

19<sup>th</sup> October 2018

**RAPAD Drought Program Review Submission**  
[DroughtProgramReview@qld.gov.au](mailto:DroughtProgramReview@qld.gov.au)

Dear Commissioners,

The Remote Area Planning and Development Board (RAPAD) congratulates the Palaszczuk Government on commissioning a review of the Drought Program to improve resilience and assistance for farmers in future droughts.

With drought foremost in people's minds, we concur with your sentiments that right now is the best time to review Government, industry and community actions through this drought and to consider and recommend improvements for coping in future, and that all too often reviews have been conducted well after droughts are over with too many lessons being forgotten.

All seven RAPAD councils have been fully drought declared since 2014 and our communities are currently experiencing the worst drought in their history. Our communities are asking for change from Government in how it deals with drought, 'more of the same' or 'business as usual' is simply not an option. While this drought review cannot solve the issue of rainfall, it is an opportunity to re-examine drought assistance and work with communities by supporting them not just when they are in drought, but also when the rain comes.

Emergency response is important, but on its own is not enough – our communities deserve more. It needs to be accompanied by deliberate, long-term, strategic and coordinated support, delivered through the whole drought cycle, to help councils, businesses and communities prepare for drought, cope with drought when it is happening, and recover rapidly afterwards.

We cannot just imagine that exceptional circumstances and short-term assistance, important as it is, is going to revitalise our region and we cannot leave people thinking that for RAPAD communities that is enough. We must move to a comprehensive, whole-of-government, integrated, collaborative approach with Government on drought to ensure the RAPAD region has a viable future.

As such through this submission RAPAD has put forward new ways to rapidly encourage social and economic growth of our region to sustain us through these lean times and for the long run.

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#RAPADCWQ

In developing this submission, the RAPAD Board asked for expert opinion from outside the region. As such included are comments from Dr Mark McGovern who has similarly expressed a need for change in his "Prudently Addressing Drought Impacts Paper".

He has identified a range of areas where improvements in our thinking and various products, processes and policies would have significant positive impacts. We look forward to exploring these further with him and others, such as yourselves.

This review is an opportunity to make a real difference, and we should not let this pass. Our collective failure to so far more effectively respond to serious challenges has already weakened our communities and enterprises - and wrecked far too many lives and families.

Through this review I ask the Government to partner with RAPAD to lead a mature conversation with all stakeholders about drought reform and help grow the investment in the RAPAD region to ensure future drought effects are mitigated and ensure the future of the region and the long term sustainability of our communities.

I look forward to following up with you soon and can be contacted on 0427512314.

Cheers

A handwritten signature in black ink, appearing to read 'R. Chandler', written in a cursive style.

Rob Chandler  
RAPAD Chair

### **RAPAD - Who we are**

RAPAD has been in existence since 1992 and is now the state's most successful regional organisation of councils. RAPAD is the peak economic development body for the region; the lead advocate for its member councils; a registered training organisation and a proactive, credible and respected administrative body with a proven track record of delivery of federal and state government policy and program objectives.

Through its focus on innovation, creativity, consultation and collaboration RAPAD has an enviable track record of successfully partnering with local, state and federal governments, communities and private sector stakeholders.

The RAPAD region comprises the seven local government areas of Barcaldine, Barcoo, Blackall-Tambo, Boulia, Diamantina, Longreach and Winton. These councils have responsibility for a total land area of 396,650km<sup>2</sup> - 21% of the total State and a population of 10,500 (Census 2016) - 0.22% of the State.

### **The need for change in the RAPAD region**

Recent census data highlights the RAPAD communities and the broader central west region is in significant decline. As such the futures of the RAPAD communities are facing their greatest risk ever, becoming stranded assets. The RAPAD region has been hard hit by the millennium drought, a contributing factor to its loss of 12.5% of residents between 2011 and 2016 census. Depopulation is the most significant threat for without people communities long term sustainability cannot be assured.

All seven councils have been fully drought declared since 2014. RAPAD communities are currently experiencing the worst drought in its history with record temperatures, and minimal rain events combining to create devastating outcomes for primary producers, businesses and communities. Huge reductions in livestock numbers due to continued failed summers have resulted in limited to zero cash flow for businesses, and a significant decrease in their equity positions due to increasing debt levels, decreasing livestock numbers and reduced land valuations.

With droughts predicted to grow in frequency and severity in the future, there is an opportunity through his review to re-examine drought assistance and work with communities by supporting them not just when they are in drought, but also when the rain comes.

Emergency response is important, but on its own is not enough – our communities deserve more. It needs to be accompanied by deliberate, long-term, forward thinking and coordinated support, delivered through the whole drought cycle, to help councils, businesses and communities prepare for drought, cope with drought when it is happening, and recover rapidly afterwards.

This review is the opportunity to begin a considered exchange with Government about refocusing how we respond to drought and invest in forward planning and new thinking. These actions, like those outlined by RAPAD in this review, need to be invested in between droughts, in addition to investing in emergency support during drought.

The future of the region largely depends on what Government, RAPAD, business and the community do now. Things must change, 'more of the same' or 'business as usual' is simply not an option. While this drought review cannot solve the issue of rainfall, it is an opportunity to put forward new ways to rapidly encourage social and economic growth of the RAPAD communities to sustain the region in these lean times and for the long run.

RAPAD encourages the Government to investigate a broad range of support mechanisms to minimise the impact of this current drought and ensure our communities are better prepared for future drought events. As we know droughts are not new however new thinking is required.

RAPAD communities stand ready and willing to reinvent themselves as one of the most resilient communities in Australia by developing and implementing strategic projects to enable residents, businesses, councils and investors to make decisions with confidence. As such RAPAD has recommended a series of strategic programs outlined below:

1. Responding to the economic and personal costs of drought;
2. Protecting the rural economy;
3. Focussing on a renewable energy future;
4. Restoration of Zone Tax Rebate Scheme;
5. Water reform across the region;
6. The continuation of the Advance Queensland program or a similar program;
7. Supporting the continued roll out of fibre optic telecommunications backhaul, mobile phone blackspots program and point-to-point radio connectivity;
8. Growing tourism to diversify the economy;
9. Continuation of the Western Roads Upgrade Program; and
10. Help councils manage community assets and maintain workforces.

