customers who rated their level of satisfaction with the overall quality of Centrelink's people, services and information as good, very good or excellent	70

Source: DAFF-Centrelink 2005 BPA: Business Assurance Framework schedule.

4.11 On a program basis, the protocols generally deferred to the targets set out in the overarching KPIs. For KPI 1, five of the six protocols defined the timeframe required for assessing applications. For KPI 2, one protocol (Exit Package) set a higher target for correcting payment errors (100 per cent rather than 98 per cent). Only the Exit Package protocol included program-specific KPIs. These are outlined in Table 4.3.

Table 4.3

Exit Package program specific key performance indicators

Key Performance Indicator	Target (%)
Determine the initial eligibility of the customer. Centrelink's standard is that 80 per cent of determinations of successful applications, excluding those cases granted following a review of a decision, will be made within 91 days from the lodgment of the initial claim	80
Centrelink holds interviews with recipients within 14 days of deeming them as eligible to receive the Exit grant, to discuss their farm exit strategies and complete an Exit Plan. Centrelink must include details of delays in meeting this target	80
Annual follow up of Exit grant recipients to ensure they have not owned or operated a farm enterprise	100

Source: Exceptional Circumstances Exit Package Protocol.

4.12 The protocols documented the management information required to measure program performance. Timeframes for reviews of program delivery or the delivery arrangements were not documented.

Communication between delivery partners

4.13 Effective partnership arrangements depend on good communication between the policy and program delivery areas. The ANAO reviewed whether DAFF and Centrelink:

- regularly discussed the delivery arrangements including risks and partner performance; and
- provided appropriate and timely support to deliver the programs.

4.14 DAFF advised that officers communicate regularly via telephone, email and weekly meetings to manage operational and policy needs for delivering drought assistance. Formal meetings are held quarterly to deal with topical issues and on an ad hoc basis to discuss specific program management matters.

4.15 Meeting minutes indicated that the consultation arrangements outlined in the agreements have largely been met and delivery issues arising had been discussed.⁵⁶ Centrelink had also been involved in discussions with DAFF and the state/territory government departments about issues with the descriptions given for EC area boundaries.

4.16 DAFF further advised that officers had visited Centrelink's processing sites and participated in mobile office visits. Both DAFF and Centrelink advised that the partnership was mature and stable, and issues could be raised and discussed at weekly and quarterly meetings.

4.17 DAFF is also responsible for providing policy advice to Centrelink. The department advised that it provided written advice to Centrelink on policy interpretation and clarification as needed. DAFF and Centrelink officers provided informal advice via email and telephone. For example, data requests, provision of advice on Social Security Appeal Tribunal rulings and updates or status reports. Centrelink advised that DAFF's policy advice was timely and comprehensive.

Monitoring Centrelink's delivery of drought assistance

4.18 The core agreement, schedules and protocols identified the management and performance information that Centrelink was to report to DAFF. Centrelink could also be requested to provide additional management reports, such as, on unsuccessful application data for specific programs. The ANAO reviewed the information reported by Centrelink to DAFF on its performance and program delivery.

⁵⁶ The ANAO analysed minutes from the meetings held between DAFF and Centrelink over the past three years.

Desktop monitoring of management information

4.19 Centrelink regularly reported management information, including activity, claim numbers and expenditure to DAFF. Reporting was: weekly for the income support programs; and monthly for the PAPG, IIS and Exit Package programs. As for the ECIRS program, DAFF loaded the data collected from Centrelink into a database to enable it to monitor and report on activity. At the end of January 2011, DAFF finished loading ECRP data (from July 2001 onwards) into the new DCCRS database. Data for other programs was recorded in an off-the-shelf database. DAFF advised that, due to limited resources, its data management capabilities had been improved using a risk-based approach. ECRP and ECIRS had been prioritised as these programs represented the majority of payments made under the drought assistance programs. The new system supports the tracking of ECRP assistance provided to specific recipients or groups over time.

Monitoring performance

4.20 Centrelink reported publicly in its annual reports on its performance against the targets set for the four EC KPIs. Each of Centrelink's annual reports since 2007–08 advised that all targets for these KPIs have been met.

4.21 On a program basis, Centrelink reported to DAFF against KPI 1 weekly for ECRP. A combined statistic for ECRP timeliness for farmers and small businesses was provided. Although the protocols included specific timeliness targets for the IIS and Exit Package programs, program-specific data was not provided to DAFF. Centrelink advised that the results for ECRP could be isolated from its system, but results for the Exit Package and PAPG could not be disaggregated from more general results. IIS was delivered through a separate system, which did not readily support timeliness reporting by Centrelink.

4.22 For KPI 2, DAFF advised that Centrelink did not provide program-by-program reporting. More regular reporting on the correctness of Centrelink's assessment and payment of assistance to eligible recipients would be of benefit to DAFF. In the absence of more regular performance information, it is not clear how DAFF gains assurance itself, that payments are targeted as expected, particularly when demand is high.

4.23 For KPIs 3 and 4, DAFF was able to monitor the timeliness of Centrelink's provision of management information and Centrelink collected data on customer satisfaction annually. For the first time in 2009–10, the results

for rural programs could be disaggregated from Centrelink's broader survey results, which had been used previously to report against this KPI. Centrelink advised that the overall customer satisfaction rate for rural programs was 90 per cent, well above the 70 per cent target.

Assurance arrangements for payment integrity

4.24 Centrelink's assurance framework, including operational and management quality controls was outlined in the 2005 BPA's Business Assurance Framework (BAF) schedule. All programs delivered by Centrelink on DAFF's behalf are subject to the arrangements outlined in the BAF schedule. The core agreement also provided for reviews of Centrelink's operations and performance by DAFF.

Centrelink's assurance framework

4.25 When compared to other payments delivered by Centrelink, drought assistance is a relatively uncommon payment. In terms of Centrelink's business, drought assistance payments represented less than one percent of total outlays.

4.26 To prevent incorrect payments being made, drought assistance payments are subject to the Quality-on-line (QOL) process. Under QOL, a percentage of assessments conducted by a Centrelink officer are referred for review by another officer. The percentage of work checked varies from 100 per cent for new staff to two per cent for experienced staff.⁵⁷ To reduce the likelihood of assessments being inconsistent, Centrelink also uses centralised

⁵⁷ The ANAO has previously examined Centrelink's QOL processes and found limitations in the assurance it can provide. Refer to:

- ANAO Audit Report No.42 2007–08, *Management of Customer Debt – Follow-up Audit*;
- ANAO Audit Report No.26 2006–07, *Administration of Complex Age Pension Assessments*;
- ANAO Audit Report No.4 2004–05, *Management of Customer Debt*;
- ANAO Audit Report No.44 2002–03, *Review of the Parenting Payment Single Program*;
- ANAO Audit Report No.17 2002–03, *Age Pension Entitlements*; and
- ANAO Audit Report No.34 2000–01, *Assessment of New Claims for the Age Pension by Centrelink*.

The ANAO's 2010–11 *Audit Work Program* identified a potential audit of the effectiveness of the controls and measures that comprise Centrelink's quality assurance framework, with specific reference to the QOL process.

processing sites, along with staff training and guidance.⁵⁸ In addition, following an internal audit, assessments for the Exit Package were also checked by an independent officer (APS 5 or higher) at a separate office.

4.27 As previously discussed (paragraph 4.7), there were conflicting statements on the need for Centrelink to provide an annual assurance statement confirming that high level risks had been managed and performance expectations met. Annual assurance statements were not provided to DAFF by Centrelink. As Centrelink is directly funded by appropriation to deliver DAFF's EC programs, any new delivery arrangements between DAFF and Centrelink should consider the information required by DAFF to inform its program responsibilities.

DAFF's reviews of Centrelink's assessments and payments

4.28 For Centrelink, payments made on DAFF's behalf represent a small part of its operations. The total value of payments made by Centrelink in 2009–10 was \$84.2 billion, of which less than 0.3 per cent related to the delivery of income support payments. In comparison, DAFF's total administered expenditure for 2009–10 was \$1.04 billion, which makes drought assistance payments, particularly the \$225 million in ECRP delivered through Centrelink, material.

