
9 Farming family income support and adjustment

Key Points

- All farm households in hardship should have access to income support irrespective of whether this hardship is a result of drought.
 - Farmers often face difficulty accessing the social security system due to the level of their farm assets and the requirements of working on the farm.
- There is a case for a targeted income support scheme for farm households that:
 - is equitable
 - recognises issues of farm viability
 - avoids welfare dependence by limiting the duration of support
 - is provided in conjunction with training, professional financial advice and counselling to assist farmers to improve their viability or to evaluate their options outside of farming.

9.1 Introduction

Throughout the inquiry there was broad endorsement for income support to be provided to all farming families experiencing hardship. In contrast, the Exceptional Circumstances Relief Payments (ECRP) scheme does not assist farmers experiencing hardship if they reside outside of drought declared areas. This is just one of many reasons leading the Commission to propose that the scheme be replaced (chapter 6).

In addition to ECRP, there is another farmer specific income support program — the Transitional Income Support Scheme (TIS) — which provides case managed income support to all eligible farmers experiencing hardship and simultaneously aims to encourage farmers to improve their viability or to leave farming. TIS funding is scheduled to conclude in June 2009 (chapter 6).

These developments raise questions about farm households' access to alternative forms of income support, particularly as the characteristics of farmers (especially their assets) can render them ineligible for general safety net measures.

Farming in Australia has been subject to significant and on-going changes (chapter 2). Where this change is impeded through inappropriate government policy settings, assets and human capital can be locked into under-performing activities with adverse implications for the wellbeing of farming families, as well as for the agricultural sector. Economy-wide performance and the quality of environmental management can also suffer.

It is important, therefore, that any income support provided to farm households does not impede farm adjustment or undermine self-reliance (O'Meagher 2005; Cockfield and Botterill 2006). The Corish review concluded that 'propping up otherwise unviable farmers can make their eventual departure financially and personally more painful. It can also frustrate the growth of other farm businesses that are viable' (Agriculture and Food Policy Reference Group 2006, p. 181). Support needs to be targeted and short-term, so that farmers can 're-establish viable enterprises, obtain off-farm income or leave farming' (McCull et al. 1997, p. 114).

This chapter explores the links between income support and adjustment and assesses whether these objectives are compatible. It examines the need for a special income support program for farming circumstances. It proposes an integrated approach to income support and adjustment that seeks to avoid bringing them into conflict.

9.2 Financial hardship and farming families

There are some differences between the income of farmers and of all Australian households on an equivalised basis (figure 9.1). In 2006, the median equivalised gross income for farm households (\$605 per week) was \$44 lower than that for all households (\$649 per week). Differences are most apparent at the lower and mid-point of the income scale, with a larger proportion of farming families experiencing negative incomes and incomes between \$400 and \$999 per week. A similar proportion (three to four per cent) of farm households and all households experienced high income levels of \$1600 or more.

The broad similarities in the incomes of farm, and non-farm, households are not mirrored in perceptions of hardship. Analysis by the Australian Institute of Family Studies (sub. 92) shows that a larger proportion of farmers reported experiencing financial hardship in any given year than did farm workers and individuals living in rural and regional Australia who were not employed in agriculture (see box 3.2 and table 3.1).

Another study submitted to the Expert Social Panel — using the Household, Income and Labour Dynamics in Australia Survey — compared people living in rural and urban areas. It found that people living in urban areas were more likely to report instances of financial hardship than those in rural areas (figure 9.2) (Hogan et al. 2008).

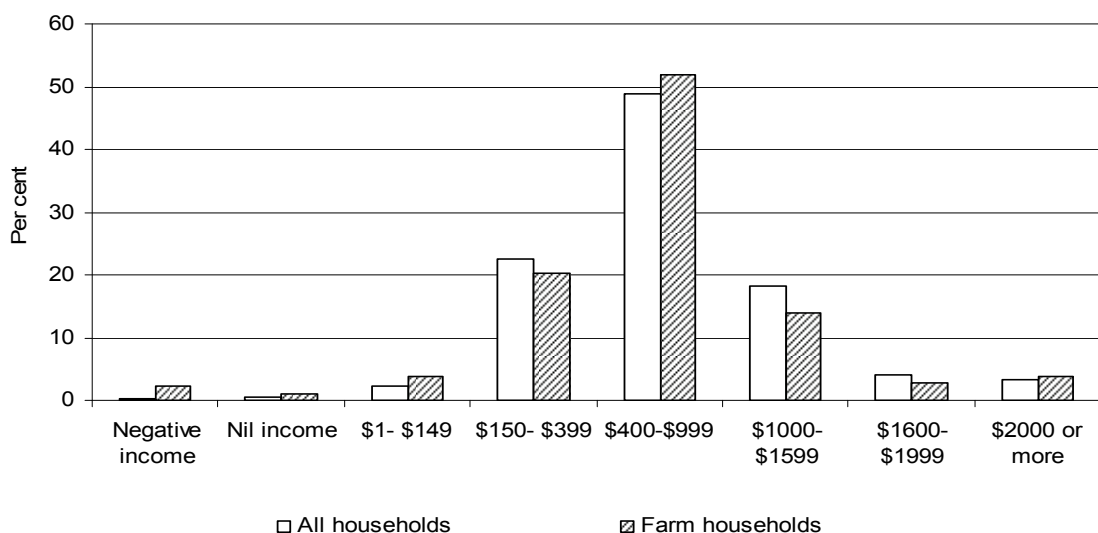
Although there is no clear evidence of significant income discrepancies or levels of financial hardship being faced by farmers in drought, there is ample evidence of its effects on farm incomes. As shown in figures 2.9 and 2.10, each of the major droughts that occurred in the past 25 years has been associated with a reduction in the cash incomes of broadacre and dairy farms.

Variability of farm household income

Farm households are often closely integrated with the farm business, leading to high degrees of income variability. This variability, and the need to balance capital accumulation against consumption, leads to circumstances where many farming families are ‘asset rich and income-poor’ (Botterill 2002, p. 2). Given the variability of income, simply looking at periodic farm household income will not necessarily indicate the welfare of the family.

Increasingly farm households are obtaining off-farm income to stabilise income flows. As discussed in chapter 2, the (real) level of off-farm income obtained by broadacre and dairy farm households has increased (figures 2.14 and 2.15). The level of wage and salary income received by broadacre farm households, on average, has increased significantly since the late 1970s, as have total government sourced payments.

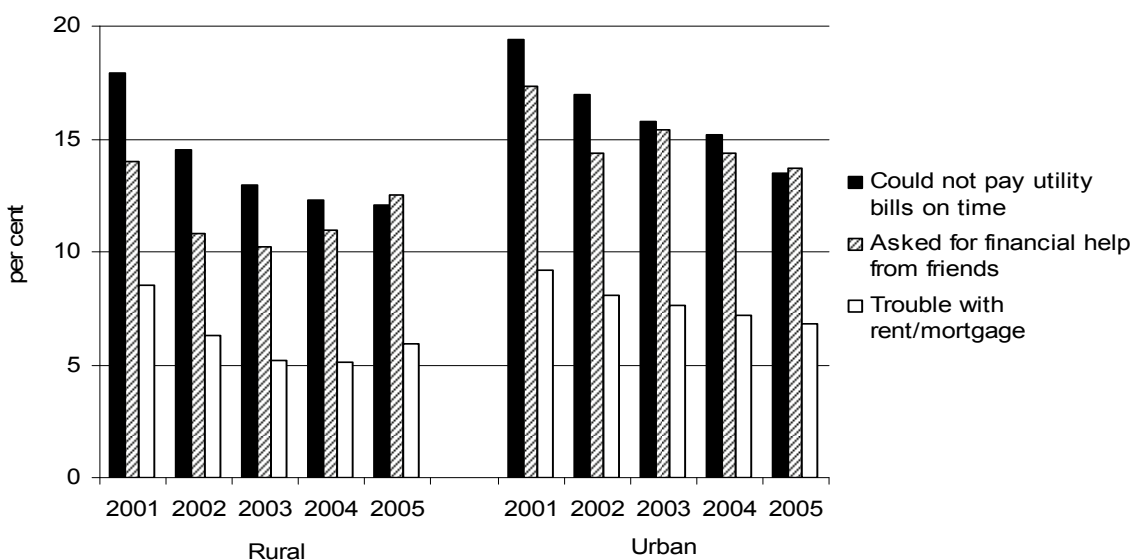
Figure 9.1 Average weekly equivalised income^a of farm households and all households, 2006



^a Equivalised income is calculated by adjusting household income by an 'equivalising factor' based on the number of adults and children in the household (ABS 2008c). Weekly income is determined by asking respondents to state their usual gross weekly income, which is the income before tax, superannuation, health insurance, or other deductions are made. Family income is calculated by summing the individual incomes reported by all family members aged 15 years and over and includes income earned both on and off-farm.

Data source: ABS (*Agriculture in Focus: Farming Families, Australia, 2006*, Cat. no. 7104.0.55.001).

Figure 9.2 Financial stressors, 2001–2005



Source: Hogan et al. (2008).

In addition, the proportion of farm households¹ with off-farm wages has increased (figure 9.3). In 1977-78, the share of broadacre farm households receiving off-farm wages was just 25 per cent, but by 2005-06, this had risen to 42 per cent. The experience of dairy farm households has been slightly different, as there does not appear to be a clear trend in the proportion of dairy farmers in receipt of off-farm wages.

Figure 9.3 Broadacre farm households with off-farm wages, 1977-78 to 2007-08



Data source: ABARE (unpublished data).

Does cash income understate the welfare of a farm household?

One complicating factor in determining whether a farm household is experiencing hardship is that cash incomes can understate the welfare of a farming family as income does not encapsulate the value of non-cash benefits of living on a farm (Musgrave 1990). These non-monetary benefits refer to people’s preferences for living on the land and also to unmeasured monetary benefits.

Vincent et al. (1975) presented a sample of farmers with a range of incomes in different rural or metropolitan locations and found that farmers were willing to accept little more than half of what they would receive in the city, to stay on the farm. This was increasingly the case the higher the farm income. However, many people who live in cities also value this lifestyle and have access to a range of services that are not readily available to rural communities (Musgrave 1990). As

¹ Collected from ABARE surveys and referring to the farm operator-manager’s household. That is, the off-farm income of the principal operator and their spouse.

such, the non-monetary benefits of living on the farm are balanced against such factors as higher transport costs and lower levels of services and facilities.

9.3 An income support scheme for farming families

The social security system aims to provide a safety net for all Australians through income support payments to individuals and families who are without the means of self provision (box 9.1). As income is, in itself, an insufficient indicator of need for assistance, asset tests are also applied. This recognises that those with substantial assets, other than their family home, should apply those assets to support themselves before calling on the community for assistance (Senate Rural and Regional Affairs and Transport and References Committee 1995).