### **Understanding the impact of drought on the RAPAD region**

All RAPAD communities are experiencing population decline, dwindling employment prospects, limited economic stimulus and high commercial vacancy rates. People are leaving. Approximately 12.5% of the population left the region over the 2011-2016 census period across every age group 0-54 years, while the demographics for ages 55 and above increased, including a 30.8% increase for 85 years and above.

Population statistics taken from the last census 2011 - 2016 indicates whilst Queensland's statewide growth has increased by 6% communities in the central west continue to decline:

- Longreach decreased by 13%;
- Blackall Tambo by 15%;
- Barcoo shire by 25%; and
- Winton by 16% over this period.

Further 2011 – 2026 predicted population growth for the state is an increase of 32% yet over the same period for the central west a decrease of 2%.

Depopulation remains as the number one threat to the long term sustainability of all RAPAD communities and the industries they grow. As the population declines, so do services provided and as families with children leave town, lower numbers at the school mean fewer teachers are needed and if the teacher has children, more children leave, and so a negative social spiral starts. The flow-on effects are complex and intertwined, and once started, the momentum of a negative economic and social spiral is difficult to halt.

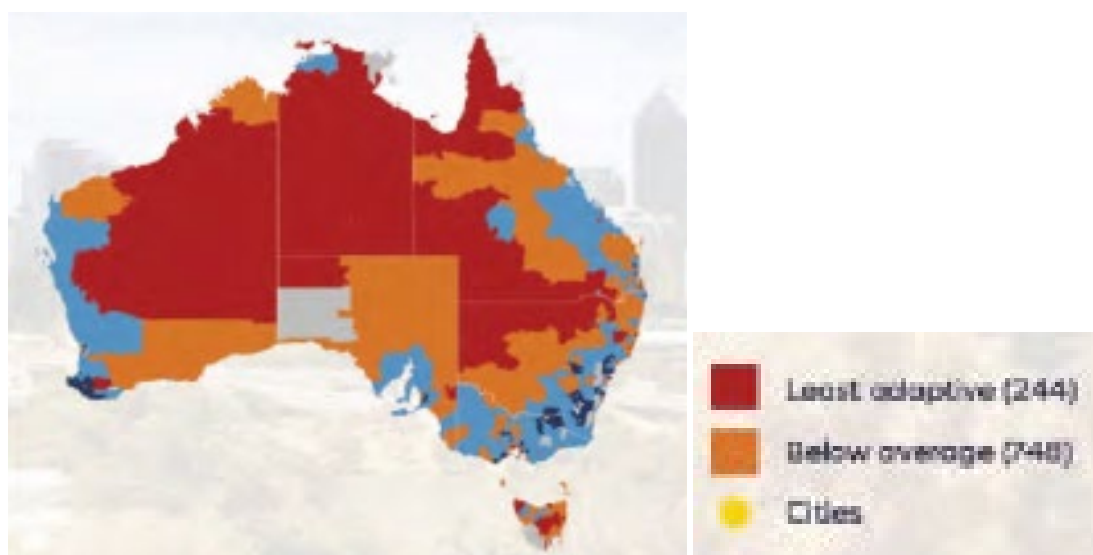
While families are exiting the region aged care participants are moving in. Community exit has the effect of enhancing an already increasingly ageing demographic, while the existing and emergent workforce recedes. Added to this is:

- A lack of diversity in the region's economies;
- A lack of new job opportunities;
- A lack of incentive to entice next generation graziers to take over the farm;
- The impact of wild dogs and other vertebrate pests that has seen employment opportunities in the sheep industry severely limited;
- A very high Debt:GDP ratio that disallows producers to embrace succession transition; and
- A lack of diversification opportunities available to producers and businesses which limits the potential for investment from corporate equity groups, international investors or family run operations looking to grow and expand.

The recently published (March 2018) “Beyond the Dust Western Drought Committee Report Impact of Drought on Town Businesses in Central West Queensland and some solutions” <http://wqda.org.au/beyond-the-dust> highlighted:

- Between 2011 and 2016, 700 jobs were lost in the Central West (REMPPLAN 2017);
- Agricultural production has declined significantly due to drought, from approximately 50% of the regional economy in 2013 (Regional Development Australia 2013), to 25% in 2017;
- The impact of declining output on the regional economy is likely to be around \$100 million between 2011 and 2016 (REMPPLAN 2017);
- The survey indicates that small business turnover in the Central West declined between 40-60% over the last 2 years, yet fixed costs have risen, and taxes, electricity and bank loans are among the most difficult costs to meet according to the WQDC survey; and
- Health, including mental health, declines during times of stress. Over 90% of people rate their health as good (ABS 2017) however, life expectancy in the Central West is slightly lower than the Queensland average, and rates of disease are 20% higher than the state average; and
- People interviewed suggested that suicide was rarely spoken about, even though suicide rates in remote areas of Queensland are up to 2.2 times higher than metropolitan areas (Central West Hospital and Health Services 2014; Australian Government 2016).

Further demonstrating the regional decline and the risk to the future is this region was identified as one of the least adaptive or below average regions according to the Regional Adjustment Potential (Productivity Commission 2017).



In effect, there is a convergence of declining human, social and institutional capital throughout the region. Prolonged drought and the associated economic hardship are exposing the cracks around community inclusiveness and participation, and eroding optimism. These issues are mature, which is likely to create challenges.

As such the future of the region largely depends on what Government, RAPAD, businesses and the community do now. Things must change, 'more of the same' or 'business as usual' is simply not an option.

### **What types of programs are needed to support RAPAD councils, businesses and communities in future droughts?**

While this drought review cannot solve the issue of rainfall, it is an opportunity to put forward ways to rapidly encourage social and economic growth of RAPAD communities to sustain the region in these lean times and for the long run.

We cannot just imagine that exceptional circumstances and short-term assistance, important as it is, is going to revitalise our region and we cannot leave people thinking that for the RAPAD communities that is enough. We have to move to a comprehensive, whole-of-government, integrated, collaborative approach with state and federal Governments to our region has a viable future.