4.29 In 2009, DAFF engaged an audit firm to conduct two reviews of the 'consistency and accuracy' of Centrelink's processing of ECRP applications for farmers and for small businesses.⁵⁹ The audit firm found that Centrelink's processing was timely but, recommended that 'DAFF undertake future payment compliance audits to independently assess payment and eligibility correctness'.

⁵⁸ There were three application and payment processing centres for drought assistance payments: Mildura; Gladstone and Griffith. There were also three call centres that receive calls through the national drought hotline—Port Augusta, Bunbury and Maryborough.

⁵⁹ The audit firm's sample of farmer ECRP assessments comprised 60 unsuccessful and 49 successful applicants. It planned to review assessments for 60 successful applicants, however due to delays and complications, fewer were reviewed. The sample of small business ECRP assessments comprised 56 successful applicants who had applied and received at least one payment between 1 July 2008 and 31 December 2009. However, only 50 files were tested as six files could not be located.

Random sampling

4.30 The Random Sample Survey (RSS) is the primary assurance mechanism used by some policy departments to measure the accuracy (this includes customer error as well as Centrelink's administrative error) of program outlays administered by Centrelink on their behalf.⁶⁰ Typically, the policy agencies fund Centrelink to include particular payments for which they have policy responsibilities in the RSS.

4.31 In the ANAO's previous audit on *Drought Assistance*, DAFF had advised the ANAO that ECRP payments would be subject to an independent random sample review.⁶¹ The review would be undertaken to ensure quality control and to provide assurance that payments have been made in accordance with the legislative requirements. The 2005 BPA included a template to support a review process. Centrelink advised it has not been requested to conduct random sample reviews for drought assistance payments and has not been funded to do so.

4.32 In the last decade, the number of ECRP recipients peaked at 25 455 (2008-09) and by May 2011, had declined to 541 recipients. In order to maintain an appropriate level of assurance of the integrity of ECRP payments, and depending on the number of ECRP recipients in the future, it would be beneficial for DAFF to consider whether to:

- negotiate funding arrangements with Centrelink to measure the level of accuracy and correctness of ECRP payments using an approach similar to the existing RSS, adopted by some other policy agencies;
- continue to conduct its own payment compliance audits based on an appropriate sample size; or
- negotiate arrangements with Centrelink to conduct such payment compliance audits.

In progressing any of these arrangements, it would be important for DAFF and Centrelink to agree on the methodology to be used.

⁶⁰ Australian Government departments that use the Random Sample Survey approach include Education, Employment and Workplace Relations and Families, Housing, Community Services and Indigenous Affairs. The Random Sample Survey was addressed in previous ANAO audit reports, including ANAO Audit Report No.43 2005-06, *Assuring Centrelink Payments—The Role of the Random Sample Survey Programme*.

⁶¹ Refer to ANAO Audit Report No. 50 2004-05, *Drought Assistance*, paragraphs 5.31-5.32, p. 71.

Conclusion

4.33 In 2005, DAFF engaged Centrelink through a Business Partnership Agreement (BPA) to deliver a range of drought programs on behalf of the department. Centrelink currently delivers the ECRP, IIS, PAPG and Exit Package programs.

4.34 KPIs had been established for monitoring Centrelink's delivery of drought assistance, and Centrelink reported on these annually. On a program-by-program basis, Centrelink provided DAFF with performance information on the timeliness of the larger ECRP program, but not the smaller Exit Package or IIS. In 2009, DAFF engaged an audit firm to conduct two reviews of the 'consistency and accuracy' of Centrelink's processing of ECRP applications for farmers and for small businesses. The audit firm found that Centrelink's processing was timely but, recommended that 'DAFF undertake future payment compliance audits to independently assess payment and eligibility correctness'.

4.35 DAFF and Centrelink advised that a new Bilateral Management Arrangement was to be negotiated to replace the now outdated BPA. In these negotiations, it will be important for DAFF to pursue arrangements to obtain greater assurance regarding Centrelink's delivery performance and EC payment integrity.

Recommendation No.2

4.36 In developing a new Bilateral Management Arrangement (BMA) with Centrelink, the ANAO recommends that DAFF negotiates arrangements that would provide greater assurance in relation to:

- (a) Centrelink's performance in delivering each individual drought assistance program against established key performance indicators; and
- (b) the integrity of drought assistance payments.

DAFF's response

4.37 Agreed. The current Business Partnership Agreement (BPA) is due to expire on 30 June 2011. However, DAFF and Centrelink will extend it in the short term while the Government's new Service Delivery Reform legislation is debated in Parliament. Following new legislation, the BPA will be replaced by a Business Management Arrangement (BMA), which will provide a framework for the signatory agencies to deliver outcomes in relation to the payments and services.

4.38 The department agrees to pursue the recommendation in the development of the new BMA with Centrelink.

5. Monitoring and Reporting on Performance

This chapter outlines DAFF's monitoring and reporting on drought assistance program outcomes.

Introduction

5.1 DAFF is responsible for monitoring and reporting on the performance of drought assistance programs delivered to farmers and small business in EC declared areas. As previously discussed, these programs are delivered on DAFF's behalf by state/territory-based Rural Adjustment Authorities (RAAs) and Centrelink.

5.2 The ANAO reviewed DAFF's monitoring and reporting of the performance of the drought assistance programs since 2007–08. In particular, the ANAO examined DAFF's:

- performance monitoring and reporting framework;
- internal and external reporting; and
- evaluation of drought programs.

Performance monitoring and reporting framework

5.3 DAFF's framework for monitoring and reporting on drought programs has evolved to reflect changing government requirements. From 1999 to 2010, public sector departments budgeted and reported using the *Outcomes and Outputs Framework*. In 2009–10, a new budgeting and reporting framework—the *Outcomes and Programs Framework*, was adopted. Through improvements to outcome statements, and program-based reporting, the new framework is intended to enhance the transparency and accountability of government spending through an increased emphasis on performance management, measurement and reporting.⁶² Table 5.1 outlines the department's overarching outcome, contributing program and the program objective.

⁶² Department of Finance and Deregulation, *2009–10 Budget: Portfolio Budget Statements Constructors Kit: Officer Instruction for producing Portfolio Budget Statements and the Outcomes and Programs Framework*, p. 6.

Table 5.1

Outcomes and programs applicable to drought programs

Year	Departmental outcome	Program	Program/output objective
2007–08	Australian agricultural, fisheries and forestry industries that are based on sustainable management of and access to natural resources, are more competitive, self-reliant and innovative, have increased access to markets, are protected from disease and are underpinned by scientific and economic research.	Output 2	To promote a self-reliant, profitable, competitive and sustainable business environment through the development of integrated policy and programs in the areas of skills development, support for farm families in adverse circumstances, research and development and innovation, biotechnology and rural industry leadership.
2008–09		Output 1.2	Developing and implementing policies and programs to encourage productive, innovative and competitive portfolio industries.
2009–10	More sustainable, productive, internationally competitive and profitable Australian agricultural, food and fibre industries through policies and initiatives that promote better resource management practices, innovation, self-reliance and improved access to international markets.	Program 1.11	To provide eligible recipients (primary producers, irrigators or small businesses) with targeted short-term support during drought, EC events and reduced water allocations or availability.
2010–11			Support eligible farmers and small businesses with targeted assistance during exceptional circumstances events, including drought.

Source: ANAO analysis of DAFF’s Portfolio Budget Statements for 2007–08, 2008–09, 2009–10 and 2010–11.

5.4 Measures and targets for each program are outlined annually in the department’s PBS. For 2007–08 and 2008–09, DAFF outlined performance indicators and targets related to program activity, such as target numbers of recipients for each program.⁶³ From 2009–10 onwards, DAFF has been required to outline deliverables and key performance indicators (KPIs) for the programs it is responsible for. The deliverables for DAFF’s drought programs, as set out in the department’s PBS for 2009–10 and 2010–11 are shown in Table 5.2.⁶⁴

⁶³ Indicators and targets for 2007–08 and 2008–09 are outlined in Appendix 5.

⁶⁴ Deliverables should be measurable and quantifiable units or activities. Department of Finance and Deregulation, *Guidance for the preparation of the 2010–11 Portfolio Budget Statements*, March 2010, p. 29.