It is not the intention of the social security system to provide a guaranteed minimum income for all Australians in the occupation of their choice. Further, ‘people who have a significant level of assets which could be used for financial support, and self-employed people whose businesses are running at a loss, cannot expect to receive assistance from Social Security’ (Special Rural Taskforce 1997, p. 4).

Box 9.1 Social security system

Five key principles underpin the design of the social security system:

- It supports a basic acceptable standard of living, accounting for prevailing community standards. Payments are not related to past earnings and do not compensate for pain, suffering or loss of amenity.
- It is equitable. It treats people in similar circumstances similarly. Those with additional costs are given greater assistance either through transfer payments or services to help them achieve a similar living standard. In some circumstances, these additional costs are recognised across a range of income levels.
- It targets payments to those not able to fully support themselves. Those with their own resources and therefore the capacity to support themselves do not have the same need for transfers. Income and asset tests are used to reduce payments for people with private resources.
- It promotes participation and self-provision through a combination of:
 - services and assistance to help people deal with disadvantage (including disability, caring, improving skills and seeking work)
 - incentives to work to provide for current needs and for retirement — for example, through contributions to superannuation
 - obligations to work and to seek suitable work for those who are expected to, and the use of private savings to support themselves for those with savings.
- It is sustainable. The broad community accepts that those who receive social security payments are in genuine need and that the overall system is affordable across the economic cycle and in the long run, given the ageing of the population.

Source: Harmer (2008, pp. 4–5).

Impediments to farmers accessing the social security system

Farm households may face difficulties accessing government income support. The NSW Farmers' Association argued that the social security system does not adequately cater for self-employed persons such as farmers (sub. 98). Two key barriers to farmers accessing support are the asset tests applied to most Centrelink programs and the activity test used for the Newstart unemployment benefit.

Asset tests

A key concern of participants was that where eligibility for income support is contingent on a farm household meeting a specific asset limit this would force farmers to significantly run down their equity before they receive any assistance — potentially selling their 'superannuation' or endangering the long-term viability of

their farm (NFF, sub. DR176; RFCS Tasmania, sub. DR164). The NSW Farmers' Association submitted that setting too low an asset threshold for income support could result in farmers taking 'much longer to recover from drought or even make the farms non-viable' (sub. 98, p. 24).

Furthermore, many submissions pointed to perceived inequities between farmers and non-farmers in relation to the asset requirements for pensions and allowances administered through Centrelink. In particular, the exemption of the family home from asset tests was highlighted — 'people who live in big expensive houses don't have to sell them to get help so why should we have to [sell] our properties. Off-farm assets should be included but the farm properties should be exempted from assets test' (H. Clark, sub. 78, p. 10).

To address certain circumstances where people may be income poor but asset rich, the Commonwealth has introduced Hardship Provisions. These enable those with assets in excess of the eligibility limits for a Centrelink pension, benefit or allowance, but are otherwise experiencing hardship, to access income support. The provisions apply where people cannot sell, or borrow against, their assets or are trying to sell their assets at a realistic market price and are unable to qualify for other Commonwealth Government assistance (Department of Families, Housing, Community Services and Indigenous Affairs 2009, section 11.(12)).

Hardship Provisions differ depending on the type of assistance sought. In the case of the Age Pension, applicants are not required to put their assets on the market to access the pension through Hardship Provisions. Rather the test is whether it 'could not reasonably be expected' that the individual rearrange their financial affairs and sell their property (Department of Families, Housing, Community Services and Indigenous Affairs 2009, s.4.6.7.10). In the case of Newstart, the Special Rural Task Force recommended changes to lessen the requirement for farmers to sell their assets under Hardship Provisions (Special Rural Taskforce 1997). This recommendation was not adopted by the government. The Commission agrees with the government's approach, as the theoretical possibility of converting assets into income 'must be distinguished from the practical desires of people to do so' (Vincent et al. 1975, p. 83).

The Commission considers that the provisions for the Age Pension, to a certain extent, adequately address the specific circumstances of farmers. However, this is not necessarily the case for Newstart Allowance, where those farmers able to meet the Newstart asset tests are likely to have run down their equity to irrecoverable levels.

Activity test

Another impediment to farmers accessing Newstart Allowance is the activity test — that is, the requirement to actively look for work or undertake other approved activities (such as voluntary work or training). The Special Rural Taskforce (1997) recommended that alternative criteria be developed for the Newstart activity test so as to reflect rural and farming situations for those farmers who fulfil the assets and income requirements for Newstart Allowance.

According to Centrelink ‘mutual obligation is about helping you find and take part in an activity that will improve your job prospects and contact with your community’ (Centrelink 2008d). The Commission agrees with this and considers that mutual responsibility should ideally involve actions which improve recipients’ circumstances in the future. For an unemployed person, for example, undertaking training or gaining work experience through a volunteer program could achieve this. For a farmer, who is not unemployed, mutual responsibility could be better focussed at flexible training arrangements, risk management or business planning to either increase the capacity of the farm household to earn off-farm income or to improve production and on-farm management practices. To this end, the Commission does not consider that the Newstart activity test affords sufficient flexibility to ensure that there are mutual responsibility activities that would improve farmers’ circumstances in the future.

Alternative activities for farmers might include, for example, participation in Landcare or other natural resources management activities in the community. However, the diversity of daily labour requirements of agricultural producers, such as between dairy, horticulture and cereal cropping for instance, makes it difficult to introduce a standard set of activity requirements for farmers. Furthermore, for some farmers, on-farm labour requirements may rise during drought periods — for example, with more handfeeding of stock. While Centrelink advised that activity testing can be applied flexibly to applicants in rural and remote areas under current guidelines (Centrelink, pers. comm., 2008) alternative criteria for rural and farming situations have not been developed.

What about rural and farm dependent small businesses?

Rural and farm dependent small business operators may also have significant assets which prevent them from accessing income support. But, whereas farm assets are generally lumpy and non divisible and can be site specific, this is not always the case for rural and farm dependent businesses. Furthermore, such businesses are generally located in towns and consequently have greater access to casual or

part-time employment opportunities and would be better able to meet the activity requirements of Newstart.

Rural and farm dependent businesses do not generally face the same difficulties in diversifying income sources as farm businesses and are more able to make adjustments to their business model (such as broadening the range of services or products that they provide). For example, agricultural contractors (such as harvesters) are also more mobile and can seek work in other locales.

Many factors can have significant negative impacts on the family income levels of small business operators. Myriad small businesses risk their capital and, in some cases, fail. Little or no government support is provided in these situations. An extension of favourable conditions to particular businesses would raise concerns about inconsistencies in the treatment of businesses of different types and in different locations.

Concluding comments on farmers' access to income support

Overall, the Commission concurs with the conclusions of the 1990 Drought Policy Review Task Force that, 'the possible extension of the unemployment benefit system to cover the specific needs of primary producers and their families during periods of adversity, while they still remain in farming, would seem inappropriate' (McInnes et al. 1990, vol. 3, p. 68).

The Commission considers, therefore, that a special income support program tailored to farming circumstances is required, but that extension of any such program to farm dependent or rural businesses is not appropriate.

9.4 The Commission's proposal for an income support scheme for farming families

The Commission considers that an income support scheme designed for farming circumstances should be consistent with the principles in box 9.1 and aim to achieve a balance between the four following objectives:

- equity — by enabling all farming families in hardship to access income support, not just those within administratively-determined drought boundaries
- recognition of farm viability — by setting the asset threshold at a higher level than Newstart

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- avoidance of welfare dependence — by limiting the duration of income support and assisting farmers to undertake farm planning or training suited to earning off-farm income
 - helping recipients determine their future in farming — by providing support for viability assessments, counselling and succession planning.

To meet the first objective, income support should be available to all farm households experiencing hardship, irrespective of the cause of this hardship. Such an approach received strong support (NFF, sub. 51; NSW Farmers' Association, sub. 98; New South Wales Government, sub. 90; Queensland Government, sub. 77).

However, any assistance should be consistent with the broader social security system — 'sector-specific income support should not set up any *major* inequities and/or adverse incentives in the way that it interacts with the general social security system' (Industry Commission 1996, p. 37, emphasis added).

The Commission proposes that assistance should be based on the same payment levels and income tests as Newstart with modifications to asset tests and activity requirements to appropriately address farmers' needs. And, to prevent income support impeding adjustment in agriculture, there would be mutual responsibility and case management. Support should also be time limited. The Commission proposes that these objectives be met through a new Farming Family Income Support scheme which would be administered by Centrelink and provided under the Social Security Act (1991).

Farmer eligibility

Support should be conditional on applicants demonstrating that they are farmers (based on similar tests to those that apply for TIS — see appendix B). While the scheme should operate at the farm household level, eligibility and payments should be on an individual basis (unlike ECRP and TIS where successful applicants receive payments for themselves and their partner) and where a couple applies they must each satisfy this test. In line with Newstart (and other Centrelink payments) where an unemployed person's spouse does not automatically receive payments, a farmer's spouse should not automatically be eligible for assistance through the Farming Family Income Support scheme.

Viability testing

While it should be compulsory for all income support applicants to seek advice regarding the financial situation of their business, support should not be conditional

on the farm business being assessed as viable. Accurately identifying viable and non-viable farm businesses can be difficult even in good times. Furthermore, there will be a range of farm incomes that a farm household is prepared to accept, reflecting trade-offs with non financial costs and benefits of farming. Concerns about the potential for government support to sustain farmers in non-viable activities can be addressed more effectively through mutual responsibility, case management and a time limit on assistance.

Income

ECRP and TIS use the Newstart income payment levels and eligibility thresholds. However, the ECRP program allows an additional \$20 000 to be earned in off-farm income through wages and salary. This means farming couples on ECRP can earn more (over \$400 per week) and still receive the full payment of ECRP relative to a couple both on Newstart.

Currently, where a Newstart Allowance recipient earns more than \$62 per fortnight, or their spouse earns over \$769 per fortnight, income support is reduced. Box 9.2 provides further information regarding this income eligibility rule.

Some participants disagreed with importing Newstart's income requirements into a farming family income support program. They argued that strict income tests deter farming families from earning off-farm income (Tasmania Farmers and Graziers Association, sub. 69; Rural Youth Organisation of Tasmania, sub. 88). The National Farmers' Federation (NFF) submitted that 'imposing barriers to farmers earning off-farm income to assist with the survival of the farm business ... is counter-productive' (sub. DR176, p. 77).

The alternative view is that 'welfare is provided by government as a safety net measure to ensure that families do not fall below community-acceptable standards of hardship. It is not intended to provide a reward structure for good management'. (Botterill and Chapman, sub. 52, p. 3).