As outlined in the RAPAD Strategic Plan 2018 - 2020, RAPAD is focussed on opportunities that will bring benefit to the region and assist overcome the current problems outlined above. RAPAD encourages the Government to investigate a broad range of support mechanisms to minimise the impact of this and future drought events. Droughts in our region are not new however new thinking is required. RAPAD has recommended a series of strategic programs needed to support the region:

1. Responding to the economic and personal costs of drought;
2. Protecting the rural economy;
3. Focussing on a renewable energy future;
4. Restoration of Zone Tax Rebate Scheme;
5. Water reform across the region;
6. The continuation of the Advance Queensland program or a similar program;
7. Supporting the continued roll out of fibre optic telecommunications backhaul, mobile phone blackspots program and point-to-point radio connectivity;
8. Growing tourism to diversify the economy;
9. Continuation of the Western Roads Upgrade Program; and
10. Help councils manage community assets and maintain workforces.

In setting these strategic priority areas the RAPAD Board has drawn from extensive research and community consultation initiatives which commenced in 2015, the most prominent of which are:

- RAPAD Pathfinder Initiative undertaken by the Regional Australia Institute;
- Smart Central Western Queensland: A Community Enabled Digital Plan & its associated Community Consultation Report;
- Pathways to the Future – Synthesis report of community workshops & individual council reports, Professor John Cole OAM, USQ Institute for Resilient Regions;
- Central West Regional Transport Plan – Stakeholder Workshop Report, Department of Transport and Main Roads; and
- Regional Strategic Financial Review & Workshop – Queensland Treasury Corporation.

1. Responding to the economic and personal costs of drought

*Continued Government drought relief support for rural landholders and small businesses suffering the ongoing economic and personal hardships of drought in the RAPAD region.*

All seven local government areas in the RAPAD region have been drought declared since 2014 and despite some relief between 2011 and 2013 are now suffering a recurring cycle of worsening drought conditions. The region's population loss between 2011 and 2016 is testament to the challenges faced by the landholders and their communities. Government's long term, low interest loans for rural landholders and financial support for community events is vital for the sustainability of rural industries and the mental health of residents committed to the region and its future.

2. Protecting the rural economy

*Continuation of the co-investment Queensland Feral Pest Initiative or a similar program enabling an expansion of the RAPAD Cluster Fencing Program by a further \$15 million over four years to bring back the sheep.*

Funding of \$7.6 million over the past two years under this program together with landholder co-contributions has already proved its worth with an independent assessment demonstrating the economic, social and environmental benefits of cluster fencing to the region and Queensland economy. This assessment shows a \$3.76 regional benefit for every \$1 of Government expenditure. The long term goal is for this funding to be the catalyst for growing jobs and achieving significant improvement in the profitability of regional businesses both rural and non-rural. For more information on the success of this program go to <https://www.rapad.com.au/programs-and-projects/qld-feral-pest-initiative/>



Increased funding and regionally coordinated control measures for prickly acacia and weeds of national significance is also needed. The RAPAD region, lying within the Lake Eyre Basin Catchment, relies economically and socially on its rich, culturally important, agricultural sector. As pest animals and plants hinder, and in some cases destroy, productive agricultural performance RAPAD seeks increased, regionally coordinated, and long term funding for continued pest animal and plant eradication and control measures, especially for the highly invasive prickly acacia.

### 3. Focussing on a renewable energy future

*Co-investing with RAPAD to investigate the further expansion of renewable energy opportunities available to member councils.*

The development of a renewable energy hub in the RAPAD region taking advantage of rapidly improving battery back-up and storage, undertaken in collaboration with councils and the private sector, would create ongoing savings for the councils and reliable energy alternatives, help diversify the local economy, help attract investment and support existing and future business and community needs.

### 4. Restoration of Zone Tax Rebate Scheme

*Assist RAPAD initiate discussions to implement a major and serious review of the Zone Tax Rebate Scheme to give some impetus to a new way forward for business development across RAPAD and regional Australia.*

Zone Tax Rebates have not kept pace with inflation and in fact have hardly changed at all. Accordingly, the 'compensation' given to people whose cost of living is greater than in the capitals is now so small as to be practically irrelevant.

"In 1945, the government of the day recognised the need to offset these increased costs of living in isolated areas with what was called the Zonal Tax Rebate Scheme to encourage settlement in eligible locations. The most ironic fact with the history of the Zonal Tax Rebate Scheme is that the zone boundaries have never been changed since its inception in 1945." (Bruce Scott MP speech to the House of Representatives on September 8 2005) It is time to make this change.

### 5. Water Reform across the region

*Initiate a review into the reallocation of water resource assets throughout the region to support industry diversification in the RAPAD region.*

Such water reform could assist in mitigating the challenges the region currently faces and enable producers, businesses and communities to look to new ideas and models to pursue economic development and ensure the future of RAPAD communities.

It has the potential to drastically increase the equity positions of existing producers as it would enable them to be in a position to secure their cash flow year in year out, as well as increase land valuations, carrying capacities, profitability, and provide the opportunity to drought proof properties by incorporating for example irrigated fodder crops into their current business model.

RAPAD communities have witnessed Government allow mining in the region to have seemingly “unlimited access” to water from our regions water resource assets and yet the agricultural industry, which has the potential to play a part in supplying the worlds future food demands, does not have a similar opportunity. By not allowing this opportunity it is significantly limiting the economic viability and opportunity for producers in the RAPAD region to increase productivity, incentivise future investment, promote increased commerce in the local communities and help secure the future for the next generation.

6. The continuation of the Advance Queensland program or a similar program  
*Continuation of this program by a further \$5m over 5 years.*

Digital disruption is occurring in every industry and locality around the world. While it is destroying some industries and business models, it is bringing opportunity to businesses and communities, shrinking vast distances and enabling better services. RAPAD wants to ensure the region is ready for that digital disruption and have a plan on how to best use digital tools to continually build a better community while avoiding, as much as possible, the negative effects of digital destruction.

7. Supporting the continued roll out of fibre optic telecommunications backhaul, mobile phone blackspots program and point-to-point radio connectivity.  
*Continued support is required to provide nationally comparable telecommunications connectivity and reliability to all communities in the Central West, fill in mobile phone blackspots and provide competition and choice in internet providers.*

This will enable the delivery of school curriculums, many eHealth and telehealth services, better disaster management, improve telemetry capability and bring down the costs to rural and remote customers. In many cases, marginal telecommunications services, the high costs of improved internet connectivity, and expensive and limited data allowances are preventing agricultural and start-up innovation and entrepreneurship, attracting new and constraining established businesses, on-line education services and shared service opportunities between councils and collaboration with the private sector.