Table 5.2**Deliverables for the department's drought programs**

Deliverables	Target (%)	PBS Year
Organisations are paid to deliver services to eligible clients in accordance with appropriate governance arrangements.	100	2009–10 2010–11
Interim Income Support claims to be processed in accordance with the Business Partnership Agreement with Centrelink.	80	2009–10 2010–11
Exceptional Circumstances Relief Payments claims to be processed in accordance with the Business Partnership Agreement with Centrelink.	80	2009–10 2010–11
Exit Package grant claims to be processed in accordance with the Business Partnership Agreement with Centrelink.	80	2010–11

Source: ANAO analysis of DAFF's Portfolio Budget Statements for 2009–10 and 2010–11.

5.5 While DAFF can provide assurance for the activities it is involved in, such as payments to delivery partners, DAFF primarily relies on its delivery partners' assurances of their compliance with program delivery requirements to report against these deliverables. As concluded in Chapters 3 and 4 of this audit report, DAFF's oversight of these deliverables would be improved by monitoring key aspects of the performance of DAFF's delivery partners that provide EC payments, including state/territory government-based RAAs and Centrelink.

Drought program key performance indicators

5.6 KPIs are designed to demonstrate the performance of a program in achieving its objectives and its contribution to broader outcomes.⁶⁵ EC assistance is the Australian Government's principal mechanism for assisting farmers and small business operators who are experiencing exceptional hardship due to a rare and severe climatic or other event. DAFF's KPIs for its drought programs for 2009–10 and 2010–11, are shown in Table 5.3.

⁶⁵ KPIs should be based on data sources and measurable samples of the relevant target groups to show the impact of the program and underpin chosen indicators. Department of Finance and Deregulation, *Guidance for the preparation of the 2010-11 Portfolio Budget Statements*, March 2010, p. 38.

Table 5.3

Key performance indicators for the department's drought programs

Key Performance Indicators	Target (%)	PBS Year
Targeted and timely assistance provided to eligible farmers and small businesses affected by an event or experiencing financial hardship.	100	2009–10 2010–11
The number of eligible farmers assisted to re-establish outside agriculture.	100	2010–11

Source: ANAO analysis of DAFF's Portfolio Budget Statements for 2009–10 and 2010–11.

5.7 KPIs for DAFF's drought programs should be designed to assist the Australian, state and territory governments and other key stakeholders to judge whether the programs are achieving intended results. However, DAFF's first KPI for its drought programs is a measure of the timeliness of EC service delivery and the second KPI is a 'deliverable' rather than a KPI as it measures the number of EC grants provided.

5.8 The rationale for providing EC assistance is to ensure that 'eligible farmers and small business operators with long-term prospects for viability are not forced to leave the land or their business due to short-term adverse events that are beyond their ability to reasonably manage'. To better capture and report on the impact of its drought programs, DAFF could develop and use a range of KPIs that better reflect this objective.

Identifying appropriate KPIs

5.9 While identifying measures of effectiveness for drought policy is particularly challenging, an indication of the impact of drought initiatives could be obtained through the use of a range of approaches, including KPIs that focus on the target group. An example of a 'lead' indicator that DAFF could consider and use as a guide to likely future performance is outlined in Figure 5.1.

5.10 KPIs and program evaluation are complementary approaches that can be used to monitor and review the effectiveness of a program. Since the recent drought commenced there have been six reviews/evaluations of Australia's drought assistance programs, which were reviewed by the ANAO.

Figure 5.1

An example of a lead indicator that could be used for drought programs

The target group for EC policy is farmers and small business operators with long-term prospects for viability. In the case of farm enterprises, the characteristics of a viable farm are known and include: farm size (scale allows larger enterprises to reduce their fixed costs relative to revenue); debt to equity ratio; and whether the farmer belongs to productivity groups and benchmarks his/her performance. A lead indicator of the likely effectiveness of drought programs that target this group would be the extent to which EC grants were made available and used by farms with these characteristics. The data to support such a KPI could be obtained via ABARES biannual Farm Survey and through the data collected by RAAs.

Source: ANAO.

Evaluation of drought programs

5.11 In 2008, DAFF commissioned the *South Australian Centre for Economic Studies* (SACES) to profile recipients of the ECRP and ECIRS programs to assess the longitudinal impact of these programs. SACES surveyed and profiled 263 recipients of ECRP and ECIRS and utilised data collected from RAAs and from previous analyses of recipients of the Farm Help and ECIRS programs during previous droughts.⁶⁶

5.12 SACES found that:

- EC interest rate subsidies had helped to sustain farm operations during severe drought conditions and had assisted farmers to position themselves to recover more quickly from drought. As a consequence, recipients had avoided having to: borrow more money; sell stock or assets; or to downsize the farm operations⁶⁷; and
- ECRP recipients agreed that income support assistance should not be provided to farmers who do not prepare for drought and should be conditional on technical improvements and sound risk management strategies. SACES suggested that farmers receiving assistance should be

⁶⁶ The Farm Help Program provided up to 12 months, income support to farmers in severe financial difficulty and who were unable to borrow against their assets. Applications for Farm Help closed on 30 June 2008.

⁶⁷ The South Australian Centre for Economic Studies, *Comparison of Farmers in Exceptional Circumstances Declared Areas and Farmers in the Farm Help Program*, April 2008.

obligated to improving farm practices and obtaining additional training and professional advice.⁶⁸

Reviews of drought policy

5.13 The ANAO examined four reviews that had considered the effectiveness and impact of the government's drought assistance policy and programs since the recent drought commenced in 2001. The ANAO's analysis of these reviews is summarised in Table 5.4.

Table 5.4

ANAO analysis of reviews of the effectiveness and impact of the Australian Government's drought policy and programs

ANAO summary of the key points made in each review
Productivity Commission, <i>Government Drought Support, Report No. 46, Final Inquiry Report</i>, Melbourne, 2009.
EC declarations and the related EC programs did not help farmers to improve their self-reliance, preparedness and climate change management. In particular: <ul style="list-style-type: none">• interest rate subsidies are ineffective and could perversely encourage poor management practices;• income support ignores hardship outside drought-affected areas and should be replaced; and• the EC declaration process is inequitable and unnecessary. Long-term reform should recognise that farmers are primarily responsible for managing risks including from climate variability and change. To this end the Government should focus on: <ul style="list-style-type: none">• supporting research, development, extension, professional advice and training to improve farmers' business management skills;• encouraging farmers to save and be more self-reliant;• better integrating policies relating to water, natural resource management and climate change that impact on farm businesses and local communities; and• designing a farming circumstances specific income support scheme available to all farmers experiencing hardship.

⁶⁸ The South Australian Centre for Economic Studies, *Analysis of Exceptional Circumstances Interest Rate Subsidy (ECIRS) Recipients*, May 2008.

Drought Policy Review Expert Social Panel, *It's About People: Changing Perspective. A Report to Government by an Expert Social Panel on Dryness, 2008.*

- Government should focus on future policy to facilitate the social wellbeing of farm families, rural businesses and communities to improve their capacity to live with dryness.
- Existing responses attempting to deal with dryness are wearing away at the social fabric and capital of rural Australia and threatening the future viability of some rural communities. The existing impacts of underlying structural change in rural communities were more acutely felt during times of stress brought on by dryness.
- For all the assistance provided, farm families, rural business and communities currently living with dryness in rural Australia did not feel or perceive that they were measurably better off.
- EC policy arrangements were either the subject of strong support or dissatisfaction depending on eligibility or for a range of other reasons. While those who received assistance advised that it kept them on the farm, EC policy had created feelings of division and resentment. Government policy should be focused on early intervention to counteract the worst effects of dryness and to provide incentives in better times to encourage commercial and environmentally responsible management practices.
- Policy measures such as exit assistance are largely unwanted as are incentives to move to another profession due to a farmer's psychological connection to the property.

Agriculture and Food Policy Reference Group, *Creating our Future, 2006.*

- There should be a consistent approach to government assistance for those facing viability problems or wishing to lift their business performance.
- The Farm Management Deposits scheme should be retained as a key risk management tool, informed by analysis to confirm that it is meeting its objectives.
- New and improved measures should be introduced that focus on self-reliance, and develop better farm preparedness (including risk management strategies) to deal with market fluctuations and climatic extremes. Interest rate and other transaction-based subsidies should be phased out by the end of 2010.
- Relevant information must be communicated in a clearer, more timely, accessible and accurate manner.
- A partnership approach between businesses and governments will bring the best longer term improvements to the sector's viability and sustainability.