An income support safety net is targeted primarily at assisting families in hardship, rather than aiming directly to enhance farmers' self-reliance. That said, given the links between viability, income support, welfare dependence and farm adjustment, any income support scheme should not pose barriers to earning off-farm income.

The Commission does not consider that Newstart income eligibility necessarily creates a disincentive to earning off-farm income. As shown in box 9.2 and figure 9.4 (below) for example, the taper rate does not result in effective marginal rates so punitive that income in excess of \$62 per fortnight is deterred for an individual.

Therefore, the Commission sees no case to depart from the income payments and eligibility thresholds for Newstart Allowance.

Assets

Generally, eligibility requirements for social security payments require that, where an individual has significant assets, they liquidate or borrow against these assets to support themselves rather than call on the community for assistance.

Farm household specific income support programs generally have higher asset thresholds than programs offered to the general community. For example, the asset test for ECRP does not include the value of farm land or farm assets, but has restrictions on off-farm assets. TIS imposes a total net asset cap (including the farm, family home and farm assets) of \$1.5 million and separate off-farm asset and liquid asset sub-caps. In comparison, Newstart applies a total asset test of \$243 500, excluding the family home, for applicants who have a partner.

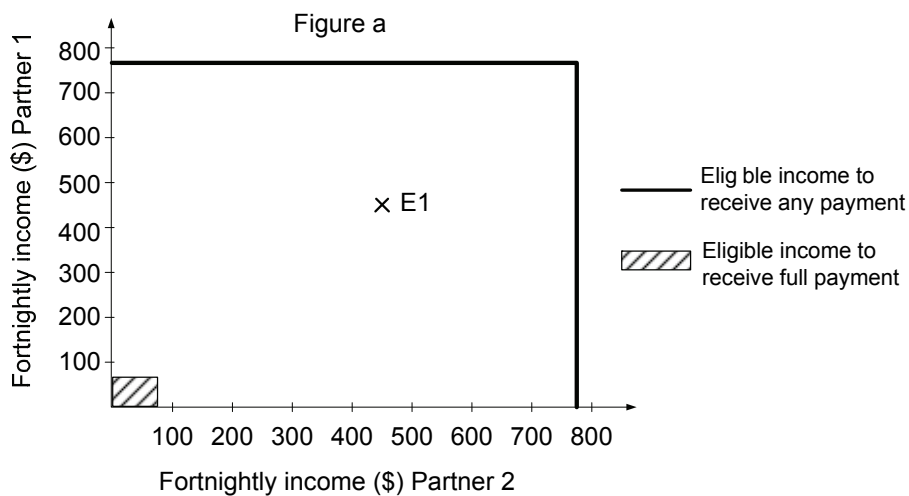
Many farmers and industry groups criticised these thresholds for being too restrictive and for discouraging diversification. There are, however, a range of options for converting assets to income that do not require their sale. One option is to convert equity in assets to debt or generate an income stream, for example through borrowing, leasing the farm or renting out off-farm property.

A balance must be struck between targeting those most in need and ensuring that farmers are not required to run their equity down to irrecoverable levels. Accordingly, the Commission proposes that the asset cap should be set at a level higher than for Newstart in accordance with its second objective for an income support scheme — to recognise the issue of farm viability — while not being too high.

Box 9.2 Income eligibility rule for the proposed scheme

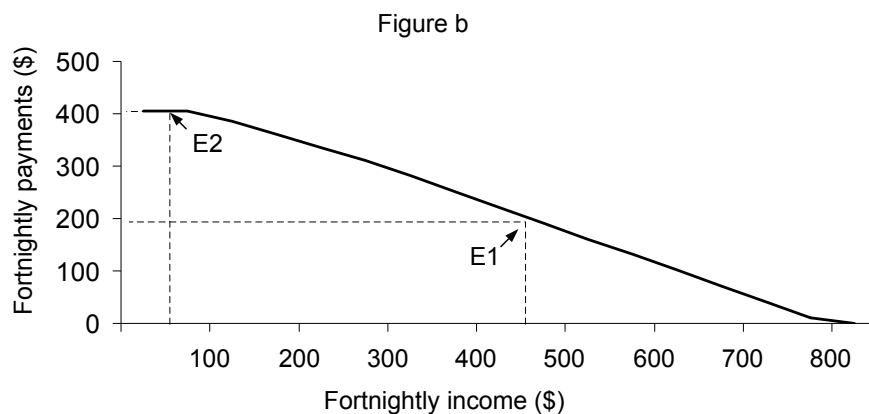
The following figures demonstrate the different combinations of income that can be earned for a range of recipient and spouse incomes under the proposed scheme.

Figure a shows a scenario where both members of a couple receive income support. Any combination of income earned within the lined box would mean both members of the couple are eligible for payment under the scheme. Any combination of incomes within the shaded box would mean both members of the couple were eligible for full payment under the scheme.



Example 1: Bill (partner 1) and Sarah (partner 2) usually both derive a significant proportion of their income from their farm. It is a drought year and their combined farm income is \$10 500 (\$400 on a fortnightly basis). They have off-farm investments which provide \$500 in deemed income per fortnight. They are both eligible for partial payment under the scheme (E1 on figure a) and would receive \$191 a fortnight each (see figure b).

Figure b shows how payments are determined given recipient's income^a.



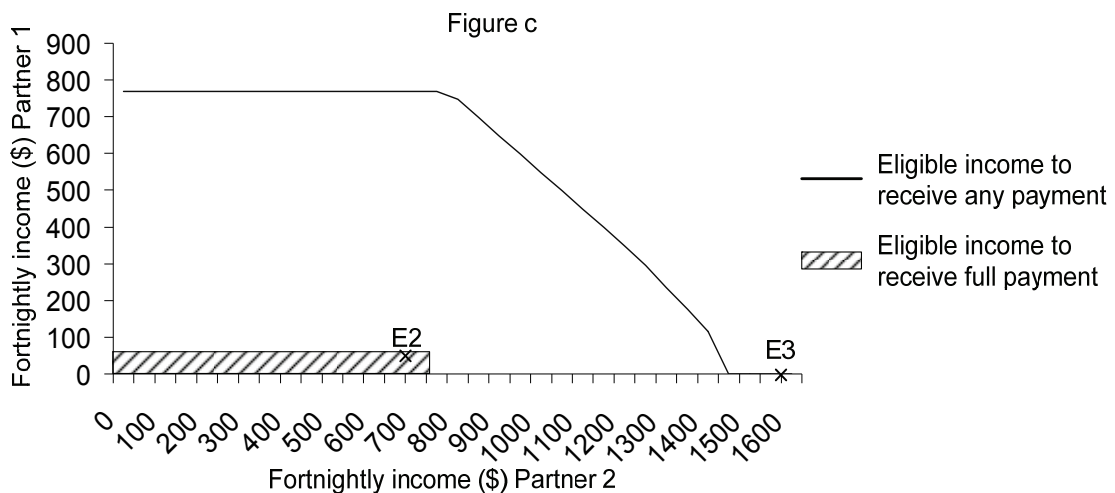
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Box 9.2 (continued)

Figure c shows a scenario where one member of a couple is receiving income support (partner 1) and the other member is working (and not receiving income support) (partner 2). Any combination of income earned below the line would mean partner 1 would be eligible for payment under the scheme. Any combination of incomes within the shaded box would mean partner 1 would be eligible for full payment under the scheme.

Example 2: Todd (partner 1) works on the farm and has made a loss of \$20 000 for the year. Todd occasionally earns some off-farm income, around \$50 per fortnight. Todd's partner Jennifer (partner 2) works as a full time nurse and receives a fortnightly salary of \$700. Todd would be eligible for full payment of \$405.40 per fortnight under the scheme. Jennifer would not be eligible for a payment (E2 on figure b and figure c) ^b.

Example 3: Lee (partner 1) works on the farm full time and has made a loss for the year of \$50 000. Lee's partner Kelly (partner 2) works full time as a doctor and earns \$1600 per fortnight. Both Lee and Kelly are ineligible for assistance under the proposed scheme (E3 on figure c).



^a Income above \$62 reduces payments by \$0.50 in the dollar. Income above \$250 reduces payments by \$0.60 in the dollar. ^b Jennifer is not eligible for a payment as she derives a significant proportion of her income from her full-time job.

Asset thresholds

There was significant disagreement among participants about the Commission's proposed total net asset cap of \$2 million tapering to \$3 million. Some contended that it was unjustifiably generous to provide taxpayer support to people with \$3 million in net assets. However, most participants felt that the proposed asset limit was too low and/or that farm assets should not be included in any determination of eligibility for income support.

The NFF submitted ‘that a \$2 million cap tapering to \$3 million is problematic in the same way as setting any line in the sand’ (sub. DR176, p. 77). It pointed to increases in farm land values due to urban encroachment and argued that property values are not an indicator of earning capability.

The NSW Farmers’ Association agreed, stating ‘farm assets should be considered in their income earning capacity to the farming business and therefore should not be included in any asset assessment for income support’ (sub. DR182, p. 6). The Victorian Farmers’ Federation also argued that farm assets should be exempt from the proposed asset cap and stated that ‘the asset thresholds as recommended do not sufficiently take into consideration the particular circumstances of modern agriculture’ (sub. DR160, p. 4). Horticultural organisations suggested that these limits may not be appropriate for the businesses they represent and proposed a study into this matter (Horticulture Australia Council, sub. DR169; Growcom, sub. DR171).

The Senate Rural and Regional Affairs and Transport References Committee examined the impact of social security asset tests for farming families in 1995. The Committee recommended that both off-farm and on-farm assets should be taken into account when assessing a farm household’s eligibility for income support payments. It concluded that exempting farm assets would create equity problems with non-farmers and may diminish incentives for self provision.

A range of thresholds were proposed by participants, including an asset cap of \$5 million with a taper to \$6 million in pastoral areas (Rangelands Drought Taskforce, sub. DR153). The NSW Farmers’ Association argued that where a limit for farm assets is applied it should be indexed in some way to reflect increases in property values.

The Western Australian Farmers’ Federation supported the concept of a taper but considered that the proposed asset cap and taper would be insufficient for most farms in that state (sub. DR161). Data provided by the Department of Agriculture and Food Western Australia (sub. DR186) shows the financial position of farms in the North Eastern Agricultural Region (table 9.1). The financial position of the bottom 25 per cent of businesses indicates net asset levels of \$1.5 million. This suggests that, on average, these businesses could be eligible for support under the scheme (not taking into account income or the value of liquid assets).

