



Australian Government
Department of Agriculture



Future
Drought
Fund

Drought Resilience Funding Plan 2020 to 2024

Consultation draft



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Preface

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

Australian agriculture is innovative and our farmers are among the most self-reliant in the world. But there is evidence management capability could increase growth and drive better performance (Agarwal et al. 2019). Innovative practices are needed to encourage the expansion of profitable farm businesses that can operate within Australia's naturally drought-prone environment.

Australian agriculture and regional communities are facing more than the existing cyclical nature of drought—they are now dealing with an ongoing trend towards more frequent and severe droughts in most parts of Australia (Bureau of Meteorology & CSIRO 2018). There is a need to reassess strategies to strengthen drought resilience and consider the **incremental, transitional and transformational changes** needed to build capacity to deal with drought.

From a practical perspective, 'drought resilience' means the ability to adapt, reorganise or transform in response to increasing variability and scarcity of rainfall, for improved economic, environmental and social wellbeing.

Purpose of the Fund

While a wide range of programs exist across all levels of government to deliver in-drought support, the Fund is future-focused with an emphasis on helping Australian farmers and communities to become more prepared for—and resilient to—the effects of drought, and to adapt to changing conditions.

The Fund will invest in a wide range of programs to give effect to the aim and strategic priorities contained in this draft Drought Resilience Funding Plan. Funding may be provided to activities or projects—at different levels, including farm, regional and national—as appropriate, to deliver the strategic priorities contained in the plan. The Fund will not replace existing sources of drought funding or duplicate existing programs and will not provide 'in-drought' assistance. Instead, it will complement other programs. This could include improving the coordination or integration of existing Australian and state government policies, frameworks and programs.

Decisions on disbursement from the Fund will reflect the diversity of farming businesses and communities, and their varying baseline levels of drought resilience. It will consider economic, environmental and social factors, including climate projections, for a range of options suited to localised needs to enhance long-term drought resilience.

Monitoring, evaluation and learning framework

A comprehensive monitoring, evaluation and learning framework with a defined measurement methodology and metrics will help determine the effectiveness of the Fund and improve its impact. A framework for the Fund's programs will be prepared as part of the Fund's program

design. The framework will be informed by the evaluation work of past programs and drought-resilience indicators.

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

The Fund

The *Future Drought Fund Act 2019* (the Act) and the *Future Drought Fund (Consequential Amendments) Act 2019* were passed by the parliament on 24 July 2019, with the object of enhancing the public good by building drought resilience.

The Fund was established as an endowment fund to be preserved in perpetuity, to provide a secure and permanent revenue source to enhance drought resilience for Australia's farm businesses and communities.

The Fund is managed by the Future Fund Board of Guardians, which invests the assets of the Fund. The Board of Guardians is required to maintain the nominal value of the credits made to the Fund in order to enable a predictable and secure ongoing flow of funding for building drought resilience.

Under the Act, the Future Drought Fund Consultative Committee is responsible for providing the Minister for Drought with advice on the plan, following public consultation. The plan sets out a coherent and consistent approach for making arrangements or grants in relation to drought resilience, and entering into agreements in relation to such grants. The plan is high level and cannot specify the types of programs to be implemented to achieve priorities. It cannot require arrangements to be made with—or grants be provided to—a particular person or project. The plan is a disallowable legislative instrument, requiring it to be registered on the Federal Register of Legislation and tabled in parliament.

The committee will review the plan every 4 years to ensure emerging priorities are appropriately captured and the Fund remains future-focused. The plan can be repealed by a replacement plan if priorities change within these 4 years. To help inform these reviews, the legislation provides for the Productivity Commission to conduct an assessment of every plan before it expires, including having regard to the economic, social and environmental outcomes. The Productivity Commission will make recommendations and the report will be tabled in parliament.

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

Alignment and complementarity

The Fund aims to build on existing policies, frameworks and programs to achieve better outcomes. The funding must complement, and not duplicate, existing initiatives. This draft plan has been developed with a long-term focus for drought resilience funding. The Fund will not provide in-drought support or replace existing sources of funding. The Fund will build on

existing government drought policies and improve the coordination or integration of Australian and state government drought resilience frameworks and programs.