Drought Review Panel, *Consultations on National Drought Policy, 2004.*

Stakeholders:

- strongly supported: the provision of Farm Management Deposits and the FarmBis program; and the government moving its focus towards drought preparedness measures;
- valued income support and the availability of rural financial counselling services. Income support was considered necessary during times of drought;
- were less in favour of interest rate subsidies as such assistance encouraged debt and supported the less prepared. However, ECIRS was appreciated by those who received it; and
- criticised the: complexity of the EC process; restrictiveness of income and assets tests applied in eligibility assessments; and perceived administrative differences for ECIRS between the RAAs.

Source: ANAO.

5.14 Similar messages were repeated in each review. The reviews were generally critical of the EC interest rate subsidy program and income support

arrangements and generally supportive of changing the focus of policy towards encouraging self-reliance and assisting farmers to develop better farm business preparedness, including risk management strategies through training and professional advice. Overall, these reviews/evaluations have led to the consideration of policy alternatives including the trialling of new approaches in a pilot in Western Australia, which is discussed further in Chapter 6.

Aligning drought evaluation work and DAFF's KPIs

5.15 Performance monitoring and evaluation are complementary elements of a sound performance information strategy that can be used to provide a picture of program performance so that, over time, a better understanding of the critical success factors is developed.

5.16 Currently, the department's KPIs for its drought programs relate to the number and timeliness of EC grants provided. These KPIs are not sufficient to capture the intended impact of the government's drought policy. The department's KPIs could be better designed to provide stakeholders with an indication of the impact of drought assistance on an ongoing basis.

5.17 Importantly, DAFF's annual reporting against its drought program KPIs has not identified information that has been obtained through the reviews and evaluations that have been undertaken on an irregular basis. To bridge this gap in performance information, the department's KPIs could be better designed to progressively collect information that would provide stakeholders with a better indication of the impact of drought assistance. Over time, this approach would assist DAFF to:

- collect and analyse relevant data that provides a more in-depth understanding of the performance of Australia's drought programs;
- develop a clearer identification of the causal links between drought program outputs and the desired results; and
- to assist governments to make judgments about the continued appropriateness of particular drought programs.

Internal and external reporting

5.18 The extent to which outcomes have been achieved should be monitored internally within the department and by the Minister and reported annually to Parliament and the public through the department's annual report.

Internal reporting

5.19 As well as informal meetings and discussions on performance, DAFF's Executive is informed of divisional performance against objectives, outcomes, outputs and KPIs through six monthly divisional reports. The reports include information about: activity since the last report; key priorities for the next six months; demand; risks; budget status; and impact.

5.20 In 2008, DAFF introduced a traffic light system to provide visual cues on performance—red: a critical issue; orange: a minor risk; or green: on track. DAFF did not report any critical issues (red lights) relating to the delivery of drought programs but did identify some minor risks (orange lights) including ongoing resourcing issues due to the length of time involved in the finalisation of the government's new drought policy.

5.21 Portfolio issues and priorities are discussed between the Minister and the department's Executive on a regular basis. Further, DAFF advised that the Minister receives data on a regular basis and by request, for example when the Minister is travelling to areas affected by drought. Advice provided in minutes to the Minister is copied to the DAFF Executive.

External Reporting

5.22 A department's annual report should provide Parliament and the public with information about how successful the department was in delivering its activities and the extent to which these contributed to the planned outcome. DAFF reports publicly on its performance in its annual report. The ANAO reviewed the information reported in DAFF's annual reports for 2007–08, 2008–09 and 2009–10 (summarised in Table 5.5). In each year, DAFF reported against the measures outlined in the PBS.

5.23 No explanation was provided in the 2009–10 annual report of the reason the KPI's target had not been reached. DAFF advised that there was a one-off reporting error and the target should be 80 per cent in line with the Centrelink KPI for timeliness. However, the 100 per cent target also appeared in the PBS for 2008–09 and 2009–10. The KPI does not specify that it applies to

only EC programs delivered by Centrelink. Rather the KPI indicates that the target applies to all EC programs.

Table 5.5

DAFF’s reporting of its performance

Year	ANAO Comments
2009–10	DAFF reported that all targets for deliverables had been met or exceeded but the KPI’s 100 per cent target had not been achieved.
2008–09	DAFF reported that all targets had been met including that Centrelink and state/territory delivery agencies had delivered assistance in accordance with the relevant protocol or guidelines.
2007–08	Reported on expenditure and numbers of recipients. The Exit Package was added during the financial year and program activity was reported in the annual report, but not the PBS.

Source: ANAO analysis of DAFF’s annual reports.

5.24 It is not clear how DAFF was in a position to report against the 2009–10 KPI for targeted and timely delivery of all drought programs as timeliness data was not collected for the PAPG program or for the ECIRS program delivered by the RAAs. Further, it is not clear how DAFF could provide the assurance necessary to report against the 2008–09 KPI, particularly for ECIRS payments, without conducting quality checks of the processes of EC delivery partners.

Conclusion

5.25 The Australian Government has invested approximately \$4.85 billion in drought assistance to farmers and small businesses over the last ten years. It is important for public accountability purposes, and the design of new policy approaches, that DAFF has insights into the appropriateness and effectiveness its current drought programs and their contribution to Australia’s broader drought policies.

5.26 Currently, the department’s KPIs for its drought programs relate to the number and timeliness of EC payments delivered by the RAAs and Centrelink. These KPIs are not sufficient to capture the intended impact of the government’s drought policy. Importantly, DAFF’s annual reporting against its drought program KPIs has not identified information that has been obtained through recent reviews and evaluations that have been critical of the consequences of Australia’s existing drought policy. Based on this knowledge, the department’s KPIs could be better designed to provide stakeholders with an indication of the impact of drought assistance on an ongoing basis.

5.27 Australia's drought policy is being subjected to greater levels of scrutiny. One direction being considered is a change in focus from crisis management to risk management so as to assist farmers and farm businesses to plan and prepare for a more challenging climate. A revitalised approach by DAFF to the collection and use of performance information will be central in informing stakeholders on the design and delivery of new drought policies and programs.

Recommendation No.3

5.28 To provide more timely information on the design and appropriateness of Australia's current and future drought polices, the ANAO recommends that DAFF:

- (a) builds on existing evaluation work and develops a range of complementary effectiveness key performance indicators (KPIs); and
- (b) uses these KPIs to report annually on drought assistance outcomes.

DAFF's response

5.29 Agrees with qualification. The department acknowledges the need to provide more information on the appropriateness of Australia's current and future drought policies and remains committed to developing effective policies and programs for drought support.

5.30 The intention of Recommendation 3a, that the department commit to the development of performance indicators which can provide more information on the effectiveness of drought support programs, is agreed.

5.31 The department recognises these limitations and is committed to improving its existing KPIs and evaluation frameworks. It will work to align current and future drought assistance program metrics with the Australian Government's guidelines for performance indicators as contained within the Department of Finance and Deregulation's 2009-10 Portfolio Budget Statements Constructors Kit.

5.32 However, the department has reservations about the benefits to be had from the use of KPIs to specifically measure the effectiveness of existing drought support programs, as they broadly operate as entitlement programs that do not impose mutual obligations on recipients, require changes in behaviour or direct the use of funding. As a result, the usefulness of the KPIs is

likely to be low as there is no readily available evidence to examine what might have occurred under differing conditions.

5.33 The department agrees that the application and use of KPIs and similarly themed monitoring and evaluation tools is beneficial in monitoring a program's success. We will endeavour to publish such results, noting this will commence in the department's 2011-12 Annual Report.

6. Piloting New Drought Measures

This chapter examines DAFF's planning and implementation of the pilot of new drought measures in Western Australia.

Introduction

6.1 As part of a staged approach to national drought policy reform, the Australian Government is conducting a 12-month pilot of a package of new drought policy measures in Western Australia.⁶⁹ The pilot is being undertaken to assist the Australian and state/territory governments to determine future policies for drought assistance. Preparations are underway for a strategic review of the pilot. The outcomes from this review are expected to be considered in the 2012–13 budget process.