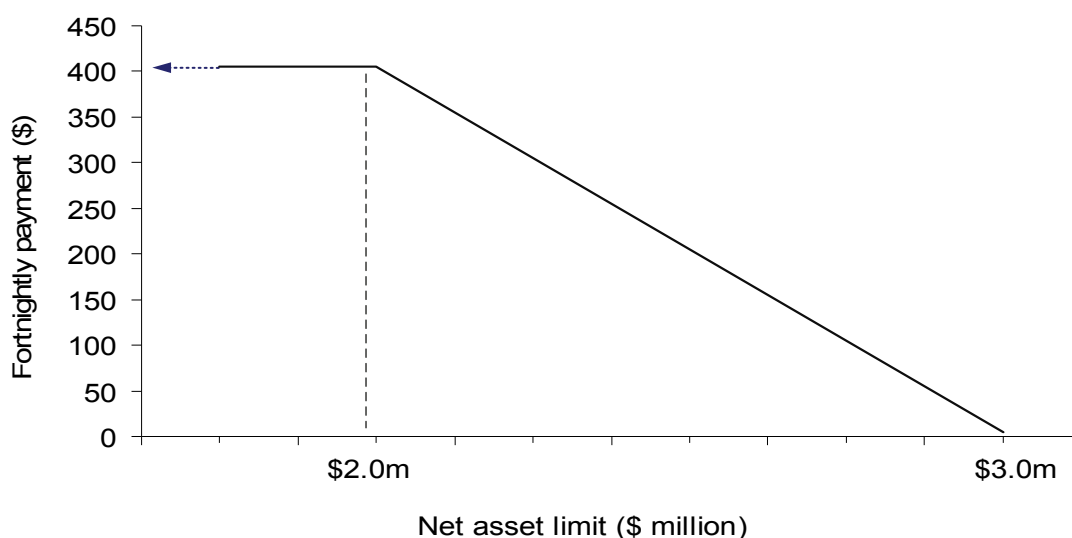
Table 9.1 North Eastern Agricultural Region farm financial positions

		<i>Top 25%</i>	<i>Group average</i>	<i>Bottom 25%</i>
Farm Size	ha	5 684	4 801	4 165
Total farm assets	\$ '000	6 608	4 513	2 852
Total farm liabilities	\$ '000	1 195	1 270	1 311
Farm equity	\$ '000	5 413	3 244	1 541

Source: Department of Agriculture and Food Western Australia (sub. DR186, p. 2).

The Commission considers that a balance must be met between recognising farm viability and the extent to which asset limits should deviate from those applying to the general community. In the Commission’s view, this balance is met with a total net asset cap beginning at \$2 million and with a taper to \$3 million (figure 9.4). This asset limit would be indexed annually in line with asset limits for other Centrelink programs.

Figure 9.4 Impact of net asset limit on payment rate with linear taper^{abc}



^a Payment values assume that all other eligibility requirements are fulfilled and that income is below the full payment threshold and therefore only assets affect the level of payment received. ^b Fortnightly payment is reduced by \$0.40 for each \$1000 over \$2 000 000. ^c As at February 2009, the maximum fortnightly payment for an individual receiving Newstart allowance with a partner is \$405.

Sub-caps

Many submissions expressed concern that, by imposing limits on off-farm assets, the current ECRP restricts farmers’ options to spread their risk and respond to adverse circumstances (Macquarie River Food and Fibre, sub. 36; NSW Farmers’ Association, sub. 98). They argued that off-farm assets are a legitimate

diversification and risk management strategy and that government assistance should not discriminate against those who have chosen to invest off-farm.

To enable flexibility in the structuring of farm assets and off-farm assets, the Commission proposes that the asset tests for income support should not distinguish between on and off-farm assets. This simplification recognises the complexity of farm financial arrangements and aims to avoid disincentives to self-reliance and risk management. It also recognises that funds can be easily moved across asset classes.

However, the Commission proposes a liquid asset sub-cap that would require farm households to draw their liquid assets down to \$20 000 or below before accessing income support.

There was a mixed response by participants to this proposal. The Pastoralists and Graziers Association of Western Australia submitted that ‘liquid assets like FMDs should be differentiated from physical ones with the requirement that liquid ones are drawn down to get household relief’ (sub. DR121, p. 1). The NFF supported a liquid asset cap of \$20 000 provided that it excluded Farm Management Deposit (FMD) balances. Other organisations submitted that \$20 000 was too low (South Australian Farmers’ Federation, sub. DR141; South Australian Advisory Board of Agriculture, sub. DR157). The Victorian Farmers’ Federation argued that the limit should be at \$50 000 and not include FMDs (sub. DR160).

The \$20 000 liquids cap is based on the TIS scheme. This is an arbitrary cap, but the Commission was not presented with compelling evidence to depart from it, nor why FMD balances should be exempt. On the contrary, the Commission notes that the liquid asset sub-cap:

- that applies to the rest of the community is much more stringent — for example \$5000 for an individual (with a partner) accessing Newstart
- recognises that a farm requires more working capital than, say, an urban household, but also that funds in excess of \$20 000 should be drawn down in times of need — before the community is called on to provide income support
- should include FMDs, on the basis that they are designed for farmers to use to support themselves through downturns — see also the 2006 Review of the FMD scheme (DAFF 2006) and the Corish report (Agriculture and Food Policy Reference Group 2006).

Some contend that it is not appropriate to oblige farm businesses to draw down their FMDs, a farm business measure, to be able to access income support for the farm household. However, as noted earlier the farm household and business are often highly interconnected. This was recognised by the Queensland Government (sub. 77), which pointed out that money from business assistance measures, such as

the interest rate subsidy, can be spent on family related expenses and that household income support, such as ECRP, can also go towards the farm business.

Given this high level of fungibility between business and household finances the Commission considers that FMD deposits should be included in the liquid asset test. In essence, whether funds are held in FMDs, savings accounts or ‘under the bed’ should not bear on access to income support. Excluding FMDs could simply result in transfers of funds to alternative accounts in order to qualify for assistance.

However, the Commission considers that the liquid asset test should be set at a level higher than that applied to the general community to recognise the special circumstances of a farm household.

In cases where an applicant’s liquid assets are above the specified limit, but all other requirements are fulfilled, eligibility need not be declined. Rather, eligibility assessment could be deferred until liquid assets are drawn down under the limit. Where an applicant has funds in FMDs above the liquid asset threshold, Centrelink could issue a certificate to enable funds to be withdrawn while still retaining the tax benefits as is currently in place for FMD holders in EC declared areas.

Mutual responsibility

The Commission’s third and fourth objectives for farm household income support are that some conditionality should be imposed to reinforce self-reliance, discourage long-term dependency on income support and assist farmers to determine their future.

To access assistance, farm households should be required to seek independent advice on the financial situation of their business and develop a ‘Mutual Responsibility Contract’ specifying, if necessary, the actions that are to be taken to improve self-reliance.

Participants were generally supportive of incorporating mutual responsibility into an income support scheme (NFF, sub. DR176; Australian Dairy Industry Council, sub. DR145; Victorian Farmers’ Federation, sub. DR160; Australian General Practice Network, sub. DR170). Australia Pork Limited welcomed the recommendation to tie financial assistance to independent financial advice on business viability (sub. DR155). The Rural Financial Counselling Service South Australia stated that:

It can’t be just a welfare payment. There’s got to be something else attached to it that says “Look, this can’t go on forever. This is why you’re in trouble. We now have to

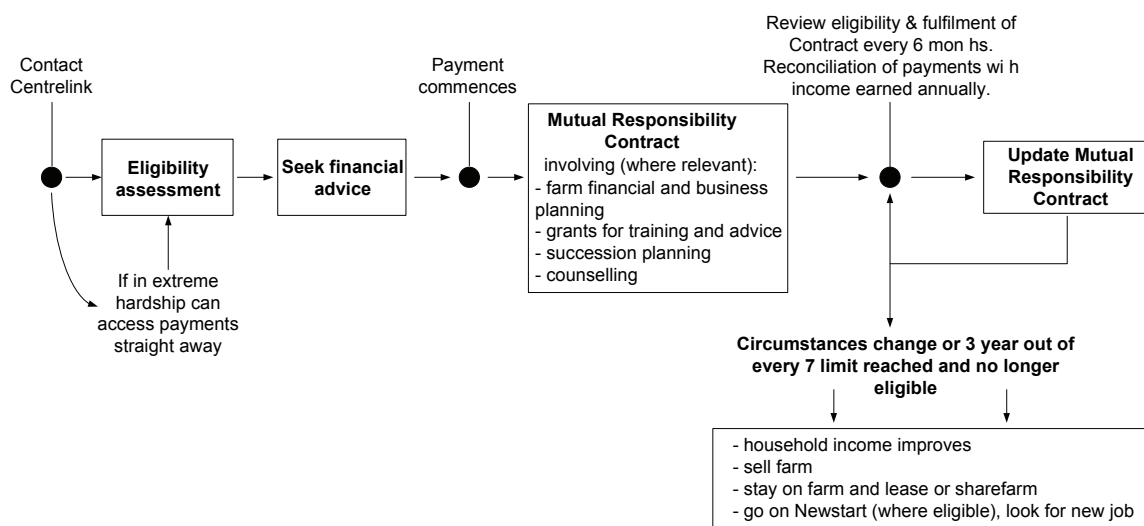
work towards getting you out,” and they have to agree to that. That has to be part of the deal ... (trans., p. 243)

The ACT Department of Territory and Municipal Services similarly submitted that ‘encouraging self-reliance may be enhanced by a mutual obligation approach to future drought assistance e.g. assistance measures will be dependent on the implementation of a business plan incorporating risk management strategies’ (sub. 101, p. 2).

Initial assessment and the ‘Mutual Responsibility Contract’

Under the Commission’s proposal, applicants for income support would be required to obtain an assessment of the financial situation of their business prior to receiving income support (with a grant provided to cover the cost). The results of this consultation would not affect eligibility to income support, but rather provide the applicant with information to assist them to make decisions so that income support is not needed in the future. Once financial advice has been sought, recipients would work with Centrelink’s Rural Support Officers to create a ‘Mutual Responsibility Contract’. Figure 9.5 illustrates how this process would operate for the proposed Farming Family Income Support scheme.

Figure 9.5 Farming Family Income Support scheme



By not making support contingent on whether a farm is viable (as has been the case for farm household specific income support programs in the past, such as TIS), access to assistance is simplified. There is some indication that the farm financial assessment for the TIS and the Climate Change Adjustment Program (CCAP)

Adjustment Advice and Training Grants programs is too complicated and deters farmers from applying (M. Willet, sub. DR125).

Nevertheless, the initial consultation needs to be conducted by a financial expert who is not the farming family's accountant. Advice regarding the long-term viability of the farm should be provided by an unbiased expert who has not had a long-term relationship with the applicant. One possibility proposed by participants is that 'appropriately accredited' rural financial counsellors could also provide this service (South Australian Advisory Board of Agriculture, sub. DR157; D. McKenzie, sub. DR187). This may assist in reducing the difficulty faced by applicants in remote areas in finding an appropriate expert.