All Australian jurisdictions have a common interest in the success of our agricultural industries and need to work together to help farming businesses, families and communities manage and prepare for future challenges and risks in a variable and changing climate. The plan is consistent with the National Drought Agreement as agreed by all jurisdictions on 12 December 2018. The National Drought Agreement sets out a joint government approach to drought preparedness, response and recovery. The Fund will not operate in isolation from state government initiatives.

The plan supports a renewed focus on a whole-of-government approach to drought resilience. The Fund's programs will take account of, and align with, these initiatives and any other government strategies relevant to drought resilience. The plan recognises there are a number of other Australian Government initiatives and programs that contribute to building drought resilience, which the Fund aims to align with and not duplicate. These include, but are not limited to, the Indigenous-designed and led Empowered Communities initiative, the National Landcare Program, the Agriculture Stewardship Package, the Advocate for Soil Health and the Climate Solutions Fund.

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

Next steps

The plan serves as a framework for all expenditure under the Fund. Before the Minister for Drought allocates funding, the minister must first:

- seek advice from the committee on the design of programs to ensure they comply with the plan
- present the programs for consideration through the Australian Government's Budget process
- seek independent technical expert advice from the Regional Investment Corporation Board—and other expert advice if necessary—on the making of individual grants or arrangements.

Productivity Commission review

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

Operating environment

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

This section details the operating environment that Australian farmers currently face. Ensuring the actions of the Fund are consistent with the current and future pressures on the farm sector will be key to its success.

Drought

Australian agricultural producers are exposed to a climate that is highly variable compared to most other OECD countries. This can generate substantial variation in farm output—greater than that experienced by farmers in most other countries, and greater than that experienced by business owners in most other sectors of the Australian economy (Jackson, Zammit & Hatfield Dodds 2018). The resulting volatility of farmers' incomes is intensified by drought and this can have significant economic, environmental and social impacts for rural communities.

Drought policy in the middle of the 20th century focused on attempts to 'drought proof' agriculture through building dams and encouraging the adoption of irrigation. Over time, drought policy has come to recognise droughts as part of Australia's landscape and managing through drought is a feature of Australian agriculture. Australian farming businesses and farming communities are adopting increasingly sophisticated and effective strategies to deal with drought and respond to climate change and variability. Climate change is likely to increase the need to manage climate risks, including extremes and variability, while maintaining the capacity to exploit favourable conditions when they occur.

Climate change

While the majority of farmers are good at managing and adapting to variability in climate and weather, the impacts of climate change will pose new challenges for agriculture. Climate change is expected to lead to changed temperature and rainfall patterns, including decreased and changed timing in rainfall across southern Australia, with more time in drought and with an increase of infrequent intense heavy rainfall events throughout Australia. This will vary regionally.

Australian farmers need to further build their capacity to plan and prepare for drought, while understanding that some change may need to be transformational. Other climate-related risks that also place pressure on farmers can occur in conjunction with droughts, for example:

increased extreme temperature days, increased biosecurity risk, changing frost windows, as well as market and investment barriers due to social licence expectations of sustainable farms. Drought will also continue to place pressure on global and regional biodiversity and natural assets and these effects will be keenly felt by people in regional Australia, where communities and businesses are more directly dependent on the environment and natural resources.

With current levels of adaptation unlikely to keep pace with the expected impacts of climate change, there is a significant challenge ahead—making research and development investment and practice change incentives critical for the ongoing competitiveness and resilience of the sector.

Farm management

Agricultural businesses manage 58% of Australia's landmass (Metcalf DJ & Bui EN 2016) and directly employ over 300,000 people (National Farmers Federation 2017). In many regions of Australia, Aboriginal and Torres Strait Islander people make significant contributions to agriculture both as landholders and employees.

Mitigating risks, adapting to ongoing change and capitalising on opportunities are central to the concept of resilience to drought for both farms and rural communities dependent on farming. An important element of building drought resilience is avoiding drawing down on natural capital or the resource base. Farm businesses face varied risks and uncertainties, including climatic and weather risks; pest, disease and weed risks; market volatility; rural adjustment risks; and management, operational and technical risks. These risks can be exacerbated by a changing climate. On farms, risk is managed by adjusting production decisions as circumstances change—drawing on capital reserves, off-farm income and by borrowing. In the longer term, farmers may also change their farming system, enterprise mix and location. Off-farm risk management tools include maintaining a relatively high level of wealth, diversifying income sources and adjusting expenditure. Farmers can also explore entrepreneurial opportunities, which may be on-farm or off-farm.