6.2 DAFF is responsible for planning, implementing and reviewing the pilot of new drought measures. Programs under the pilot are being delivered by DAFF, the Department of Agriculture and Food Western Australia (DAFWA), Centrelink and the Australian Government Departments of: Health and Ageing (DoHA); Human Services (DHS); and Families, Housing, Community Services and Indigenous Affairs (FaHCSIA). An intergovernmental working group, including a representative from each delivery agency, was established to coordinate implementation across agencies and governments. The ANAO examined: the design of the pilot of new drought measures; DAFF's implementation of the pilot; and monitoring and reporting of the arrangements.

Design of the pilot of new drought measures

6.3 On 30 April 2010, the then Prime Minister agreed to pilot seven new drought policy measures that had been identified through the national review of drought policy. Table 6.1 outlines the pilot's programs and agencies responsible for delivering the measures.

⁶⁹ The measures are intended to: help farmers better adapt and adjust to the impacts of drought, increased climate variability and reduced water availability; provide a more effective social support system to farming families and rural communities; encourage farmers to adopt self-reliant approaches to managing farm risks; and encourage farmers to use Australia's natural resource base and water resources in a more sustainable and efficient way.

Table 6.1

The policy measures and programs included in the pilot

Program	Agency	Description
Farm Planning	DAFWA	Training to enhance farmers’ skills in strategic business planning and assist farmers to prepare or update a farm business plan.
Building Farm Businesses	DAFWA	Grants (totalling up to \$60 000) to improve the capacity of farm businesses to prepare for and adjust to drought and a changing climate and contribute to natural resource management outcomes.
Farm Family Support	Centrelink	Income support to assist farmers facing financial hardship to meet basic expenses.
Farm Social support	Centrelink DoHA FaHCSIA	Enhanced and better coordinated social support network through three programs: <ul style="list-style-type: none"> • Rural Social Initiative—improved access to outreach services; • Online Counselling for Rural Young Australians Initiative—access to online counselling; and • Rural and Regional Family Support Service—access to professional support services and training.
Beyond Farming	DAFF	Support to farmers exiting the industry or considering options with access to mentoring by ex-farmers.
Farm Exit support	Centrelink	Support to farmers exiting the industry or considering options with grants upon the sale of the farm (up to \$150 000) and for advice and re-training and relocation costs (up to \$20 000).
Stronger Rural Communities	DAFF	Support to rural communities to build solid capital and enhance community networks with grants of up to \$300 000 to build social capital and enhance community networks.

Source: ANAO analysis of DAFF information.

6.4 For each measure, one or more programs were delivered to ‘assess the effectiveness and efficiency of possible alternative mechanisms, practices and delivery arrangements for drought relief, increasing farmers’ preparedness to manage the impacts of increased climate variability and the effectiveness of agriculture-dependant rural communities’.⁷⁰ The programs are both new programs and refinements to existing drought programs. In addition, the pilot of new drought assistance measures included Communications and Reviewing the Delivery and Preliminary Outcomes activities. DAFF was responsible for these activities.

⁷⁰ *National Partnership Agreement on the pilot of drought reform measures in Western Australia*, paragraph 2.

The pilot region

6.5 On 5 May 2010, the then Australian Government Minister for Agriculture, Fisheries and Forestry and the Western Australian Minister for Agriculture and Food announced their agreement to pilot a package of seven drought policy measures over 12 months (1 July 2010 to 30 June 2011) in a region of Western Australia (as shown in Figure 6.1).⁷¹

6.6 The initial pilot region represented approximately 53 per cent of Western Australia and 69 per cent of all of Western Australia's agricultural land. Within this region there are approximately 6000 farming families (around four per cent of Australia's farm businesses) who undertake cropping, dryland farming, pastoral and irrigated industries and/or run livestock across a range of climatic zones.

Designing the pilot

6.7 In designing the pilot, DAFF:

- was informed by expert experience and consulted with appropriate stakeholders;
- considered the risks and benefits of conducting a pilot; and
- considered options for funding, location and timeframes.

⁷¹ The initial pilot region covered 67 local government areas that had previously been EC declared. On 10 May 2011, an extension of the pilot for a further 12 months (to 30 June 2012) was announced in the Australian Government's 2011–12 Budget. The pilot region will be extended to the southwest of the state and will cover approximately 96 per cent of all Western Australian farms, or approximately 13 000 farm businesses.

Figure 6.1

The initial pilot region



Source: DAFF.

Stakeholder feedback during the pilot

6.8 The ANAO interviewed a range of stakeholders who were directly and indirectly involved with the pilot. Generally, stakeholders supported the conduct of a pilot but raised some concerns about the pilot’s design. These concerns focused on the:

- **duration of the pilot**—measures such as Building Farm Businesses are aimed at inducing long-term improvement in natural resources management, farming practices and farm businesses’ preparedness for managing climate risks. For these measures, stakeholders were concerned that 12 months was not sufficient time to obtain informative outcomes; and
- **transferability of the measures**—concerns about the transferability of measures (particularly to the eastern states of Australia) centred on differences in farm size and income, distribution of farming types, farming business structures and professional support services structures.

6.9 Other comments were influenced by the impact of the poor season in Western Australia. For example, frustration was expressed by farmers experiencing a poor season but located outside the pilot area and some commented that the pilot did not provide interest rate subsidies. Stakeholders also expressed concerns that the effectiveness of some measures would not be apparent until the next period of drought, and that assistance would stop on 30 June 2011.

6.10 Should the Australian Government decide to ‘roll out’ the pilot nationally, a consideration for DAFF will be the need to manage the transformation of the small pilot into a scaled-up program operating across Australia, taking into account the concerns raised by stakeholders about the transferability of the pilot from Western Australia.

Approach to implementing the pilot

6.11 The design and delivery arrangements agreed by the Australian and Western Australian governments were documented in the *National Partnership Agreement on the pilot of drought reform measures in Western Australia* (the NPA).⁷² To underpin the NPA, DAFF prepared a Project Plan that described how the pilot would be implemented, delivered and monitored. The ANAO reviewed the governance arrangements outlined in the NPA and the project plan and arrangements to deliver the pilot of new drought measures.

National Partnership Agreement

6.12 The NPA provided a common reference for all parties involved in the delivery of the pilot and was agreed at the ministerial level. It clearly stated the objectives, outcomes and outputs for the pilot and the roles and responsibilities of respective delivery partners. The NPA also documented resourcing requirements; timeframes for completing reviews; the specified data and information reporting requirements; and arrangements for managing disputes or variations. Overall, the NPA included the key elements expected by better practice.

⁷² Available from <http://www.federalfinancialrelations.gov.au/content/national_partnership_agreements/environment/drought_reform/Pilot_of_Drought_Reform_Measures_in_WA_NP_signed.pdf> [Accessed 23 February 2011].

The Project Plan

6.13 To support the implementation, delivery and review of the drought programs included in the pilot, DAFF prepared a project plan that outlined the:

- roles and responsibilities of the delivery partners;
- resourcing and funding arrangements for the pilot; and
- objective, outcomes, outputs, deliverables, key performance indicators and targets.⁷³

6.14 The outcomes and outputs identified in the plan were measurable and relevant for a pilot. Given the initial 12-month timeframe for the pilot, it may be difficult to assess the extent to which the pilot programs have enabled the anticipated long-term outcomes to occur. This context was recognised at the design stage. Accordingly, the NPA's objective recognises both Governments' aspirations to enhance their understanding of the potential outcomes of the measures.⁷⁴

6.15 The plan also included a:

- draft risk management plan that identified, assessed and rated each risk, and outlined the control framework.
- Stakeholder Management Plan that identified the pilot's key stakeholder(s) and the delivery agency responsible for each stakeholder/stakeholder group; and

6.16 Given the large number of delivery partners involved, a Stakeholder Management Plan was a practical tool for managing the governments' responsibility to keep stakeholders informed. Further, the project plan was used by the working group as a living document and was the basis for monitoring the timeliness of program delivery and arising delivery issues. Arrangements for monitoring and reporting on the outcomes of the pilot were

⁷³ Eight indicators of success were agreed by the working group. The indicators were: *Interest*—people were interested in the pilot; *Accessibility*—people were able to access the pilot; *Compliance*—participants fulfilled their obligations under the pilot; *Administration*—the pilot was administered efficiently; *Expenditure*—there were sufficient resources to deliver the pilot; *Feedback*—stakeholders commented positively about the pilot; *Preliminary outcomes*—the pilot achieved progress towards intended outcomes; and *Government*—the delivery arrangements worked.