The 'Mutual Responsibility Contract' would outline the steps that the farmer plans to take to obviate the need for future income support. For most, the Contract would require a household financial plan and/or a farm financial and business plan to, at least, indicate the sustainable earning potential of the farm business. For viable farmers this requirement would not be particularly onerous as most would have such plans already.

The Contract would allow for the recognition of farmers' particular circumstances and preferences. Hence, it could involve commitments to gain skills suited to earning off-farm income, or participation in programs such as Landcare or those conducted by Catchment Management Authorities. To help farmers determine their future, the plan could also include accessing counselling services and advice regarding succession planning.

Where possible, the plan should explicitly take into account 'family life cycle' factors, such as the changing demands for household income, the occupational and life-style preferences of various family members, and where appropriate, planning for retirement, managerial succession and the integration of the involvement of various family members into farm business planning.

Grants would be provided to assist the recipient fulfil their responsibilities. These grants could be similar to the CCAP Adjustment Advice and Training grants, such that where an applicant qualifies for income support they automatically qualify for grants for professional advice and training where identified as relevant in the Mutual Responsibility Contract. Training need not be farm related but would have to be management or income related — farmers would be encouraged to explore off-farm income sources. The CCAP program also provides additional grant monies to assist with travel and incidental expenses incurred in order to obtain professional advice or undertaking training activities.

Currently CCAP grants provide up to \$5500 for advice and training. Grants are provided in the form of a voucher. Funds are then paid directly to the provider of advice or training once the activity has been completed. The Commission considers that while the quantum of the grant is appropriate, it would be more effective to provide applicants with cash and require that funds be spent on approved activities (with receipts audited during the six monthly reviews). This would give recipients greater control over the quality and type of service they receive using this grant. Cash grants may also lead to greater value for money. It was evident during industry visits that often where a voucher system is employed, the cost of services tends to equal the value of the voucher irrespective of the service provided.

Regular assessment

Assistance would be re-assessed every six months, on the basis of compliance with conditions — including carrying out the actions identified in the Contract — and acquittal of payments against income earned.

Australia Pork Limited was supportive of income support payments being tied to a six month review cycle (sub. DR155). However, some raised concerns about the time and expense required to update plans on a six monthly basis and reconcile payments, particularly where an accountant or professional needs to be consulted (Country Women's Association of Victoria, trans., pp. 520-1; M. Willet, sub. DR125).

As is currently the case for ECRP and TIS, fortnightly payments would be based on an estimate of annual income. Given the high level of variability of farm income, it is very difficult for farmers to accurately forecast annual income (especially during drought). However, despite this variability ECRP and TIS do not have formal reconciliation of estimated and actual income and consequent adjustment of payments made. While fortnightly payments are adjusted when new information is received, a reconciliation at the end of the financial year using actual taxable income would ensure recipients received the correct entitlements. This would involve subsequent reparations or recovery actions.

Any program that involves on-going case management of mutual responsibilities will have higher administrative costs than programs without case management (for example ECRP). However, effective case management is integral to ensuring that farm households are not only supported, but also are in a well-informed position to make difficult decisions about their business and their future in agriculture.

Succession planning and the Age Pension

The scheme would also include measures to encourage succession planning. For older farmers, accessing professional advice on succession planning will be strongly recommended. Furthermore, Centrelink Rural Service Officers should ensure that farmers at or near retirement age are fully apprised of their options. Where relevant and subject to normal eligibility rules, farmers should be encouraged to move onto the Age Pension. Succession is discussed further in section 9.3.

Time limited support

A limit on the duration of income support is necessary to ensure the scheme does not lead to long-term welfare dependence. The National Rural Advisory Council, in its submission to the Expert Social Panel, observed that receiving income support payments ‘for a prolonged time may foster a welfare-dependent attitude rather than promote self-reliance for some farmers. Long-term profitable farming will hinge on farmers’ ability to prepare for, and adapt to, change’ (NRAC 2008, p. 5).

The Commission has proposed a limit of three years out of every seven per farm household for accessing the Farming Family Income Support scheme. The seven year period would be applied at the farm household (not enterprise) level and would commence from the date of the first income support payment. Any prior income support through ECRP or TIS should not affect access.

The basis for three years out of every seven recognises that, one of the many reasons why farm households might get into difficulty, is prolonged dry conditions. Virtually all participants accepted that a farm business should be prepared for at least a one and probably two year drought. It is likely that those farm households potentially eligible for the income support scheme would expend their reserves before, say, the third year. In such a situation, three years of assistance would then be available to carry people through a drought event lasting for at least five years. Further, as shown in figure 2.10 farm cash income tends to recover quickly for many farm enterprises after a drought event.

The concept of a time limit was supported by many participants. For instance, the Rural Financial Counselling Service South Australia noted:

I think it’s absolutely pivotal that it isn’t forever and that they must be working towards getting themselves out of that current situation during that period of time. (trans., p. 243)

However, there was disagreement about the proposed three years in every seven time limit. Several organisations argued that the mutual responsibility requirements and regular assessment processes should predicate whether continued support is warranted, not an administrative limit (NFF, sub. DR176; Western Australian Farmers' Federation, sub. DR161; Australian Pork Limited, sub. DR155). The NFF argued that 'using the three years out of seven to force adjustment with farmers leaving the land bears no relationship to the objective of maintaining a viable farm during a severe drought event' (sub. DR176, p. 79).

The Victorian Farmers' Federation suggested that the three year limit could be bolstered with an additional two years of progressively reduced payments (sub. DR160). The Hindmarsh Shire Council supported the three year limit but with an option for a fourth year following an independent review of viability and efforts to improve self-reliance (sub. DR174).

The Commission reiterates that it is not an objective of the scheme to force farmers to leave farming after three years of access to income support. There are other options that a farm household could take such that income support is no longer required. Training, advice and counselling is available to support families to make these decisions. It is important that this three year out of every seven limit is maintained absolutely and that no exemptions or extensions are made.

At the end of the three years of assistance out of seven, farmers who still require financial assistance would have to meet the requirements of programs available to all Australians through the social security system. This would involve meeting all the income and asset limits and fulfilling any activity requirements. In some instances certain Centrelink benefits (for example Health Care Cards, access to the Job Network and children's Youth Allowance payments) could continue for a fixed period. An overview and comparison of the conditions and criteria of the Commission's proposed scheme relative to Newstart and ECRP is provided in table 9.2.

Table 9.2 Comparison of income support programs

	<i>Newstart</i>	<i>EC Relief Payment</i>	<i>Farming Family Income Support – proposed</i>
<i>Mutual Responsibility</i>	Must be unemployed (not underemployed) Activity test — must look for job and/or undertake training or an approved activity	Must be a full time farmer in EC area Activity test — none	Must be a full time farmer Activity test — must develop a 'Mutual Responsibility Contract' with actions to be taken
<i>Income test</i>	Where claimant earns above \$62 per fortnight or their partner earns above \$769 per fortnight, payments are reduced ^{ab}	Based on Newstart income test but an additional \$20 000 off-farm wage and salary income per annum per couple exempt ^c , proceeds from forced disposal of livestock are exempt ^d	Same as Newstart
<i>Asset test (combined assets with partner)</i>	Must have combined assets under \$243 500. Principal home and superannuation (if under age pension age) are not included ^e	No total asset limit. Off-farm asset limit of \$243 500. Principal home, life insurance, superannuation of farmer (even where over pension age) are not included	Must have assets under \$2 000 000 for full payment, and under \$3 000 000 for any payment. House and superannuation (where under age pension age) included in asset test
<i>Liquid asset test</i>	Payment may be deferred where liquid assets exceed \$5000 (couple or single with dependants)	na	Must have under \$20 000 in liquid assets
<i>Hardship provisions</i>	In severe financial hardship and have unrealisable, non-income producing assets ^f	na	Same as Newstart
<i>Payment to individual or couple</i>	Individual	Couple	Individual
<i>Maximum fortnightly payment^g</i>	\$405 (each)	\$405 (each)	Same as Newstart
<i>Additional payments^h</i>	Payable if eligible	Payable if eligible	Same as Newstart

^a Income for the recipient of \$62 to \$250 per fortnight reduces payments by 50 cents in the dollar, each dollar of income over \$250 per fortnight reduces payments by 60 cents in the dollar. As at September 2008, partner income above \$769 reduces the recipient's payment by 60 cents in the dollar. ^b Practical effect is maximum allowable income (after working credit) of \$769 per fortnight for the recipient or \$1445 for the recipient's partner ^c Payment is reduced after earning \$769 per fortnight per couple in off-farm income (this \$769 is proportioned between the two depending on the amount of off-farm income earned by each spouse, plus \$62 each in either off-farm or on-farm income. Assumes application is made at the beginning of the financial year — higher earnings may be possible if application is made later in financial year. ^d Where the proceeds go into FMDs or a term deposit of at least 3 months duration. ^e This asset test does not include the principal home and permanent fixtures, it does include household contents, cars, boats and surrender value of any life insurance. ^f That is, cannot derive income or borrow from assets, or asset is currently for sale or unable to be sold due to legal restriction. ^g Comparison is for a couple who are home owners. ^h Rent assistance, pharmaceutical, telephone and zone allowances.

RECOMMENDATION 9.1

All farmers facing hardship should have access to a Farming Family Income Support scheme designed for farming circumstances. It would provide payments and have income eligibility thresholds at Newstart levels, subject to:

- *an overall net asset cap, inclusive of the value of the farm house, beginning at \$2 million with a taper to \$3 million*
- *a liquid asset sub-cap of \$20 000 inclusive of bank balances and Farm Management Deposits balances.*

While the scheme should operate at the farm household level, eligibility and payments should be on an individual basis and conditional on:

- *meeting the definition of a farmer, based on a similar test to that used currently for the Transitional Income Support scheme*
- *seeking independent financial advice on the viability of the farming business*
- *developing and carrying out a plan of action to improve household self-reliance*
- *eligibility being reviewed, mutual responsibilities being met and plans updated every six months.*

The scheme should be limited to a maximum claim per farm household for three years out of every seven. The seven year period should commence from the date of receiving the first income support payment. Payments should be acquitted annually.

The Farming Family Income Support scheme should commence on 1 July 2009 in conjunction with programs to provide counselling, the recognition of prior learning and grants for training and professional advice.

Potential coverage of a Farming Family Income Support scheme

Estimating the number of farm households that would be eligible for support under the Commission's recommended scheme is complex. Figure 9.6 illustrates the potential scope. The analysis underpinning the estimates is in the annex to this chapter. In brief the estimates are based on:

- farm survey data for the broadacre and dairy sectors covering farms with an estimated value of agricultural operations over \$40 000 — approximately 50 per cent of all farms in Australia
- other survey data for vegetable and sugar farms.