Australian farmers have a strong track record on risk management, reflected in relatively high business survival rates and the above-average wealth of farm-owning households, compared to other households (ABS 2017). Most have the capacity to manage risk using their own resources, at least in the short-term. However, there are some farmers who lack sufficient resources or capabilities to manage risk well, noting that many of the tools farmers use to manage risk—such as high equity, diversification and reserves of liquid assets—can entail substantial costs. Well-managed farms are prepared for droughts and other risks, such as global price shocks, and not all farmers in regions affected by drought experience severe economic or financial hardship.

The environment

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

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

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

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

These natural resource management practices are valuable to farmers because they make farm systems more resilient and sustainable. The practices are also valuable to society because of the positive spill-over effect of benefits beyond the individual's farm gate. Conversely, degrading natural resources during drought can delay recovery after drought. Over time, productivity will decline if environmental resources are eroded too far.

Global competition

Globally, Australia is a relatively small agricultural producer. However, we are a significant exporter and must therefore produce at an internationally competitive cost to be profitable. Maintaining international competitiveness—often against subsidised competitors—requires ongoing productivity growth to keep up with improvements in other countries. In recent years, agricultural productivity growth has slowed for a number of reasons. These include poor seasonal conditions, high labour and energy costs, and less intense research and development efforts. There is evidence that crop producers have adapted to changing climate conditions, with strong growth in productivity since 2006–07 offsetting the decline in climate conditions (Hughes, Lawson & Valle, 2017). Ongoing efforts to continually stimulate productivity growth will be needed, as identified in the National Farmers' Federation goal of lifting the value of Australian agriculture production to \$100 billion by 2030.

Social licence

The impact of social licence—that is, what society considers acceptable—is a growing challenge for Australian agriculture. Supporting farmers to boost their drought resilience, including through improved environmental management and animal welfare, may have potential to boost social licence at an industry or geographical level.

Consumer preferences

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

Rural communities

Like primary producers, Australian communities also feel the effects of drought on local economies and community spirit. However, Australia's regions are diverse and the degree of exposure to drought risk depends on the local context. Some communities have a strong resilience during droughts while others are less equipped to deal with the effects of drought.

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

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

Linkages

Drought resilience policies and associated programs can have multiple outcomes and indirect impacts on farmers, rural communities and the broader Australian public. There is growing recognition of the need to develop policies that draw together and make sense of the multiple challenges and opportunities for Australian agriculture, instead of developing policies that are directed at solving a single issue. The Fund is an opportunity to align with and, where possible, leverage off existing or developing policies and programs to enhance the outcomes for the Australian agricultural sector and rural and regional communities.

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Drought Resilience Funding Plan

This Drought Resilience Funding Plan sets out a coherent and consistent approach for making arrangements or grants in relation to drought resilience, or entering into agreements in relation to such grants.

Funding principles

As stated in the *Future Drought Fund Act 2019*, the purpose of the Fund is to **enhance the public good by building drought resilience**. This means the benefits generated by the funding must be able to be accessed and/or shared by many (public benefits), rather than be captured solely by individual businesses or industries solely for private commercial gain (private benefits). It also means the benefits achievable from the funding should outweigh the costs. Wherever projects deliver both public and private benefits, the Fund should seek to leverage private or industry co-contributions.

For infrastructure and other capital investment or on-ground works, 'public good' is taken to mean that the project would not otherwise be able to recover costs—for example, utility pricing—and should deliver significant spill-over benefits well beyond those derived by private beneficiaries. This approach is consistent with the quantity of funding available (\$100 million per year) and the range of other drought resilience measures to be supported by the Fund in addition to infrastructure.