#### 8. Growing tourism to diversify the economy

*Increased Government investment in Regional Tourism Organisations and a stronger focus on partnership and collaboration between Government and private sector in tourism product, market and infrastructure development.*

The RAPAD region has a long history of successful innovation and entrepreneurship in the development of its tourism industry. To capitalise on this investment and to further diversify and expand product and market opportunities, particularly for increased international visitation and recognition as a global destination, Government needs to further support the region's expertise and commitment to tourism. Increased funding for skilling, tourism digitisation initiatives, the Outback Queensland Tourism Association, and all regional tourism organisations, and a stronger relationship and engagement with RAPAD, will be of mutual advantage to all parties.

#### 9. Continuation of the Western Roads Upgrade Program

*Continuation of this program or a similar program is necessary with a focus on upgrading gravel roads to all weather standard and finishing essential freight network connectors to create a "total network" – east to west as well as north to south in the RAPAD region.*

These connections are essential to improving drive tourism opportunities and providing residents with safe and reliable access to education and health services. RAPAD is asking for the development of a formal working group between local, state and federal government departments to be initiated to discuss options that could be implemented to improve longer-term forecasting and communication of upcoming road work contracts.

#### 10. Help councils manage community assets and maintain workforces

*We ask to partner with Government to establish a grants and subsidies framework that enables greater certainty and long-term planning for rural and regional councils to better manage their assets, revenue forecasts and sustain their workforce and communities.*

*This also includes revisiting payment now of Grant Commission funds due to local government before freezes were introduced in Federal budgets, and a bilateral commitment to not only adopt the Australian Local Govt Assn call of raising such funds to 1% of tax income in 2019 but also to restore it to the previous 2% level during the term of the next government.*

Rural and regional councils rely heavily on external funding to sustain their communities. Short term grant and subsidy programs do not support strategic and focused infrastructure investment or asset management. The hit and miss nature of annual funding programs also places at risk the stability of council workforces, the backbone of many smaller and remote communities.

RAPAD is also asking for the development and maintenance of a dedicated allocative annual fund for local job creation linked to maintenance and capital works similar to the Works for Queensland Program. This highly successful and welcomed approach should be continued during the transition to the systemic grants and subsidies reform currently being developed by the Local Government Association of Queensland and the Department of Infrastructure, Local Government and Planning.

The guaranteed funding and flexibility available under this program have enabled a quick response to job creation opportunities and work programs acknowledging the diverse nature and requirements of communities across Queensland.

**Are there other comments you would like the panel to be aware of given the current drought situation?**

Droughts are not new to our region, our state and our nation. The comments below come from Sen Ursula Stephens in her Senate Rural and Regional Australia Speech from September 2003, it is hauntingly similar to the situation the RAPAD region is in currently.

“But this debate is about the effect of the drought on rural and regional Australia...in my state of New South Wales, 83 per cent of the state is covered by exceptional circumstances at the moment...there are small rural communities that are struggling with the long-term impacts of drought on their communities because drought affects much more than the farmers...I would like to ask all of the Senate to consider how we can develop a whole of government approach—a strong policy focus on the long-term sustainability of rural and regional Australia.”

RAPAD communities are ready and willing to reinvent themselves as one of the most resilient communities in Australia by working with Government to develop and implement strong policies and projects to enable residents, businesses, councils and investors to make decisions with confidence in our region.

For the RAPAD region to ensure their future three key questions the Government must ask itself through this review process are:

- What is the long term future for the RAPAD communities?
- What are the options for sustainable development in the RAPAD region based on their unique strategic assets to ensure their future?
- What leading role can Government play working with RAPAD in stabilising depopulation in the region to ensure long term viability?

Sustainable development means development that takes account of the needs of future generations as well as today's. 'Sustainable' means 'able to continue indefinitely'. So by definition, sustainable development for the RAPAD region must be strategic and long term in its ambition and capacity, resilient, as well as anchored in contemporary communities. The human capital factor is crucial to building sustainable development, making regions resilient and achieving a preferred future for the people.

This drought review process is critical and has the opportunity to:

- enhance outcomes for local governments, economic development, and the sustainability and liveability of the region;
- grow jobs and achieve improvement in profitability for rural businesses through supporting traditional industries and fostering future opportunities across the region; and
- actively seeking out and partnering with great people and companies who can make a real difference to RAPAD communities and economies.

This review is not about picking winners i.e. one industry over another or one community over another it is about partnering to build a framework to ensure the overall health of the RAPAD communities by ensuring people remain in the region. There is a need to adopt change at a strategic level rather than a piecemeal level. As we know droughts are not new and the continuation of piecemeal approaches will not deliver sustainable industries and communities in the long term.

RAPAD has a vision to be a region of choice for families and individuals to build a rich, fulfilling life; a place to build a successful business; with the same levels of service experienced by those in more populated areas.

I know there is so much potential in the region and I believe there are different ways of looking at the challenges RAPAD communities currently face. Fresh eyes must be brought to the table. RAPAD's strategic thinking can only come to fruition with Government support and I am grateful for the opportunity the review brings. While I, like you, cannot solve the issue of rainfall, I can and will put forward ways to partner with Government to rapidly encourage social and economic growth of the RAPAD region and its communities to sustain the region in these lean times and for the long run.

This review is the opportunity to begin a considered exchange with all levels of Government about refocusing how we respond to drought and invest in forward planning and new thinking. I wish the current taskforce well in their deliberations and am, like others, ready to make a difference and ensures change occurs as a result.

# Prudently Addressing Drought Impacts

Dr Mark McGovern

Visiting Fellow  
Economics and Finance  
Queensland University of Technology  
2 George Street, Brisbane 4000

In this note I argue that we need to move beyond attending to symptoms of distress evident in enterprises, families and communities evident not just in the Central West of Queensland but also in many other parts of the State and Australia. Doing this will require product, process and policy innovations that can help restore viability for enterprises and communities facing a range of risks and circumstances.

The note has been prepared as a first response to an invitation from RAPAD in Western Queensland. I offer a series of points on pressing issues for their, and your, consideration. These are my own thoughts based on research, studies and many experiences. The work is still developing, so I apologise for current shortcomings with many due to the need to consolidate many issues and ideas in a tight time. After discussions I intend to further develop and refine this work, and related materials, so comments welcome.