In interpreting these indicative estimates, it should be noted that the liquid assets and income ‘filters’ may not be as restrictive as implied. Liquids can be drawn down and sources of income can fluctuate. The analysis also involves assumptions about who is earning income — estimates are sensitive to who applies for support.

Figure 9.6 **Number of potentially eligible farmers for proposed income support scheme^a**

	Broadacre and dairy	Vegetable farms^b	Sugar farms^b
Population = 72 000	Population = 4200	Population = 4200	
Net farm assets < \$3 m	43 000	2900	3200
↓	↓	↓	↓
Net farm assets < \$3m and liquid assets < \$20 000	17 600	2000	1300
↓	↓		
Net farm assets < \$3m and liquid assets < \$20 000 and disposable income < \$40 000	9200		

^a Figures do not include off-farm assets ^b Data on the disposable income levels of vegetable and sugar farms is not available and as such no estimate of the number of eligible farms is available for this group or in total.

Data source: ABARE (2009 unpublished).

Given the lack of data on all farm types in Australia and of income levels of each spouse in the household and the fact that income levels for farm households fluctuate considerably, it is difficult to get an accurate picture of the number of farmers who may access this scheme, even for a snapshot in time. From figure 9.6 it would appear that numbers could involve from 9000 to 17 000 broadacre and dairy farmers and something less than 6000 vegetable and sugar farmers – similar to the number of Australian farm households that are currently receiving ECRP, but the composition and location of recipients could be quite different.

9.5 Agricultural adjustment

The Commission’s proposed income support scheme does not seek to force structural adjustment through viability assessments. Rather, it aims to use case management, grants for advice and training and access to counselling to assist farmers to make decisions about their future in farming. In addition, the strict time limit of assistance aims to avoid dependence on welfare support. These mechanisms may result in some farmers leaving farming. In this context, it is important to

understand the issues around adjustment and the reasons why many farmers choose not to leave farming even when in persistent hardship.

Structural adjustment occurs in all sectors of the economy and while often having negative associations, it comprises opportunities and challenges.

At its broadest level, rural adjustment is about changes in rural communities and industries. Changes on the farm have outcomes that affect rural communities and have implications for regional development. Changes in rural communities also have an influence on the lives of farm families. (McColl et al. 1997, p. 16)

Farmers' aims and objectives can change and are often based on factors relating to the 'farm family life cycle', such as changes in household income requirements or the need to finance the retirement of the senior generation (Stayner and Musgrave 1994, p. 2470). Some farmers aim to increase their capital, expand their operations and diversify their production. Others may be satisfied with maintaining sufficient production to earn a sustainable income over long cycles. For those facing persistent insufficient incomes, off-farm income or investments can be drawn on; or alternatively where they consider that the business is not viable over the long-term, alternative management arrangements can be sought; others may choose to leave farming.

There are a range of actions that can fit under the title of adjustment, including changing farm management regimens, taking an off-farm job, or expanding operations. Thus, policies for adjustment are not simply policies which remove impediments to farmers leaving the land. Other policies that can assist adjustment are covered in chapter 8. These include for example, grants for training that result in farmers making changes to their current situation. The remainder of this chapter discusses policies for leaving farming.

The decision to leave the farm

Decisions to leave farms, particularly if they are not viable over the long-term, involve many non-financial considerations. In the view of one researcher, farmers tend not to exit agriculture until they are forced out by low levels of income and/or by high debt (Harris 1970). Box 9.3 provides a collection of views expressed by farmers when discussing their experiences and attitudes regarding retirement and leaving the farm.

Where a family chooses to stay on the farm due to its strong attachment to farming, this is not, of itself, an issue for government policy. However, it is a policy issue where income support assistance is sought to meet the family's basic needs and/or business support is sought to keep the farm business operating.

The current drought support measures are seen to help keep non-viable farmers in the industry. Indeed many submissions argued that this is, or should be, the principle rationale for drought relief, because their imperative is to maintain the number of farmers in Australia and the small country towns that have been servicing them. However, retaining all farmers currently in the industry and maintaining country towns should not be the driving objective of drought or climate variability policy (see chapter 2). Such an approach is inconsistent with the objectives of improving self-reliance and preparedness (see chapter 7).

Box 9.3 Views on leaving farming

See our farms they weren't that big and we had three boys and they had their own lives and they didn't want it anyhow – and if they had you'd have to sell it to one as you couldn't give to all three. There was no use in hanging round because they couldn't share it and we did sell out in a hurry in the end and everybody's happy – the boys are happy and that's the main thing. (p. 54)

I'm happy here now, but for the first few years I found it very difficult to settle into town life, even though I was involved in the volunteer work, I missed the farm a lot. You'd go to bed at night and it'd sort of take over your mind you know, and yes it was very difficult. But I wouldn't like to [be] back out there now, I realise that I wouldn't be able to cope and I'm quite settled in what I'm doing. I've got a big vegetable garden by the way and that keeps me occupied on days I'm not doing voluntary work. (p. 58)

When we did sell and come to town my husband was very unhappy ... it was a very difficult time. (p.57)

I reckon that one of the saddest things that I say at X, and I visited over 300 farms, was the number of people on their own seventy or eighty [years old] and running two or three thousand acres on their own and the whole thing going to a wreck, it was a wreck, then – the only way I'm going leave here is in a box – if I heard that once I heard that dozens of times. I made no apology for challenging those people as to whether they should be there. But it takes a change. (p. 58)

My husband had various accidents during his years and in the west they use a lot of motorcycles for mustering and he just wasn't able any longer physically to work. We had two sons who weren't too sorry to take over – so they are still out there. So, it was just the right time to leave. (p. 37)

I think it is a case of letting go to a certain extent. My experience, not ourselves personally, because we sold our farm to our son and moved up here, but what we have found, a lot of people just can't let go. I mean this farm had been left from generation to generation ... three generations on a farm, and the people in their 70s still hanging onto everything, they still hadn't let go. (p. 56)

Source: Foskey (2005).

Impediments to leaving the farm

One possible impediment to leaving the farm is the lack of a financial base to be able to fund the future. For example, where a farmer's assets have been significantly run down and they are not sufficient to meet the cost of a home elsewhere or the farmers are of old age and wish to give the farm to children but have little superannuation to support themselves.

Kerridge (1978) examines farmers' values and finds that older farmers and those on smaller farms tend to strongly value farming as a way of life and may not be induced to exit the business through financial incentives. Musgrave (1990) discusses how farmers can become trapped in farming where, despite their low incomes, the returns from selling the farm and from earnings in off-farm employment are not sufficient to compensate for the loss of on-farm benefits (both financial and non-financial) and the costs of relocation. This is particularly the case where the farmer strongly values the identity and lifestyle of farming.

There are very significant non-financial impediments to farmers leaving the industry. For most farmers, the family home is on the farm, they have a significant attachment to the land and feel that farming is part of their identity. One farmer in a 1997 study commented:

The thought of handing over the farm to the next generation is a concept that is very hard to come to terms with. Means letting go of how I see myself ... as a landholder – basically of no significance anymore. (Kaine et al. 1997, p. 47)

Ageing of the farm population has been evident over the past two decades (Barr 2004) (see box 2.5) with the median age of farmers in 2006 being 52 years old. The proportion of farmers older than 65 years of age increased to 18 per cent in 2006 from 15 per cent in 2001 and the proportion of farmers under 35 years of age decreased to 10 per cent in 2006 from 12 per cent in 2001 (ABS 2008c). Currently approximately 30 per cent of all ECRP recipients are over 60 years of age (Centrelink unpublished 2008).

While the issue of farmers retiring and selling, or passing on, the farm is important, there is often a lack of effective succession planning.

While older farmers may not always be the main decision makers in farm businesses, a lack of effective planning by farm families tends to delay or distort retirement decisions, including the intergenerational transfer of property. These delays can increase the risk of older farmers facing reduced incomes and poor health, and can slow the adoption of best practices. (Agriculture and Food Policy Reference Group 2006, p. 170)

The problems associated with a lack of succession planning can be made worse by drought, which can force some older farmers, especially those without formal superannuation, to delay retirement and stay on the farm (Drought Review Panel 2004; NRAC 2008).

Planning regulations at a local/regional level can also influence farmers' choices whether to leave the industry. In some areas local governments are setting limits on the sub-division of farmland for hobby farms and/or urban development. This can prevent farm land being sub-divided from the family home and sold separately so that the family may continue to reside in the home. These laws differ from shire to shire.

A lack of information can also inhibit farmers from making adjustments decisions. For example, farmers may choose not to leave farming where they are uncertain about their employment options outside of farming, or where they have inadequate information regarding the future viability of their farm.

Policy approaches

Exit package for small block irrigators

Special exit grants to farmers were discussed in chapter 6 and were found to distort markets and raise inequities with other groups in the community. As such, this section will not focus on exit grants as delivered through ECRP or the CCAP program.

The exit package offered to small block irrigators in the Murray-Darling Basin (announced September 2008) was also examined in chapter 6. This program differs from other exit grants in that it has design features which address some of the social and informational impediments to leaving the farm.

Within the context of the southern Murray-Darling Basin, the Small Block Irrigator Exit Grant package may be effective in addressing some of the non-financial reasons for farmers remaining on the land.

However, such a model is unlikely to be applicable to all parts of the country or to large-scale farming. The question of local sub-division limits is difficult and reflects a range of considerations to be taken into account in state, territory and local government planning controls. The adjustment benefits of retaining the family home need to be weighed against considerations of zoning, buffer zones, environmental values, alternative uses and the efficient provision of services to semi-urban areas.

Retirement assistance and succession planning

Where farmers pass the farm to their children (in the form of a gift, or where it is sold below market value) the farmer may not be able to access the Age Pension for five years due to gifting provisions (see box 9.4).

Box 9.4 Gifting rules

Gifting is where assets are given away or transferred to others without adequate return for the gift or transfer (in the form of money, goods or services). The allowable gifting amount for a single person or couple is \$10 000 in each financial year. In addition, persons or couples are limited to a maximum allowable gifting amount of \$30 000 in any five year rolling period.

Gifting rules apply to any gifts made in the five years before receiving a pension or allowance. Where an individual or couple gift assets over the allowable amount these assets are called 'deprived assets'. When assessing eligibility for a pension or allowance, deprived assets are included in total assets owned until the fifth anniversary of the date the assets were gifted. In addition, the total value of deprived assets is added to the value of other financial investments. Deeming rates are then applied to these financial investments to calculate assessable income (deeming assumes that financial investments are earning a certain rate of income, no matter what income they are actually earning).