⁷⁴ *National Partnership Agreement on the pilot of new drought reform measures in Western Australia*, paragraph 10.

finalised during the early stages of the pilot's delivery. These arrangements are discussed further from paragraph 6.25.

Internal audit by DAFF of its planning

6.17 In June 2010, DAFF's internal audit area examined the design and set-up of the pilot. DAFF's planning was also examined to determine whether appropriate and adequate data would be collected during the course of the pilot that would enable an evaluation of the pilot's appropriateness, efficiency and effectiveness.

6.18 The internal audit found that although the timeframes had been highly demanding, substantial progress had been made towards implementing the drought reform measures by 1 July 2010 through the department's extensive activity and effort. The key areas of risk management, governance, implementation planning, procurement and contract management, stakeholder management, resources, communication, and monitoring and review had all been considered. The major components of each were either in place or in the process of being finalised and/or formalised. Where arrangements had not been formalised or finalised, these should be addressed and maintained going forward.

6.19 The report made six recommendations focused on activities to be completed prior to and during implementation of the pilot.⁷⁵ All recommendations were agreed, and DAFF reported that the recommendations had been implemented either before or at the first meeting of the working group on 28 July 2010.

Arrangements underpinning the delivery of the project plan

6.20 There are several different arrangements in place to support the delivery of the pilot. For the responsibilities delivered by:

- DAFWA (Farm Planning and Building Farm Businesses)—program plans were attached as Schedules to the NPA;

⁷⁵ The six recommendations covered: maintaining the risk management plan; formalising governance arrangements, cross-agency agreements and planning documents as soon as possible; formalising the arrangements for the working group; clearly identifying the relationships and linkages between program components; and identifying the key evaluation questions and putting in place arrangements to collect appropriate data during the pilot phase.

- DoHA (Online Counselling for Rural Young Australians) and FaHCSIA (Rural and Regional Family Support)—planning was the responsibility of the relevant department. These agencies were involved in the pilot through the Australian Government’s commitment to fund and deliver the farm social support measure; and
- Centrelink (Farm Family Support, the Rural Social Initiative, Farm Exit Support and communications activities such as the drought telephone hotline)—DAFF engaged Centrelink through a protocol (*Pilot of Drought Reform Measures in Western Australia*) that was attached to the existing Business Partnership Agreement.⁷⁶ The protocol outlined the roles, responsibilities and reporting requirements for these activities.

6.21 DAFF was responsible for the Stronger Rural Communities and Beyond Farming programs as well as the Communications and Review of Delivery and Preliminary Outcomes activities for the pilot. For the:

- Stronger Rural Communities Program—DAFF prepared an implementation plan, a communications strategy, standard operating procedures, program guidelines, an assessment plan and a risk management plan for the program. NRAC was engaged to assess applications; and
- Beyond Farming Program—DAFF signed a delivery contract with the Western Australia Council of Social Service Inc that included an implementation plan, milestones, performance standards and reporting requirements.

6.22 DAFF prepared an overarching communications strategy that identified the pilot’s audiences, key messages and activities to be conducted, and a monitoring and review strategy. The monitoring and review strategy is discussed further from paragraph 6.26.

6.23 Although arrangements underpinning the pilot’s implementation were not finalised by 1 July 2010, they were predominately completed by this date. DAFF advised that implementation arrangements were affected by the compressed timeframe following the Minister’s announcement on 5 May 2010.

⁷⁶ The DAFF—Centrelink 2005 Business Partnership Agreement was discussed previously in Chapter 4.

6.24 DAFF advised that a risk-based approach had been taken to manage implementation planning requirements following the announcement. Focus was given to finalising arrangements with DAFWA and third-party providers. Arrangements with other Australian government agencies had been progressed prior to the announcement and could be given a lower priority. For example, arrangements with Centrelink had been informally agreed prior to 1 July 2010, but the protocol was not signed until after 1 July 2010. Centrelink commenced delivery according to the protocol in anticipation of the agreements being finalised.

Monitoring the pilot

6.25 The working group is responsible for monitoring the pilot's implementation and progress.⁷⁷ It monitors activity through monthly reports and regular (approximately quarterly) meetings where implementation is assessed against the project plan. The ANAO reviewed the monitoring and review strategy for the pilot, and monthly reports submitted to the working group.

Monitoring and review strategy

6.26 The draft *Monitoring and Review Strategy* (the strategy) was first presented to the working group at its October 2010 meeting. The strategy reflected the framework for reporting by delivery partners and the approach for the two reviews—the mid-term review and the final review—including options for stakeholder management and engagement. Tables attached to the strategy outlined the:

- detailed characteristics of each program—objective, activities, estimated uptake, links, and responsible parties;
- program logic framework for reporting that included measures of delivery processes, outputs, preliminary outcomes and long-term outcomes. Deliverables, performance indicator(s) and data sources were also identified; and
- types of data, baseline data sources and key stakeholders.

⁷⁷ The working group is chaired by DAFF and includes senior officers from DAFWA, DoHA, FaHCSIA and Centrelink (which also represents DHS). DAFF provides the secretariat.

6.27 For each long-term outcome, DAFF identified a short-term (preliminary) outcome that could be measured within the pilot period. Identifying shorter-term goals should prove useful in assisting DAFF to assess the robustness of the measures within the 12 months allowed for the pilot.

Monthly reporting

6.28 Delivery partners provide data reports to DAFF by the 15th of each month (a month in arrears). DAFF advised that the information to be collected was agreed with delivery partners and corresponded with the agreed reporting framework. Specific information to be reported was documented in the arrangements underpinning the project plan, for example, DAFF's program protocol with Centrelink.

6.29 Overall, the monthly reporting has been consistent and timely and has covered the requirements outlined in the NPA. Monthly reports for the period July 2010 to March 2011, reviewed by the ANAO, provided the working group with information about:

- the delivery and outcomes of the programs. DAFF provided: activity summaries for individual measures and for the pilot; monthly and cumulative program data; and information about issues that could impact on program delivery. Further progress against milestones was also reported;
- communication activities. Reports tracked interest in websites, advertising and public information sessions and contact through the hotline and email; and
- financial status.

6.30 DAFF established an issues management register that was used to capture: the date the issue was reported, who was responsible for addressing the issue, how it would be addressed and when a response was required. Issues raised generally related to higher or lower than anticipated demand and the resourcing implications. For example, in July 2010, Centrelink reported that excess demand for rural support programs was impacting on delivery. In response, additional temporary regional services officers were appointed.

Reporting to support the working group's meetings

6.31 At its meetings on 28 July 2010, 28 October and 6 December 2010, the working group reviewed the: completion of actions arising from previous

meetings; delivery of outputs; activity in the pilot programs and issues (on an exception basis); status of the monitoring and evaluation approach; financial status; and other business.⁷⁸ DAFF updated the project plan to inform the working group on progress made against each output's milestones (and new or expected risks arising). The risk management plan was also reviewed by DAFF and the working group. An additional risk was added—*social support including income support, online counselling, and family counselling is removed [at the conclusion of the pilot] for current and potential recipients*. The risk was rated 'medium'.

Reporting on the pilot and its potential to assist in the formation of future drought policy

6.32 The NPA required two reviews be conducted to assess progress against the pilot's outcomes a mid-term review to consider progress; and a strategic review, once the pilot was closed on 30 June 2011. The ANAO examined DAFF's mid-term review of the pilot's progress and preparations for the final strategic review.

Mid-term review of progress

6.33 The mid-term review of progress against the pilot's outcomes and financial expenditure was completed on time.⁷⁹ The progress report advised that interest and demand for measures had been strong and had been broadly distributed across the pilot region and across industry sectors. However, it was too early to assess the extent to which the pilot's measures would achieve their objectives. The progress report acknowledged that the deterioration in seasonal conditions in some parts of the pilot region had not been anticipated at the time the pilot was designed. Overall expenditure was reported as being 'as projected'.