So please consider this more as a letter to RAPAD and others from a friend. My letter is comprised of two notes, a bit long-winded here and missing there but hopefully giving something of interest to build upon. I welcome any letters in reply which are best sent to RAPAD so they can share them too.

Here's to rejuvenating enterprises, communities and prosperity in stressed parts of our country  
Mark

## THE SHORT NOTE.

### Four key points

- Drought has highlighted underlying (sectoral and regional) imbalances and policy deficiencies (enterprise, industry and govt) so foundational problems not symptoms need to be addressed
- Essentially we have had a long period of capital run down (human, physical, financial and the like) due to negative economic profits across agricultural sectors and rebalancing of government policies in ways that discriminated against rural and remote areas, compounded by naive competition policies and denial of trade realities and theories.
- Much can be done to restore *financial/economic/societal* viability but continuing approaches, policies and "quick fix" thinking that lead to today's problems will not solve anything. Rather we need to sensibly build on what has or can work well to deliver real results on the ground now and over the medium and long term.
- There are always losses (and gains) but losses today are needlessly high with key capacities seriously weakened, so it is past time for some fresh thinking and use of relevant insights, including from: successful past restructuring and development efforts (including in the RAPAD region); industry theory and production realities (and their avoidance by market theorists and concurring analysts); public Inquiries into finance including FSRC; and many insightful research and extension reports.

And remember to tell your friends:

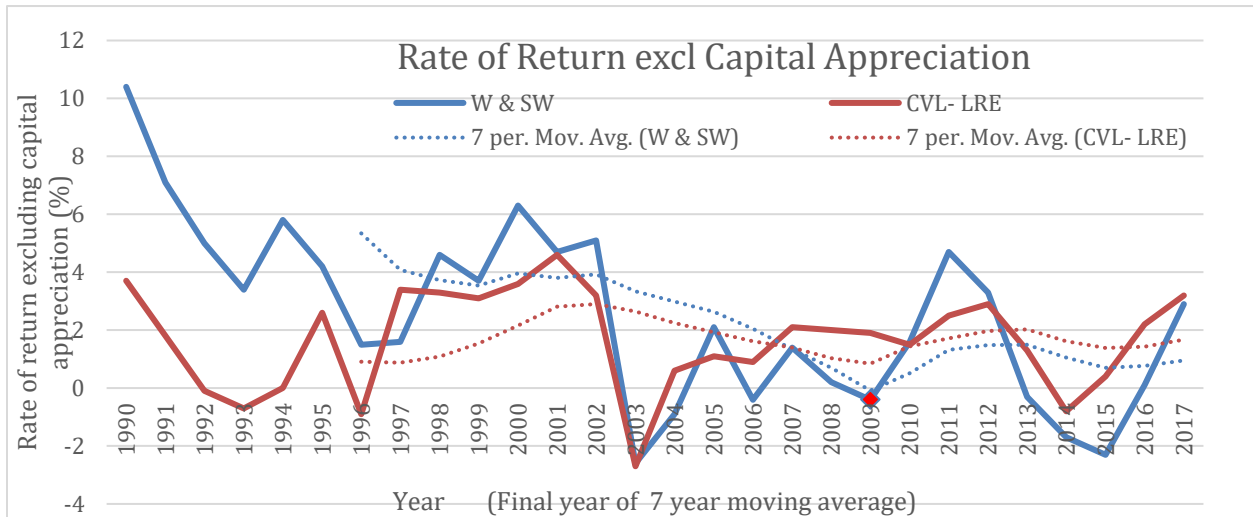
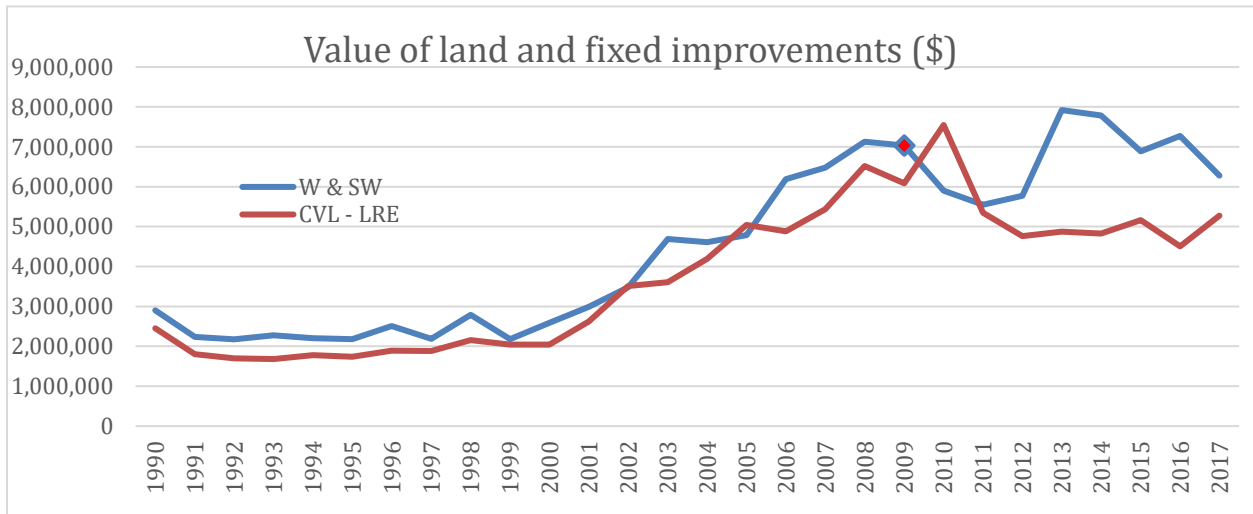
*"The market can remain irrational longer than you can remain solvent"* (attributed to Keynes)

Are things really crook?

**Yes.** On some measures, but we need more adequate information.

The biggest exposure to an investor in a farm business comes from the purchase price and the rate of return earned from the farm. An adequate rate of return supports a viable business. Land price movements present speculative capital gains or losses depending on the year of realization.