Source: Centrelink (2008b).

Temporary schemes have been used to grant an exemption to the gifting rules for targeted groups of farmers, for example the Retirement Assistance for Farmers Scheme (RAFS) in 1997 to 2001 and the Retirement Assistance for Sugarcane Farmers Scheme from 2004 to 2007. These schemes offered a 'one-off', three year moratorium on the gifting provisions, which allowed eligible farmers to gift farm assets valued at up to \$500 000 without affecting their eligibility for the Age Pension. The RAFS was introduced on recommendation of the Special Rural Taskforce and was intended to target farming families with low incomes and low net assets, and where farm income was insufficient to support more than one generation.

The uptake of RAFS was projected to be around 2100 farmers. By the end of the scheme approximately 2200 farmers had been successful in their application (as at May 2001) (Centrelink pers. comm., 2008). A little over half of the successful applicants were already receiving a partial payment of the Age Pension and therefore obtained a higher rate through RAFS. Centrelink consider that the RAFS successfully enabled those farmers with low incomes and low net assets who were

receiving income support through ECRP or Farm Help to transfer their farm to the next generation and move to the Age Pension (Centrelink pers. comm., 2008).

The Corish report found that RAFS encouraged the intergenerational transfer of small scale and marginally viable farms and that this ‘effectively transferred the problem from one generation to the next’ (Agriculture and Food Policy Reference Group 2006, p. 170). However, where low incomes are a result of poor management and the new owner is prepared to take on more innovative approaches, passing the farm onto the next generation may result in improved viability.

Several participants argued for a temporary or on-going waiver of the gifting rule for the intergenerational transfer of family farms (Carrigan and Co Pty Ltd, sub. DR129; H. Loller, sub. 49; AgForce, sub. 80). The Rural Financial Counselling Service in New South Wales Central West stated that the issue of gifting the farm needed to be addressed as a matter of urgency (sub. DR178). AgForce suggested that the five year gifting rule could be reduced to two years (sub. DR185).

Arguably, it is inequitable to allow farmers with viable and valuable farms to simply gift them to their children and then receive the pension when this is not available to owners of other businesses. One participant reported:

I did have a lady ring me recently, just as an example, and said, ‘Look, I need to be able to access the pension and I can’t.’ ‘Why can’t you, madam?’ ‘Well, we can’t because our assets are too highly valued and we’ve given it away to our son.’ I said, ‘Just before we go through this, can I ask what the value of it is?’ and she said, ‘About 3.5 million.’ I said, ‘And your other family members?’ ‘Well, they didn’t get anything.’ ‘Okay. So you’re telling me that you’ve given away \$3.5 million to your eldest son, nothing to the rest of your family, and you now want the government to support you for the rest of your life?’ ‘Yes.’ I had a little bit of trouble with that. (Tasmanian Farmers and Graziers Association, trans., p. 19)

An applicant’s pension is not affected where the farm was gifted more than five years prior, suggesting that with effective succession planning and management, the problems posed by the gifting rules could be avoided. In addition, there are several concessions that primary producers can avail themselves of to avoid having their farm assets included in the asset test for the Age Pension (see box 9.5).

It is possible that there is a lack of awareness regarding these provisions and that succession planning efforts could be improved through more widespread understanding. This could be achieved through Centrelink and Rural Financial Counsellors, for example, ensuring farmers are informed regarding issues of succession and how this will impact on their ability to access social security payments if applicable.

Box 9.5 Provisions that can reduce the impacts of the gifting rules

Forgone wages – The forgone wages provision is a limited concession designed to assist farmers to retire and pass control of the farm to the next generation. Where a farmer has transferred the title or effective control of the farm to a close relative the value of gifted assets can be reduced by the value of any past contributions to the farm by the close relative. Past contributions can include forgone wages, contributions made to improve the farm, purchase of livestock and equipment or unpaid care of the farmer.

New land value concession – For homeowners applying for the Age Pension the value of land, greater than two hectares adjacent to the house, is counted for asset test purposes. However, in some cases where the home and land is on one title document the whole property may be exempt from the asset test. This applies where the applicant has had a long-term (20 year) continuous attachment to the land and home and where effective use is being made of the land to generate an income given the applicant's capacity to do so.

Private Trusts Special Concession for Primary Producers – This concession enables farmers to pass the farm (where contained in a trust) to the next generation while still retaining some control (for example, living in the family home and the ability to prevent others from selling the farm) without the assets or income of the private trust being attributed to them. While the gifting rule still applies this means that the farm could be gifted five years prior to the farmer wishing to apply for the Age Pension with the farmer retaining some control of the farm. Alternatively, where the farmer cannot access the pension due to the gifting rules they are able to receive income from the farm for the five years where they are not able to receive the pension due to the gift. There is an income and asset test of eligibility for this concession.

Sources: Department of Families, Housing, Community Services and Indigenous Affairs (2009), Centrelink (2008a) and Centrelink (2008e).

Other measures to encourage the intergenerational transfer of farm assets include stamp duty exemptions on the transfer of farming properties to younger generations and grants for professional advice on succession planning. Such grants are provided through the CCAP and Farm Help (although the Exceptional Circumstances Professional Advice and Planning Grant does not include advice relating to farm succession). Rural Financial Counsellors may also play a role, by encouraging farmers to seek advice on succession planning and by providing them with information on how to do so.

The Corish report pointed out that succession planning 'is of little value where the farm enterprise's fundamentals (size, structure and profitability) are unsound' (Agriculture and Food Policy Reference Group 2006, p. 170). It contended that there is little to justify capital assistance to promote farm succession and that there are risks that such policy could distort land prices and create impediments to entry for those with no direct family links to agriculture.

The Commission considers that succession planning is a private matter and that governments should not seek to dictate the type and extent of succession arrangements used by farming families. Furthermore, market instruments can be used to address this issue, such as reverse mortgages which enable farmers to remain in their home but with better access to cash flows (AgForce, sub. 80). However, there is potentially an information role for government where families are seeking income support and succession issues are posing an impediment to adjustment.

Grants for advice, training and recognition of prior learning

The Commission considers that programs targeted to facilitate a move out of farming should incorporate access to information and advice. As submitted by the Department of Primary Industries and Water Tasmania:

There is a need to help farmers see the difference between life style and business decisions. Governments need to put more resources into addressing this issue through education and training. In this way, smaller non-viable businesses could be encouraged to see a life outside farming and in the face of falling income, make a decision to exit early with dignity rather than suffering a ‘death by a thousand cuts’. (sub. 85, p. 14)

This was supported by several participants (Victorian Farmers’ Federation, sub. DR160; South Australian Government, sub. 91; Australian General Practice Network, sub. DR170; Victorian Murray Mallee Rural Financial Counselling Service, sub. DR151). The Hindmarsh Shire Council submitted that ‘further consideration should be given to adequate programs supporting farmers considering leaving the farm or pursuing off-farm employment options. These should include career counselling, training and recognition of prior learning’ (sub. DR174, p. 3).

As discussed previously, the Commission recommends the use of grants similar to that available through the CCAP which provides grants for professional advice and adjustment training for those who satisfy income and asset eligibility tests.

The Commission considers that Recognition of Prior Learning (RPL) could also be part of this program. RPL is an assessment by trained facilitators which aims to recognise the skills and competencies that an individual has outside formal education or training. These skills can be gained through training, or through life or work experience. RPL can therefore provide pathways to higher qualifications for those who may not have had previous access to training and can assist with movement to different occupations.

There was support in submissions for policy which incorporates RPL processes. In particular, there was support for Victoria’s ‘Rural Skills Connect’ program (North West Municipal Association, sub. 59; Rural City of Wangaratta, sub. DR140;

Hindmarsh Shire Council, sub. DR174). This program seeks to identify transferable skills of farmers, where formal recognition of these skills have not been obtained, and match rural farm workers, owners and operators with employment and associated training opportunities in regional areas. Training in key skill shortage areas is subsidised. Rural Skills Connect is complemented by ‘Skills Store’ which uses RPL to identify how a farmer’s existing skills may be counted towards nationally recognised qualifications.

The South Australian Government also supported RPL programs as part of a coordinated response to assisting farmers exit the industry (sub. 91). South Australia’s Riverland Drought Response Projects have a RPL component. For example, one two year project involves training participants to be assessors of RPL and then subsequently assessing farmers to enable them to either earn off-farm income or move into alternate employment.

The Commission agrees that RPL programs have the potential to effectively address one of the impediments to adjustment when used in combination with other job training and job search tools. The Commission considers that such programs should be available to all farmers irrespective of whether they are eligible for income support, although where farmers are not accessing income support cost recovery should be sought.

Rural Financial Counselling Service

As discussed in chapters 6 and 8, Rural Financial Counsellors, while not able to assess farm viability, can play a role in assisting certain farmers to realise their farms are not viable under their current farm management regimen. This is a necessary first step to help those farmers take action to change their management arrangements or, alternatively, exit the industry before their equity position worsens. Furthermore, Rural Financial Counsellors can facilitate access to advice from a range of relevant services to assist those farmers who need to make these changes.

An integrated adjustment approach with income support

Previous reviews and studies into rural adjustment and drought policy have advocated short-term income support to assist those moving out of the industry (McInnes et al. 1990; McColl et al. 1997; Special Rural Taskforce 1999; Stayner and Barclay 2002). Such programs aim to assist farmers with ‘the transition to an alternative career and as the farm sector shifts to self-reliance’ (McColl et al. 1997, p. 114).

The Commission's proposal that income support be provided in tandem with case management, access to counselling and grants for training and advice received strong support in submissions. Victorian Murray Mallee Rural Financial Counselling Service stated that 'realistic long-term support, particularly in training, re-location, family education and income support should be part of the total package if there is to be any likelihood of farm departure policies being effective in the future' (sub. DR151, p. 4). The South Australian Government stated that individuals and families require additional support to assist them through such a significant decision as leaving the land. It advocated a 'coordinated support package' which could 'assist primary producers to make decisions and access support to exit the industry' and 'seek alternative business and personal options' (sub. 91).

The Australian General Practice Network welcomed such an approach and stated that:

farming families must be supported financially with training and education to make their own choices and implement their own changes. A sufficient duration of financial support will also help them to transition to alternative income sources, to diversify into alternative farming businesses, upskill into new industries and/or exit farming. (sub. DR170, p. 12)

Income support should be provided in conjunction with government programs to address impediments to farmers leaving the industry should not purely focus on financial matters, but rather should target the wider range of cultural and informational impediments to adjustment in a coordinated way. Such an approach will reduce the likelihood of income support impeding adjustment or undermining incentives for self-reliance. Case management of income support recipients and a time limit on assistance will also reinforce this objective.