Disbursement from the Fund will:

- 1) be consistent with the Vision, Aim, Strategic Priorities and Objectives outlined in this plan
- 2) only invest in projects and activities that enhance the public good and deliver significant benefits that can be accessed or shared by many (rather than be captured solely by individual businesses or industries solely for commercial gain)
- 3) not provide in-drought assistance
- 4) provide funding for a range of activities or projects at a mixture of levels, such as the farm, regional or national level
- 5) not duplicate or replace existing Commonwealth or state government funding programs, but will aim to improve the coordination or integration of existing Australian and state government policies, frameworks and programs
- 6) aim to deliver programs through a user-based lens and, where possible, a community-led or co-design approach
- 7) where possible use or collaborate with existing community networks, Indigenous organisations and communities, industry and natural resource management organisations, and farmer groups
- 8) use a structured contestable process to ensure grants and procurement funding processes identify the best value and highest quality ideas, talent and projects
- 9) consider favourably proposals that have enduring outcomes
- 10) avoid creating barriers to change or adaptation

- 11) consider the incremental, transitional and transformational opportunities needed to strengthen drought resilience
- 12) as far as practicable, evaluate the expected return on investment for all funded programs and projects
- 13) quantify outcomes and expected public benefits as part of the application process for all funding programs and projects—not necessarily in monetary terms—and articulate why the funding is needed to achieve these benefits
- 14) in considering proposals for new infrastructure, ensure there are no ongoing operational or maintenance dependencies from the Fund
- 15) ensure that all new knowledge is shared and freely made available in the public domain
- 16) as far as practicable, require co-investment to maximise program outcomes
- 17) recognise the diversity of people, businesses and landscapes involved in agricultural production, including Indigenous landholders
- 18) be delivered in accordance with Commonwealth guidelines including the Commonwealth Grants Rules and Guidelines 2017, the Commonwealth Procurement Rules 2019 and the *Federal Financial Relations Act 2009*
- 19) ensure eligibility for programs is streamlined to remove red tape and deliver outcomes to farming businesses and communities.

Vision

The Fund's vision is an innovative and profitable farming sector, a sustainable natural environment and adaptable rural communities—all with increased resilience to the impacts of drought.

Aim

The Fund aims to enhance the public good by building drought resilience in Australia's agricultural sector and rural communities.

Strategic priorities

The Fund will focus on 3 strategic priorities to achieve the aim:

- economic resilience for an innovative and profitable agricultural sector
- environmental resilience for sustainable farming landscapes
- social resilience for resourceful and adaptable communities.

Objectives

The Fund will focus on 3 objectives to achieve the strategic priorities:

- enhance the public good by building drought resilience through programs that will grow the self-reliance and performance (productivity and profitability) of the agricultural sector
- enhance the public good by building drought resilience through programs that improve the natural resource management of agricultural landscapes

- enhance the public good by building drought resilience through programs that maintain and improve the wellbeing and social fabric of rural and regional communities.

Strategic priorities in detail

The 3 strategic priorities will guide the design of the Fund's programs and do not represent an equal allocation of funding across the 3 areas. Funding allocation will be determined through the Fund's program design, based on this plan, and the quality of applications received. Programs and projects would need to be relevant to only one strategic priority, however as far as practicable, the design of each of the Fund's programs should seek to address all 3 strategic priorities.

Strengthening the economic, environmental and social resilience for future droughts will assist producers and communities to become more productive, competitive and sustainable. Attention to all 3 strategic priorities is needed to deliver a holistic approach to building drought resilience.

Strategic priority: Economic resilience for an innovative and profitable agricultural sector

Objective

- Enhance the public good by building drought resilience by growing the self-reliance and performance (productivity and profitability) of the agricultural sector.

The Fund will support improved information, planning, management capacity and incentives that deliver on this objective at all levels—from farm and community to regional and industry. The Fund will encourage an enterprising and innovative culture for adaptability and transformative change.

Actions

Knowledge, innovation and extension

- Support the collection, management, public accessibility and application of data and information to improve on-farm decision-making and risk management.
- Support the development of systems and collaborations that enable better analysis and practical application of data and information.
- Support the development and availability of an innovative drought resilience research, development, extension and adoption strategy—including a stocktake and evaluation of drought resilience research and extension—in a process that will involve end users to maximise the relevance and adoption of outcomes.
- Encourage the leveraging of investment to address gaps and investment opportunities in research, innovation and extension.
- Encourage the generation of ideas, information sharing and the adoption of regionally and industry relevant research, development and extension through collaborations with public and private sector extension organisations and networks.
- Improved weather information regarding drought risk, such as early warning systems, seasonal forecasts, future climate projections and impacts for agriculture.

- Support new research, development, extension and adoption to expand technologies available to farmers to respond to risks such as drought—both within their current industries and activities and to enable switches to new enterprises.