6.34 Using each performance indicator identified in the monitoring and review strategy's logic framework, the progress report provided a snapshot of

⁷⁸ Further working group meetings were scheduled in 2011 for 28 April, 28 July and 27 October. DAFF advised that the timing of meeting dates was influenced by the timing of key activities, and in particular, the timing of the reviews.

⁷⁹ The NPA (and the KPIs) required the mid-term review to be completed by 17 December 2010. The report—*Progress Report: Pilot of Drought Reform Measure in Western Australia*—was endorsed by the working group on 6 December 2010. The progress report was released publicly on DAFF's website in January 2011.

progress against the indicator—‘achieved’, ‘on-track’, ‘not achieved’ or ‘to be assessed at end of pilot’—and contextual comments. A more detailed explanation of the activities that had been undertaken and data collected was also provided. DAFF’s reporting indicated that programs were generally on track or had already achieved the outputs expected.

Final strategic review

6.35 The outcomes of the strategic review should inform the government whether there is a need to further test the robustness of any new drought assistance policy and highlight risks in a national rollout.

6.36 On 1 February 2011, the Minister announced the appointment of a panel to undertake the strategic review of the pilot program. The panel is to report against the pilot’s terms of reference (TOR) by 30 September 2011.⁸⁰ The review is to focus on the efficiency, effectiveness, appropriateness and preliminary outcomes of the pilot’s measures and consider the capacity of the pilot’s measures over the long-term to:

- improve farmers’ ability to adapt and to manage farm risks;
- support farmers’ sustainable management of natural resources; and
- deliver more effective and equitable social support for farming families and rural communities.

6.37 On 9 March 2011, the panel sought public comment on the pilot’s impact. Comments have been sought from any interested party, not just participants. To assist those wanting to make a submission, the panel released an issues paper which explained the TOR and outlined the questions the panel was seeking responses to.

Conclusion

6.38 Based on the proposed change in policy direction, from crisis to risk management and preparedness for climate variability in the future, the Western Australian pilot is a practical way to test potential new initiatives and gain lessons and experience before scaling up to a new national policy. To date, DAFF’s administration and implementation of the pilot of new drought reform measures being trialed in Western Australia, has been sound. It has a

⁸⁰ The panel comprises: Mr Mick Keogh (Chair); Ms Sue Middleton; and Mr Bob Granger.

comprehensive monitoring and review strategy, identifying both preliminary and long-term outcomes.

6.39 Should the Australian Government decide to 'rollout' the pilot nationally, a consideration for DAFF will be the need to manage the transformation of the small pilot into a scaled-up program operating across Australia, taking into account the concerns raised by stakeholders about the transferability of the pilot from Western Australia.



Ian McPhee

Auditor-General

Canberra ACT

22 June 2011

Appendices

Appendix 1: DAFF's response



Australian Government
Department of Agriculture, Fisheries and Forestry

File Reference: PAR 30218
Our Reference: EX5C2011-05043

Ms Barbara Cass
A/g Executive Director
Performance Audit Services Group
Australia's National Audit Office
GPO Box 707
CANBERRA ACT 2601

Dear Ms Cass

Re Performance audit of drought assistance

Thank you for your letter of 6 May 2011 to the Secretary of the Department of Agriculture Fisheries and Forestry (DAFF), Dr Conall O'Connell, seeking comments from the Department under section 19 of the *Auditor-General Act 1997* on the ANAO's proposed performance audit report on Drought Assistance. Dr O'Connell has asked that I respond on his behalf.

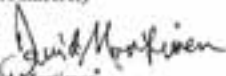
The proposed report provides a comprehensive analysis of the current drought assistance measures and pilot of new drought reform measures provided by the Australian Government. I note the views formed by the ANAO and the Department agrees with two of the recommendations in full, and one with qualification. Significant progress is being made addressing a number of issues and concerns raised within the ANAO report, and the Department remains committed to addressing these matters now and in the future.

As requested, responses to each of the recommendations are provided at Attachment A, and a summary for use in the report summary and brochure is provided at Attachment B. In addition, general drafting and editorial comments on the proposed report have been provided separately.

I would also like to acknowledge the cooperative efforts of the ANAO officers involved in the audit, particularly given the broad and complex nature of drought policy and measures.

If you or your staff would like to discuss the audit further please do not hesitate to contact Mr Andrew McDonald, General Manager, Farm Support and Adaptability Branch on 02 6272 5760.

Yours sincerely


David Mortimer
Executive Manager
Climate Change Division

2 June 2011

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DEPARTMENT OF AGRICULTURE, FISHERIES AND FORESTRY

DAFF'S RESPONSE TO ANAO RECOMMENDATIONS

ANAO RECOMMENDATION	SUGGESTED DAFF RESPONSE
<p>Recommendation 1:</p> <p>In light of concerns raised in recent reviews that highlighted the impact of the different interpretations of the Exceptional Circumstances Interest Rates Subsidies (ECIRS) program, the ANAO recommends that DAFF:</p> <ul style="list-style-type: none"> a) implement arrangements to provide assurance that the minimum assessment criteria for ECIRS eligibility are being met; and b) gathers data on the variability of ECIRS payments across jurisdictions, with a view to informing future Australian and state/territory government drought policy initiatives. 	<p>The department <u>agrees</u> with Recommendation 1.</p> <p>The department acknowledges that it issues guidelines for the ECIRS program to State jurisdictions that establish minimum assessment criteria for ECIRS eligibility. The department will examine jurisdictions' implementation of the guidelines. State jurisdictions are responsible for delivering the ECIRS program on behalf of the Commonwealth. An intergovernmental agreement affords jurisdictions flexibility on the level of ECIRS to be applied beyond the minimum criteria established by the Commonwealth's guidelines. This flexibility produces variable outcomes that result from additional criteria and/or rigour that some jurisdictions choose to apply to the assessment of ECIRS applications. The department will gather data on this variability, with a view to informing future initiatives.</p> <p>Further, the department acknowledges the need to gather data on the variability of ECIRS payments across jurisdictions, and is committed to undertaking such a review. This information will help to prompt further discussion and also help inform future Australian and state/territory government drought policy initiatives.</p>
<p>Recommendation 2:</p> <p>In developing a New Bilateral Management Agreement (BMA) with Centrelink, the ANAO recommends that DAFF negotiates arrangements that would provide greater assurance in relation to:</p> <ul style="list-style-type: none"> a) Centrelink's performance in delivering each individual drought assistance program against established key performance indicators; and b) the integrity of drought assistance payments. 	<p>The department <u>agrees</u> with Recommendation 2.</p> <p>The current Business Partnership Agreement (BPA) is due to expire on 30 June 2011. However, DAFF and Centrelink will extend it in the short term while the Government's new Service Delivery Reform legislation is debated in Parliament. Following new legislation, the BPA will be replaced by a Business Management Arrangement (BMA), which will provide a framework for the signatory agencies to deliver outcomes in relation to the payments and services.</p> <p>The department agrees to pursue the recommendation in the development of the new BMA with Centrelink.</p>

<p>Recommendation 3:</p> <p>To provide more timely information on the design and appropriateness of Australia's current and future drought policies, the ANAO recommends that DAFF:</p> <ul style="list-style-type: none"> a) builds on existing evaluation work and develops a range of complementary effectiveness key performance indicators (KPIs); and b) uses these KPIs to report annually on drought assistance outcomes. 	<p>The department <u>agrees with qualification</u> to Recommendation 3.</p> <p>The department acknowledges the need to provide more information on the appropriateness of Australia's current and future drought policies and remains committed developing effective policies and programs for drought support.</p> <p>The intention of Recommendation 3a, that the department commit to the development of performance indicators which can provide more information on the effectiveness of drought support programs, is agreed.</p> <p>The department recognises these limitations and is committed to improving its existing KPIs and evaluation frameworks. It will work to align current and future drought assistance program metrics with the Australian Government's guidelines for performance indicators as contained within the Department of Finance and Deregulation's 2009 - 10 Portfolio Budget Statements Constructors kit.</p> <p>However, the department has reservations about the benefits to be had from the use of KPIs to specifically measure the effectiveness of existing drought support programs, as they broadly operate as entitlement programs that do not impose mutual obligations on recipients, require changes in behaviour or direct the use of funding. As a result, the usefulness of the KPIs is likely to be low as there is no readily available evidence to examine what might have occurred under differing conditions.</p> <p>The department agrees that the application and use of KPIs and similarly themed monitoring and evaluation tools is beneficial in monitoring a program's success. We will endeavour to publish such results, noting this will commence in the department's 2011-12 Annual Report.</p>
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Appendix 2: Centrelink's response



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Ms Barbara Cass
Acting Group Executive Director
Performance Audit Services Group
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Dear Ms Cass

I am writing to you in response to the Section 19 report on the *Performance Audit: Drought Assistance*.