Annex: Indicative eligibility levels for the proposed Farming Family Income Support Scheme

To garner a better understanding of the number and characteristics of farmers who may be eligible for the proposed Farming Family Income Support scheme, ABARE farm survey data was grouped according to the scheme's features. Specifically, two groups of broadacre and dairy farms were considered:

- those farms with net farm assets of less than \$2 million and liquid assets less than \$20 000 at the end of 2007-08
- those farms with net farm assets of less than \$3 million and liquid assets less than \$20 000 at the end of 2007-08.

These groups are not discrete — the less than \$3 million net farm assets group also comprises the less than \$2 million net farm assets group (unless otherwise specified). This dataset only provides information on broadacre and dairy farms with estimated value of operations greater than \$40 000. This represents approximately 50 per cent of all farms in Australia.

Importantly, no information is available on off-farm assets for either group. As the net asset test for the proposed income support scheme includes both on and off-farm assets, some farmers may not be eligible for support once their off-farm assets are taken into account.

Given the many assumptions involved in estimating the number of households eligible for the proposed scheme and the lack of comprehensive data for the agriculture sector, the analysis should be read as purely indicative of the different factors involved, and any estimates of eligibility numbers treated as approximate.

Table 9.3 shows some characteristics of these two groups. On average in 2007-08:

- both groups made a loss
- farmers in the less than \$3 million net farm assets group had a positive average farm cash income
- both groups had similar levels of debt
- off-farm income was slightly higher for the less than \$2 million net farm asset group than for the less than \$3 million asset group, due mainly to higher off-farm wages of the farm operator.

Table 9.3 Characteristics of broadacre and dairy farmers by asset group, 2007-08

		<i>Net assets < \$2m, liquid assets < \$20k</i>	<i>Net assets < \$3m, liquid assets < \$20k</i>
Estimated population of farms	no	13 388	17 893
Net assets	\$	1 090 576	1 447 909
Farm cash income	\$	-1 435	5 716
Farm business profit	\$	-46 112	-52 553
Total capital value	\$	1 315 719	1 738 615
Farm debt at 30 June	\$	229 701	294 636
Liquid assets	\$	4 557	3 930
Off-farm income	\$	45 282	40 221
Operators off-farm wages	\$	18 197	13 736
Spouses off-farm wages	\$	17 575	17 082
Operators off-farm investment income	\$	1 591	1 885
Spouses off-farm investment income	\$	641	669
Total off-farm wages and investment income	\$	37 564	33 023
Family share off-farm income ^a	\$	14 187	19 769
Family disposable income ^b	\$	51 751	52 793

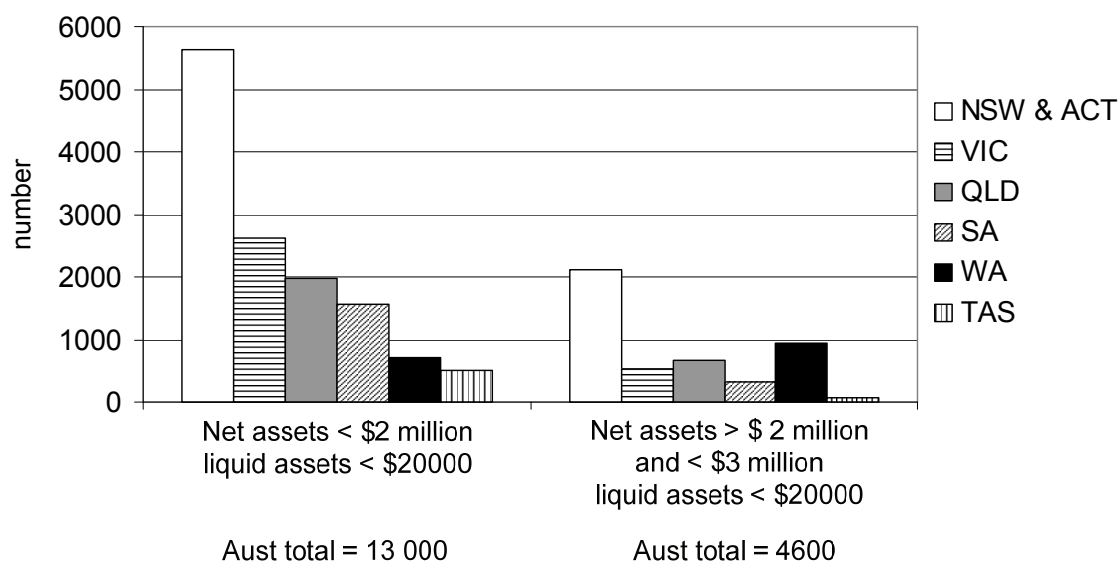
^a Defined as family share of net farm income (farm cash income minus depreciation). ^b Defined as family share of net farm income plus off-farm wages and investment income.

Source: ABARE (2009 unpublished).

Figure 9.7 shows the number of broadacre and dairy farmers in each of the two asset groups. This indicates that approximately 25 per cent of dairy and broadacre farms had net asset levels in 2007-08 under \$3 million. There are farmers in each state covered represented in both assets groups, but most are in New South Wales. These data suggest that:

- 13 000 broadacre and dairy farmers across Australia had net farm assets below \$2 million and liquid assets below \$20 000, potentially making them eligible for full payment under the proposed income support scheme (not taking into account other eligibility factors)
- an additional 4 600 broadacre and dairy farmers had net farm assets above \$2 million but below \$3 million and could be eligible for partial payment under the scheme.

Figure 9.7 **Broadacre and dairy farmers by asset group and state**
2007-08^{ab}



^a This data does not include information for Northern Territory. ^b Data in this figure is presented on a farm enterprise basis.

Data source: ABARE (2009 unpublished).

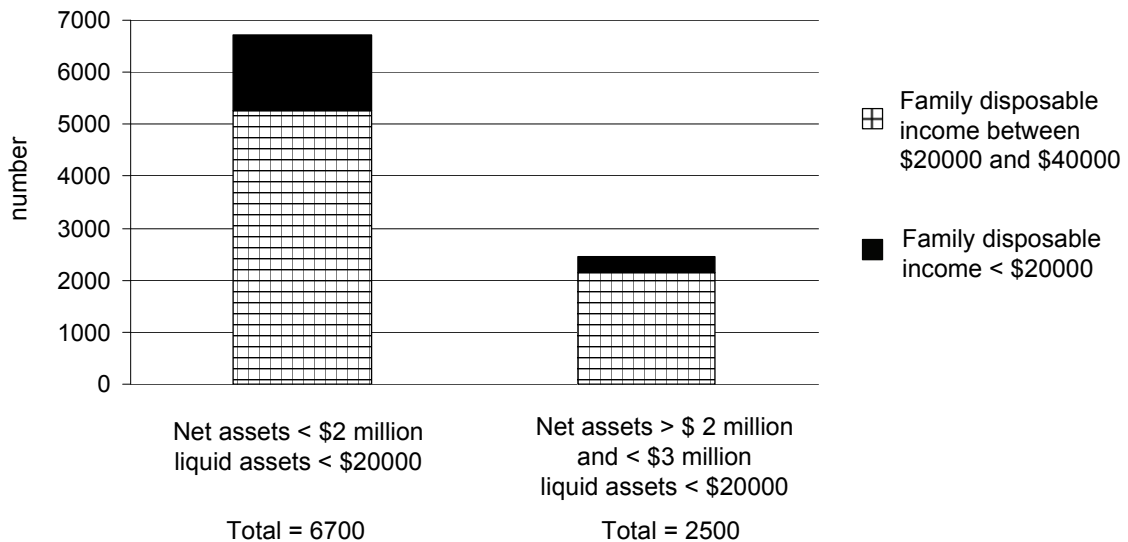
Assessment of eligibility based on income levels is more difficult. For example, in a two person household, if both are in receipt of the proposed payment, benefits would begin to phase out when incomes rise above \$124 per fortnight. Alternatively, if only one household member received the proposed payment, benefits would begin to phase out when the other's income began to exceed \$769 per fortnight (approximately \$20 000 per annum) (box 9.2). Given this, two broad but indicative income cut-offs were used to determine potential eligibility:

- household disposable income (net farm income plus off-farm wages and investment income) under \$20 000 for full payment
- household disposable income greater than \$20 000 but less than \$40 000 for partial payment.

These two income cut-offs suggest that around 5200 broadacre and dairy farmers would potentially be eligible for full payment under the income support scheme (family disposable income below \$20 000) and an additional 1500 would be eligible for partial payment (family disposable income below \$40 000) (figure 9.8). A further 2500 would potentially be eligible for partial payment (those in the group with net assets greater than \$2 million and below \$3 million). This means that the

number of broadacre and dairy farmers eligible for income support could be reduced from around 17 600 to 9 200 by the income test.

Figure 9.8 **Broadacre and dairy farmers by net asset group with family disposable income^{ab} below given thresholds, 2007-08**



^a Defined as family share of net farm income (farm cash income minus depreciation) plus off-farm wages and investment income. ^b Data in this figure are presented on a farming family basis, that is showing the family's share of net farm assets and income.

Data source: ABARE (2009 unpublished).

To gain an appreciation of eligibility of farmers in other industries, further data was sourced from ABARE for vegetable and sugar farms. While the sample size was not large, it was found that 48 per cent of vegetable farmers and 31 per cent of sugar farmers had farm net asset and liquid asset levels in line with eligibility requirements for the proposed scheme. (Figure 9.6 in the body of the chapter provides a diagrammatic representation of possible eligibility for the proposed scheme for available data sets.)

It should be noted that these figures do not take into account the fact that more than one member of a farm household may be eligible for income support. Under ECRP, partners of eligible farmers automatically receive payment. This is not the case for the proposed scheme where a test will be applied to each individual applicant such that all recipients (including partners of farmers) must demonstrate that they normally receive a significant proportion of their income from farming.

Thus a complicating factor in this analysis is the possibility that in some households there will be two members eligible for assistance and in others only one member will be eligible.

At the end of November 2008, there were 19 400 farm households across Australia in receipt of ECRP. Given that ECRP is delivered as a single payment for both members of a couple this equates to around 30 000 individuals receiving a assistance at Newstart levels (as approximately two thirds of ECRP recipients receive payments for two adults).²

This suggests that there will be more recipients eligible for the proposed income support scheme than currently projected. However, the proportion of households that receive a double payment will be less than that for ECRP.

Given the lack of data on all farm types in Australia and of income levels of each spouse in the household and the fact that income levels for farm households fluctuate considerably such that those who may appear eligible given data from 2007-08 may not be eligible in subsequent years, it is difficult to get an accurate picture of the number of farmers who may access this scheme, even for a snapshot in time.

² 74 per cent of ECRP recipients had partners. However, 7 per cent had partners who were already receiving another Centrelink payment.