Collaboration and building capability

- Increase farmers' understanding of their farm business drought resilience level, including through sharing information—for example, on climate data, soil health, capturing carbon and the efficient use of inputs—and through voluntary farm resilience assessments.
- Support improved strategic management capacity of business managers through the use of innovative tools, improved drought risk business planning and training, and improved knowledge of—and access to—market and private sector services.
- Encourage farmers to adopt innovative approaches and technology, including on and off-farm diversification options or new farming practices, farming systems and markets.
- Promote approaches that overcome barriers to developing innovative infrastructure.

Why is this strategic priority needed?

Preparing for drought is a critical part in managing the commercial risks associated with agriculture. Preparing for drought involves more than purely adopting appropriate production strategies. It should also entail business management planning and sound decision-making. Forward planning, setting performance targets and monitoring progress has been associated with improved farm innovation and financial performance, particularly the ability to withstand variation in income and profits over time. This includes consecutive years with low or negative profits, which may occur due to poor seasonal conditions and commodity prices.

Research, development, extension and adoption is crucial for building drought resilience. When focused on farming and community needs, these activities can guide technological advances and support good decision-making and risk management.

As noted by Ernst & Young in their 2019 *Agricultural Innovation* report, innovation culture in Australia is generally considered risk averse and there is a need to encourage and support a culture of entrepreneurship, appetite for risk and transformational innovation. Structured management practices are a key driver of enterprise performance. However, in a recent study by the University of Technology Sydney and the Department of Industry, Innovation and Science, agriculture, forestry and fishing was found to be the lowest performing industry when assessed on overall management capabilities in Australia (66% below the top-performing sector). In digital management capability, agriculture was again the lowest performing sector by an even larger margin.

How is this strategic priority best addressed?

The Fund can help build and inform sound business planning, risk management and innovation to help the sector respond to the challenges of the future including climate change and more frequent droughts. Economic resilience has strong public benefits in terms of reduced requirements for government in-drought support, the financial means to invest in natural resource management, more robust regional communities and improved health, education and recreational services.

Good decision-making and business planning are the most important tools for proactively managing farm risk and helping to build economic resilience. Effective farmers understand the

risk management tools available to them and how they can be used to design an overall risk management strategy that is appropriate for their business. Strong financial literacy and business acumen—such as understanding the trade-off between risk and return and how specific risk management products work—are key elements. Development of detailed drought plans for businesses helps identify strategies to enhance future drought preparedness, response and resilience.

Farmers are in the best position to assess the climate and other risks they face and adopt risk management strategies or undertake transformational change, based on their individual circumstances. But to do so, they need an innovative framework with accessible research, development and information that can be tailored, adapted and applied to on-farm practice. This includes maximising the collection and use of data to improve decision-making, reduce risk and support transformational change where necessary.

Enabling farmers to make informed decisions and improve their capability to adapt quickly so they are equipped to reduce the impacts of future droughts on their business' viability is essential. Collaboration and building capacity are an important part of developing drought risk-management strategies and could include upskilling to adopt innovative approaches to business planning, property management and diversification options.

Strategic priority: Environmental resilience for sustainable farming landscapes

Objective

- Enhance the public good by building drought resilience by improving the natural resource management of agricultural landscapes.

The Fund will support improved information, planning, management capacity and incentives that deliver on this objective at all levels—from farm and community level through to regional and industry. The Fund will support the improvement of the natural resource base for long-term productivity, landscape health and sustainability credentials. This will improve the agricultural sector's access to economic diversification options related to natural resource management, including through emerging markets and alignment with existing sustainability frameworks.

Actions

Knowledge, innovation and extension

- Improve information and management capacity for farming practices and systems that support sustainable landscapes.
- Support the collection, management, public accessibility and application of data and information to improve natural resource management. Support the development of systems and collaborations that enable better analysis and practical application of data, including for farm practices.
- Involve end users to co-design local natural resource management research development, extension and adoption. This will help to develop tailored outcomes and the adoption of the research.
- Facilitate increased knowledge among farmers of market and private sector services to improve natural resource management and enable access to emerging markets.

- Support incentives for practice change that will build sustainable landscapes.

Collaboration and building capability

- Encourage improved natural resource management capability through planning and training on financial, drought and risk management
- Support on-ground projects that enhance the resilience of natural capital in agricultural landscapes—including adoption of new or existing technology and practices.
- Incentivise local and regional capabilities to trial and adopt new natural resource management practices and technology through collaboration.
- Explore potential for new commodities and markets such as ecosystem services to enhance resilience and management of natural resources.