Thank you for the opportunity to comment on the report.

Centrelink considers that the development of a new Bilateral Management Agreement with the Department of Agriculture, Fisheries and Forestry will further strengthen the delivery of Drought Assistance.

Yours sincerely

A handwritten signature in black ink, appearing to read "Carolyn Hogg".

Carolyn Hogg PSM
6 June 2011

Centrelink assisting people to become self-sufficient and supporting their recovery

www.centrelink.gov.au

Appendix 3: Summary of key review findings

Report from the Bureau of Meteorology and the Commonwealth Scientific and Industrial Research Organisation

1. The BoM-CSIRO's report, *An assessment of the impact of climate change on the nature and frequency of exceptional climatic events*, was released on 6 July 2008.⁸¹ The report reviewed the extent and frequency of exceptionally hot years, exceptionally low rainfall years and exceptionally low soil moisture years.
2. The report outlined that, on average, exceptionally high temperatures are likely to occur every one to two years. Trends of exceptionally low rainfall were highly dependant on the period of analysis but some areas would be more regularly affected by exceptionally low rainfall. There would also be more years of exceptionally low soil moisture.
3. The report concluded that the existing trigger for EC declarations was not appropriate under a changing climate and future drought policy may be better served by avoiding the need for a trigger. This was an implication of the likely increase in the frequency and severity of exceptional climatic events. Further, the report identified a need for farmers and their suppliers to have user-friendly, reliable and up-to-date location-specific information on historical climate conditions and future climate variability.

Report from the expert social panel

4. The expert social panel's report, *It's About People: Changing Perspective. A Report to Government by an Expert Social Panel on Dryness*, was provided to the government in September 2008 and was released publicly on 23 October 2008.⁸² The panel examined the social impacts of dryness on farm families, rural businesses and communities. The panel reviewed existing literature, commissioned research and surveys and written submissions and met with stakeholders from rural

⁸¹ Hennessy, K., Fawcett, R., Kirono, D., Mpelasoka, F., Jones, D., Bathois, 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 Commonwealth Scientific and Industrial Research Organisation, July 2008.

⁸² Drought Policy Review Expert Social Panel 2008, *It's About People: Changing Perspective. A Report to Government by an Expert Social Panel on Dryness*, Canberra, September 2008.

communities and government and non-government organisations. The panel made 37 recommendations to government and to the broader stakeholder group covering: communities; families; human support services; education and training; human capital; and health and wellbeing.

5. The panel found that EC policy arrangements were the subject of either strong support or dissatisfaction, depending on eligibility or for a range of other reasons. EC policy had created feelings of division and resentment. The existing declaration process caused stress due to the implementation of different approaches between and across state jurisdictions, in meeting complex criteria and in completing complex paperwork. Further, the rural sector felt that the attachment to the land was misunderstood by the government, media and city residents and that policy measures such as exit assistance was largely unwanted.
6. Overall, the panel found that an improved policy was needed that included: support to develop integrated plans for individual and family wellbeing, farm business and natural resource management; mutual responsibility for future public-funded assistance; and a transition strategy from the current arrangements.

Report from the Productivity Commission

7. The Productivity Commission's report, *Government Drought Support*, was submitted to the then Assistant Treasurer on 27 February 2009.⁸³ The Productivity Commission assessed the appropriateness, effectiveness and efficiency of drought support measures provided to farmers, farm businesses and farm dependant rural small businesses. The measures considered included EC Relief Payment (ECRP), EC Interest Rate Subsidy (ECIRS), EC Exit Assistance, Farm Management Deposits, Professional Advice and Planning Grants (PAPG), Irrigation Management Grants and rate rebate schemes. The Productivity Commission identified a mismatch between the objectives of the NDP and the drought policy measures being delivered.

⁸³ Productivity Commission, *Government Drought Support: Report No. 46, Final Inquiry Report*, Melbourne, 2009.

8. In its assessment of specific EC programs, the Productivity Commission identified that the:
 - exceptional circumstances declaration process was inequitable and unnecessary;
 - interest rate subsidies were ineffective and could perversely encourage poor management practices; and
 - relief payments ignored farmers in hardship elsewhere and for other reasons.
9. The Productivity Commission made 16 recommendations and found that generally most farmers were sufficiently self-reliant to manage climate variability and that at the peak of the drought, only 23 per cent of farmers accessed drought assistance. The NDP's EC declarations and related drought assistance programs did not help farmers to improve their self-reliance, preparedness and climate change management. The report also stated that government needed to commit to a long-term reform path that recognised that farmers were primarily responsible for managing risks, including climate variability and change.

Appendix 4: ANAO’s sample of areas that had new EC assessments or reviews of existing declarations

State	Areas
New South Wales and Australian Capital Territory	Bega Valley
	Braidwood
	Bundarra
	Cooma-Bombala ACT
	Dunedoo-Mudgee
	Eurobodalla
	Hume
Victoria	South and West Gippsland
	Central and East Gippsland Revised
	Mallee Northern Wimmera Revised
	Latrobe Macalister Irrigation District
South Australia	Murray Mallee
	River Murray and Lower Lakes Corridor
	Central North East and Annex
	Claire, Light and Barossa
	Kangaroo Island
	Upper North Cropping District
	Eastern Eyre Peninsula
	Far West Eyre Peninsula
	Central and Eastern Mount Lofty Ranges
Western Australia	Northern Wheatbelt
	Southern Rangelands
Queensland	Waggamba
	Northern Darling Downs Revised
	The Gulf
Tasmania	Central Midlands
	North East and Flinders Island
Northern Territory	South East Alice Springs

Appendix 5: Performance information

Drought program performance measures for 2008–09

Key Performance indicators	Target
The number of farmers that changed industries, farming and business practices to be or remain viable in the long term as determined by surveys and program input and output data.	<ul style="list-style-type: none"> • 200 exit grants approved • 3000 Professional Advice and Planning Grant vouchers issued to new customers • 1000 Professional Advice and Planning Grant vouchers issued to existing customers • 75 per cent of Professional Advice and Planning Grant vouchers redeemed
The extent that farm families, businesses and communities in target groups receive government support and manage through and recover from severe climatic events as determined by surveys and program input and output data.	<ul style="list-style-type: none"> • 100 per cent of estimated eligible clients in EC regions receive EC relief payments • 100 per cent of estimated eligible clients in EC regions receive EC interest rate subsidies • 100 per cent of estimated eligible clients in EC regions receive short term income support

Drought performance measures for 2007–08

Administered outputs	Performance indicators
Exceptional Circumstances	The number of long-term viable farms and agriculturally dependent businesses assisted by interest rate subsidies and relief payments.
Exceptional Circumstances Relief payments	The number of farm families and agriculturally dependent businesses experiencing severe financial difficulties in EC declared areas receiving welfare support.
Drought Assistance—Professional Advice	Short term professional advice provided to farmers experiencing serious financial difficulty.
Interim Income Support payments	Number of farm families and agriculturally dependant small businesses experiencing severe financial difficulties in <i>prima facie</i> areas receiving welfare support.
Drought Assistance—Re-establishment Assistance	<p>Financial assistance is provided to assist farmers in financial difficulty to re-establish outside the farming industry.</p> <p>The extent that farm families can gain the training and assistance required to establish effectively in off-farm positions.</p>

Departmental outputs	Performance indicators
High-quality policy advice on rural policy and innovation issues	The level of satisfaction of Ministers and the Parliamentary Secretary with the quality and timeliness of policy advice as measured by written feedback received.
Effective administration of rural policy and innovation programmes.	The delivery of programs and services in accordance with the relevant agreement/memorandum of understanding, program guidelines and government prudential requirements.

Source: ANAO analysis of DAFF's Portfolio Budget Statements for 2007–08 and 2008–09.

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