ABARES has a range of farms surveyed. Values appear optimistic for reasons discussed briefly later and more fully in McGovern (2008). Values of Land and fixed improvements and Rates of Return excluding capital movements are presented in the Figures for two ABARE regions that broadly cover RAPAD Council areas.



Rates of return over the 17 years average 1.7% pa for CVL- LRE and 2.5% pa for W&SW. For the years 2009-17 averages were the same 1.7% pa for CVL – LRE but only 0.9% pa for W&SW. While these compare favourably to the State Agriculture average of around 1% pa, they all present a miserable return on capital investment when considering the relatively high risks.

Estimates of land prices peaked in 2010 (shown by a red diamond) and then on average fell by over 20% in CVL - LRE. W&SW peaked in 2008, fell similarly to 2011 and then topped higher in 2013 before falling back almost 20% from this second top.

Recall that these are relatively thinly traded markets and there are estimation problems. However the series are a much discussed item (even if discounted by those with better information). They are a reasonably important part of the information base available to farmers, and some bankers it seems.

Financiers in the 2009 heat of the GFC on the lookout for asset bubbles would have spotted the potential in these districts. 2011 land prices would have alarmed those "marking to market" as they discounted their securities by 10% and more. LVRs signaled higher risk, and need for higher provisioning. While W&SW bounced along the persistent 20% fall from peak in CVL - LRE could be expected to set in place liquidation plans, on whatever pretext, to rebalance lenders books.

So liquidations proceeded on all manner of pretext while drought tightened in many areas after 2010 in a story still to be fully told. Community concerns and agitation saw many Meetings (with Treasurer Swan calling a key Roundtable in Brisbane in 2012). A series of Parliamentary Inquiries were also held but "no problems" was too often the call from financiers and their agents. Queensland Treasurer Pitt called a 2015 Roundtable and then established the Queensland Debt and Drought Taskforce of which I was a member.

Three of the good things that have happened since the Queensland Debt and Drought Taskforce reported in 2016:

- Some Taskforce recommendations have been adopted, but restructuring efforts are inadequate and the need for them and a development bank have only grown greater.
- We already have much valuable information from the Financial Services Royal Commission, including the acknowledgement by the CEO of Rural Bank that they recognised a rural asset bubble in 2009. This puts a lie to all the protestations from bankers, bureaucrats and others that "there is no problem", including before many Ministers and Inquiries. Yet denials and "talking up" still continue apace.
- Real changes are happening, but oh so slowly!

And one of the not so good.

- QRIDR reports Queensland farm debts are now higher despite all manner of efforts by banks to liquidate or ameliorate problems. The disorderly work out is not working, and current ratios values make it still hard to justify prudent rural investment. So the Great Rural Repression continues, and spreads. Capacities and Capitals continue their needless run down, tightening on all and squeezing too many families and communities ever further down..

Adam Smith noted in 1776 *production adjustment following over-investment* [as is evident today] *may take a century, or so*. I'd prefer solvency restored sooner, and viability to be sensibly grounded, not speculative.



# A LONG NOTE

What things might we do?

There are many things “we” might do to remedy problems made apparent by drought. Some (of the many) potential initiatives and paths to improvement are here listed under the headings of Product, Process and Policy.

## Product

- Provide effective, affordable risk insurance for small enterprises
- Provide fit-for-purpose finance for farm and other small enterprises
- Incorporate balance of payments protocols in enterprise and regional accounts
- Improve quality and reliability of ‘farm finance’ and industry statistics
- Develop exemplars and case approaches to help guide and develop capabilities

## Process

- Engage in more open, insightful and stakeholder relevant processes
- Restore public funding levels in rural council areas
- Develop apt conflict of interest and exposure protocols, including with public loans
- Recognise and actively favour professional competencies over corporatist positions
- Mandate explicit problem scoping, embedded critiques and inclusive resolution

## Policy

- Introduce a participative stewardship scheme
- Address supply chain transmission failures
- Reintroduce sustainable rural finance relationship protocols
- Improve quality and scope of rural risk and viability research, with apt extension
- Move to more interactive policy development

For convenience, this might be termed an initial PP&P agenda.

Who the “we” are depends on the area. Public, private and community interests all need standing, at various levels as relevant across the development cycles.

Best results can be expected if a “good mix” of skilled active stakeholders participate and insightfully cooperate with an open agenda to drive development. Quick fixes, narrow ideologies and other lazy thinking need to be avoided, as do dependencies on “over-stretched” bureaucracies, oversimplification and dominated dialogues.

In a nutshell, suitably insightful co-operative efforts within an inclusive ethos beat coercion and exclusion.

Adam Smith began his *“Inquiry into the Nature and Causes of the Wealth of Nations”* thus: “The annual labour of every nation is the fund which originally supplies it with all the necessities and conveniences of life.” We would be well-advised to reflect on his thoughts in this 1776 Inquiry, and like others since.

While not without our failures, Australians have outperformed many other peoples in effectively and inclusively producing and supplying “the necessities and conveniences of life” for those that live across the continent, and elsewhere. Current and emerging aberrations need rectification if we are to continue to look after ourselves, and others.

This Drought Taskforce can provide an important next step, or not. The 2016 Rural Debt and Drought Taskforce Report and its recommendations are a good basis upon which to build further.

## Three action areas, and stimuli to develop

Three areas where actions could relatively quickly develop are knowledge base development, improving the ways we think of a farm enterprise and reviewing risk management. The first could improve knowledge, the second enterprise earnings and resilience, and the third risk management.

Discussions of each have been built to stimulate (hopefully) more constructive and informed considerations and improved Product, Process and Policy. These are notes, so there is no claim for completeness or the like. Obviously, I am happy to discuss any aspect further. Presented are some information and findings that, after due consideration and development, could “help move things along”.

## Knowledge base improvement

We have much collected information but little real knowledge of agricultural and rural situations. Before the 1997 national “Rural Finance Summit” QDPI staff provided those of us attending with shared insights and comprehensive good-quality information. Discussions constructively built a shared understanding.

In Canberra we were virtually told what to think, an experience largely repeated a decade later on the Sunday of the “2020 Summit”. Sadly, QDAF’s 2018 Snapshot while a welcome event is largely derived, and superficial. For example, estimates of “Potential Land Use” (Table 1) appear heroic. Intriguingly, estimates of jobs in agricultural supply sectors at 75,000 cite a 1996-7 publication. Hopefully this is a simple mistake but, if not, such things reflect the major run down in important capacities of State organisations, largely due to underfunding, inadequate staff development and relevant expertise and, it seems, more sexy topics than how people earn a living. Similar comments apply federally.