Why is this strategic priority needed?

Management of natural resources is an important contributor to drought resilience of farms and farm businesses and the long-term sustainability and productivity of Australia's agricultural landscapes. While natural resource management practices and programs are generally designed to have environmental and sustainable agriculture outcomes, there are also farm productivity and profitability benefits created by the protection and enhancement of the natural resource base and associated ecological services. This strengthens the capacity of farmers and of farming systems to withstand and recover from drought conditions.

Stronger farm performance and resilience to climate shocks can be achieved through improved natural capital such as healthy soils, increased biodiversity and groundcover. This would also reduce the negative physical impacts of drought, such as soil moisture loss, weed spread, groundcover depletion, soil degradation, biodiversity loss and degraded ecosystem service. Beyond the physical aspects, farmers' and land managers' engagement in activities to improve natural resource management practices has been linked with social connections, confidence in land management, improved health and wellbeing. Higher levels of well-managed natural resources contribute to wellbeing for individuals and the wider community—especially during drought—with positive impacts on economic and social resilience.

How is this strategic priority best addressed?

Natural resource management activities are highly diverse and sustainable and ideal practices will vary with geography and production management aims. While some may appear to directly influence economic and/or social resilience to drought, others may have no effect. Determining which activities have greatest potential impact on the drought resilience of farming systems and rural communities will be a key issue for the Fund's program design.

Building environmental resilience requires support for improvement of the natural resource base for long-term productivity, landscape health and sustainable products. This support could include improving information and management capacity, and exploring options for natural resource management-related economic diversification (such as emerging carbon markets).

Strategic priority: Social resilience for resourceful and adaptable communities

Objective

- Enhance the public good by building drought resilience to maintain and improve the wellbeing and social fabric of rural and regional communities.

The Fund will support this objective by assisting communities to upskill and adopt innovative approaches to drought resilience, including community planning, and supporting the use of existing and new networks to improve community wellbeing.

Actions

Information and planning

- Support data and information collection, coordination and supply to improve community planning to build drought resilience.
- Assist communities to identify innovative drought resilience options.
- Help communities to develop and action drought resilience and management plans.

Collaboration and building capability

- Increase community understanding of their drought resilience, including through training and information sharing—for example, case studies, inventory or support packages and making information accessible.
- Encourage communities with a high level of drought resilience to share learnings with other communities.
- Support community wellbeing activities to increase social networking, support and social engagement.
- Develop local leaders, including youth, to enhance wellbeing and drive initiatives that build drought resilience.
- Leverage existing programs—or establish new programs—to strengthen and build leadership in communities to drive initiatives that build drought resilience, including exploring entrepreneurial opportunities.

Enhancing community facilities

- Support communities to implement small-scale infrastructure projects to build drought resilience and enhance wellbeing—including water efficient or recycling infrastructure for sporting and recreational facilities, upgrades to public gardens, tourist attractions and other facilities.

Why is this strategic priority needed?

Drought can create difficulties in maintaining the social fabric or social capital of rural and regional Australia, which may threaten the viability of some rural communities. Despite sometimes sharing similar challenges, Australia's rural and regional communities are vastly different—social-economically, climatically, geographically, economically and in proximity to large regional centres.

Social capital is built on social networks of trust, mutual support and understanding. When people are part of social networks, they are more involved in community life. Community and economic diversity is an important factor in increasing resilience. Drought can reduce people's ability to work together for the benefit of the whole community. For example, when people experience stressors impacting on their individual or family circumstances, they may have reduced capacity to engage in social networks. This may also reduce their capacity to empathise with their peers and learn innovative ways to manage through drought. It also reduces capacity to engage in community projects, sporting activities or voluntary work, all of which can help

keep rural communities vibrant, prosperous and contribute to ongoing resilience against various shocks.

How is this strategic priority best addressed?

Building social resilience to encourage resourceful and adaptable communities could be achieved by providing support to help maintain and improve the wellbeing and social fabric of rural and regional communities—particularly through a community-led approach. Communities could be supported to undertake planning, projects and activities that will build their social resilience. Developing local leaders, including youth leaders, will help to drive initiatives to build resilience. Broadening the social networking and support to other communities to share learnings and success stories would also be of benefit.