Even reliably establishing farm numbers is a problem (as discussed in Mulga p 12). Insights from local council rate bases could be used to (at least partially) overcome limitations in Federal ABARE (and ABS) collections, particularly those due to the exclusion of farms that have low value added in any year - as in a drought!

As the seasons change, farms rush in and out of the ABARE frame. Some of the best performances might appear when breeding herds are being run down (in early drought, say) as capital liquidation does not seem distinguished from normal trade turnoff.. Herd rebuilding could keep apparent value added negative for some time as investment costs incurred should not appear in current accounts.

So while QDAF repeats ABARE estimates of average rates of return on capital excluding capital appreciation of 1% pa, this miserable result is likely exaggerated - along with other performance measures. Happily for present purposes, enterprises in the RAPAD region appear to perform a little better (or less miserably) than the Queensland average - or maybe not? Despite much expenditure and effort we do not really know.

These and related issues were discussed at length in McG 2008 but the report went nowhere it seems. It was retrieved by the Debt and Drought Taskforce but remained unaddressed for various reasons. Issues and considerations raised still need to be addressed, including stewardship considerations. Reviewing and updating this Report can stimulate improvements in the needed knowledge base.

## Rethinking the farm enterprise, and situations

Farms produce product. They also do many other things, like support families, wildlife, native vegetation, creeks and hungry people elsewhere.

Selecting only the first sentence and viewpoint moves your thinking straight to standard introductory economics, and other expositions where the emphasis is on simplicity, abstraction and determinability. This pleases those who crave certainty, routine, the quick fix and limited communication. However, this leaves them and us ill-prepared to deal with complexity, realities and non-determinability, that is with life in general.

Oversimplification and too tight a focus are dangerous, but common. Overcomplication and too wide a focus is confusing and potentially paralysing. We, each and all, need to strike good balances between the two extremes and build these into societal dialogues and cultural norms.

Linking complementary insights is the key, as Australians once more fully appreciated it seems. And so they made their own luck and the Lucky Country, while others with better resource did not.

If you prefer to believe that "Farms produce product" is the only way to go, you might skip the next subsection. If you believe market prices are the only valid means of valuation then skip the whole section. If, however, you believe farms can offer more and farmers part of a more effective response to pressing wider problems, please read on.

### The potentials of Farms

Farms are multi-functional enterprises, facing multi-faceted risks. Relationships are complex and management difficult.

*Recently one farming couple out from Longreach reduced their leased lands. For over 40 years that had cared for and never utilised one parcel. Instead they managed it as an environmental reserve while actively managing pests.*

The rural financial counsellor relating this simple tale captured well some of the practical depth of thought in effective management. Left unattended, the parcel offered a threat. Their simple strategy and ongoing efforts made it an opportunity, which they undertook for no direct financial gain. They have now returned an enhanced public asset, at no cost to the public.

Standard economic models capture such things very poorly. The value in standard finance would be zero., of course. No allocable financial transactions were recorded. Studies such as economics and finance must simplify, but in so doing we miss much. Many recognise this, but their analysis and reports often do not. Organisations today demand otherwise. So their societies can be ill-served, particularly over the long term or when incentives overpower sense or decency (as highlighted in abuses revealed in recurrent Royal Commissions and Inquiries .

Farms have several important functions, but monoculture applies to not just problematic cropping. Organisational monoculture drives limited thinking, and too often intolerance.

Past discussions of multi-functionality have been clouded because of Australian organisational convenience and intolerance. Organisational group think can go like this:

*"Egad! We might even have to recognise that "farmers" are often (perhaps more) competent co-workers in "our" environmental services area. They might deserve some fee for service considerations, reducing "our" budget and (double Egad!) even "my" remuneration package and importance."*

Such things can be true in for-profit, for-the-public and for-the-environment agencies, individually or in combination. They can also be found on farm - try replacing "farmers" with some other "threat". Relationships built on intolerance, perception of threat or fear go no where. To the point, treating each other poorly leads to societal malaise - and ultimately such things as the Great Depression evident in rural areas across the nation.

## Practical steps

Income diversification can improve viability and resilience for any enterprise providing balances can be struck without over-stressing resources.

Sending the spouse to work in town is a common farm enterprise diversification strategy (assuming available jobs). Resources (the spouses) are reallocated away from some family, farm-enterprise, self-development, household or other activities. There will be some trade off and the key issue is answering whether the “overall result” is positive across the reliant dimensions (income, quality of life, health and the like).

The answer will always involve “it depends” on the impacts of the things foregone as perceived by those involved. How each weights the different dimensions is important. If, for example, earned income is weighted at 100% then the answers are obvious: off to town! Costs and other stresses go unrecognised, as do development potentials. Trade-off and costs may be more evident with fly-in fly-out situations.

Why do we send people to work in town (or far away) when their efforts might be better applied on-farm, from both an individual and societal viewpoint? Environmental services are often inefficiently delivered for a number of reasons, as evident in a number of programs today.

Similar arguments apply to resources other than human. Setting aside land areas long term whether to preserve or renew is another strategy. I recall admiring a particularly beautiful part of a Northern cane farm in 1986. The farmer sadly commented, “unfortunately that has to go next season”. A quite small sum could have rectified the income stress, but nothing was on offer.

Communities that can pool resources effectively to deliver valuable environmental services can directly deliver a valuable public service. Catchment weed control and eradication, water flow and runoff control improvements and the like can be locally managed and improvements externally monitored as may be appropriate.

Subsidiarity is the principle and “more bang for the buck”: the result if done responsibly and well. Good local initiatives need due support and recognition.

Such opportunities can be captured in stewardship agreements. Income payments for such services are not subsidies: they are payments for (and only if) services with identifiable results are rendered. We need to experiment with the opportunities, build on already successful endeavours and learn for current failures to deliver.

## Managing Risks...

*All agricultural enterprises are subject to the effects of events beyond the control of the individual farmer. Occurrence of any of these events, let alone a combination of them, will affect cash flow and profitability and, hence, the ability to service debts. Their occurrence will often have profound personal effects on those who conduct the business.*

These comments from Commissioner Hayne in his FSRC interim report (before #327) highlight the limits of management. His subsequent question goes to the heart of the matter.

*How are borrowers and lenders [or any transactors] in the agricultural sector to deal with the consequences of uncontrollable and unforeseen external events?*

Any adequate review of drought needs to provide an answer to this question.

If these is one thing that all seem agreed upon it is that agricultural incomes fluctuate, as do those then of their suppliers. Indeed Australian farm enterprises have the highest volatility of production and income globally. Yet banks offer products premised on regular repayments? Such a mis-specification raises financial risks immediately. Financial risks are very much a creature designed by humans to stress each other in the name of good management, However, the whole area of finance, debt pollution, poor product designs and pervasive mal-administration must be left to another place. It is a whole other but critically interrelated area of risk.

### The Big Reserve Dream

Instead, consider national drought policies which today insist that building and holding own reserves, effectively self-insurance, is the (only) way to go. The open question is not just "how much?". Nor is it just a question of event coverage. It is also a question of an effective program that makes optimal use of scarce resources. In the building and holding of a reserve, there are major foregone opportunities. Higher fixed costs so imposed on the business reduce competitiveness, across the sector.

Elsewhere in the economy, employees routinely accrue sick leave to ensure some income continuity when ill health *or other events beyond the control of the individual* arise. Some superannuation has effective income protection inbuilt.

Casual workers have no such provision so should we not expect that they also build and hold their own reserves? Farmers, however, are to be Superman (or Woman), able to leap prolonged droughts with a single reserve! Unfortunately inadequate returns and financial kryptonite have put paid to that.

Pop economics has come up with some truly comic policies but this one seems really out there. It is even less funny when it appears that effective industry-wide insurance has not been properly evaluated. While various private proposals are on offer, there seem to be problems in establishing a deep enough pool. This is something that considerations of adverse selection would suggest is a fundamental design problem, not a marketing or subsidy hunting issue.

Australians enjoy some of the best insurance arrangements in the world, most notably in the area of standard medical (universal) and hospital (mixed mode) care. National costs were around half the GDP share of US and UK models when last I looked, a great achievement. Maybe I have missed something? If not, some sensible public efforts are needed in this area, with a universal model a good starting point.

Even more to the point, though, is why do banks which insist on some 'more risky' borrowers taking out and paying for insurance to cover the lender's exposure not do the same with rural loans? And include borrowers' wider exposures? An adequate answer to this curiosity is needed, and Commissioner Hayne should also receive it.

... then along comes Adverse Weather

Few industries are as exposed to natural events as is agriculture. It is not just markets that produce windfall gains and losses. In a practical sense, both are facts of life over which individuals have, at best, only a little influence. Physicalities including ageing and health are complements for persons, and resources.

Uncertainties arise In all four areas, and others beyond this discussion. Market, weather, person and resource risks arise due to inherently uncontrollable influences. Moses was probably the last mortal to part the seas, but surprisingly many heroically still try to make a miraculous path between menacing walls of risk.

Indeed, as just discussed, it is a standard policy aspiration. Instead of building a boat or a bridge, heroic leaders today inspire followers to each hold back their own walls of risk in what is ultimately a terminal experiment for those swamped between walls of risks. Prepare yourself to manage any weather, market, physical or person-centred event alone is the final corollary to individualistic aspirations. "Me first" (always) claims of entitlement pervade modern corporations, areas like finance and much political opportunism need to be not only moderated but also matched with "me also" recognition of responsibility.

While this might perhaps seem a tad far fetched and overly provocative, it can actually provide an interesting and arguably apt metaphor for recent events as will be seen subsequently. Moses only had two walls, and God was on his side. Farm and other families have four to hold back, and we virtuously hope the Market may be on our side, one day, before the financier arrives.

Successful societies change to meet the *perceived* needs of the times. Societies did over-build collective responses after 1945, and "freeing up" changes were needed in the 1970s. However, we have now over-built our reliance Individualistic responses. Changes were needed as the new Millennium dawned. Instead we have doubled down since 2009, essentially quadrupling the risks and potential losses as inertia and denials prevented needed changes.

Agriculture is just the first in Australia to find that the flood arising as risk exposures can overpower "even the best". Examples abound if we care to look. Better still, there are now good examples of how to minimise if not avoid such calamities. Looking and discussing are a key first step, one too many are reluctant to take.

## Underlying Position and Principles.

Across Australia today, the capacities of many enterprises, families and communities are heavily strained. Many are literally having trouble "holding it all together" as walls of stress press in. Recognising this, and with volunteers and local groups leading, a number of good initiatives have been undertaken. However, efforts so far have only stabilised symptoms, for some.

The processes that destroy enterprise, family and community capacities also, if left unchecked, depress economies and regress societies. Nations that rot from the root face bleak stagnation, at best.

De Bono noted that really major problems arise in fist stage or perceptual thinking. We don't think aptly because our perceptions are inadequate. Following Galbraith, ruling "conventional wisdoms" are often misleading. Unchecked, they lead to mistakes and frauds, innocent and otherwise. Such is the world today.

Refreshed perceptions, wisdoms and consciousness are needed if root causes are to be treated. Einstein's comment that "no problem can be solved from the same level of consciousness that created it" captures well the need for insightful awareness. Otherwise, following de Cartes, "I think *poorly*, therefore I am *stuffed*".

When the world changes, new perceptions and wisdoms are needed. Unfortunately we as a "successful" society were little conscious of how the world was changing or the limitations of our thinking. So problems grew unchecked.

Skipping much research, experiences global and local, and many details, I argue we variously need to work together to:

- sustain key capacities
- care for people affected
- identify and agree key problems
- act responsively, insightfully and prudently
- refresh our perceptions, wisdoms and consciousness
- avoid crises, feckless losses and needless destruction of capitals
- reposition our policies and procedures to optimise real realisable returns on resources

Actively pursuing how we might together meet these goals is the real task at hand.

Drought has brought many well-intentioned failures into plain sight. Conscious of this, and of the need for changes, we need to engage a mix of skills, efforts and informed positions so as to together deliver more effective, efficient and equitable outcomes.

I wish the current Taskforce well in their deliberations and am, like others, ready to help make a difference.

Mark McGovern  
October 18, 2018