

Future Drought Fund Inquiry
Productivity Commission
GPO Box 1428
Canberra City ACT 2601
future.drought.fund@pc.gov.au

15 March 2023

Inquiry into the effectiveness of Part 3 of the *Future Drought Fund Act 2019*

Thank you for the opportunity to provide a submission into the Productivity Commission's inquiry into the effectiveness of Part 3 of the *Future Drought Fund Act 2019* (Cth) (the FDF Act).

The Regional Investment Corporation (RIC) is supportive of the Australian Government's creation of the Future Drought Fund (FDF) and its commitment to the future prosperity of rural and regional Australia. Helping farmers to continually improve their capacity and capability over time to manage drought is complex, as every farming business is unique and will experience drought differently. Building business resilience is dependent on developing information and systems that underpin long-term drought-related sustainability of farms and communities.

1. The effectiveness, efficiency and appropriateness of Part 3 of the Act, including its administration through the systems and processes established to 'govern' arrangements and grants

RIC and its Board play a role in FDF governance arrangements. The Minister for Drought must have regard to advice from the RIC Board prior to making a decision on FDF arrangements, agreements or grants. The Board's role provides external assurance that proposals are consistent with the Drought Resilience Funding Plan that is in force at the time.

As a group, our Board currently has the necessary expertise to independently advise on these significant government investments in farm businesses and regional communities, reducing any potential conflict of interest for the department and the Minister for Drought.

In practice, the Board sometimes has difficulty fulfilling its statutory role of providing advice to the Minister for Drought when it is inoperative or conflicted. The RIC Board is composed of people with expertise and connection to the agriculture industry, and the majority of matters put before the Board have required at least one board member to abstain from voting. As a skills-based Board with a requirement to have an ongoing understanding of agriculture, this challenge will be ongoing. Should the remit of the FDF diversify in the future, the ongoing appropriateness of the Board's expertise should be reviewed.

2. How we can contribute to the FDF

The RIC can contribute to the FDF in non-legislated ways, by maintaining a strong collaborative relationship with the FDF. Examples are:

- Capital requirements and how farmers prioritise their decisions to invest in drought resilience needs consideration so that practical, on-farm FDF benefits are achieved. Some practices will need significant investment to make such changes, and RIC loans can accelerate the implementation of practice change that the FDF is driving.
- Data and insights from our customers can help inform FDF activities and programs. As of December 2022, the RIC has approved more than \$3 billion in loans with almost 3,000 farm business clients. The sharing of knowledge gained through the potential contribution our loans have made to long-term drought resilience, their economic and environmental outcomes may inform efforts to improve FDF program design and future government policy to build drought resilience. Likewise, FDF funding priorities and implementation learnings are useful insights for the RIC in ensuring alignment with government drought policy.

We are committed to ensuring farm businesses, farm-related small businesses and rural communities are well positioned to prepare for, manage through and recover from adverse conditions, including drought. The FDF is part of a suite of policy measures that can prepare Australian farms and communities for the impacts of drought, creating climate-resilient industries, communities and environment. We encourage the government to design all aspects of the FDF in a way that maximises Australia's opportunities to thrive.

Please contact me should you require further information.

Your sincerely

John Howard
Chief Executive Officer

Productivity Commission

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Future Drought Fund Act 2019

Regional Investment Corporation

Operating Environment



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1. Background

The Regional Investment Corporation (RIC) is a Corporate Commonwealth Entity that was established as a single delivery agency to provide nationally consistent administration of the Commonwealth's farm business concessional loans program.

The RIC commenced on 1 July 2018 and operates under the *Regional Investment Corporation Act 2018* and its' Operating Mandate within the Department of Agriculture, Fisheries and Forestry portfolio. The RIC reports to the Minister for Agriculture as well as the Minister for Finance.

An independent skills-based Board appointed by the Minister for Agriculture and the Minister for Finance, oversees the RIC and is responsible for the strategies and policies to be followed. In addition, the Board is to ensure the proper, efficient and effective performance of the RIC's functions. The day-to-day administration of the RIC is the responsibility of the Chief Executive Officer.

The Australian agriculture sector is diverse but the individual farm business remains at its centre. Australian farmers are facing climate change as well as market volatility and at times our farmers are in genuine need of help to tackle these and other challenges.

The RIC encourages growth, investment and resilience in Australian farm businesses and rural and regional communities by delivering \$3 billion in Commonwealth farm business concessional loans. The loans support the long-term strength, resilience and profitability of eligible farm businesses and farm-related small businesses. The Drought loan, AgBiz Drought loan, Farm Investment loan and AgriStarter loan, provide breathing space for those hit by events outside their control, but they also present an opportunity to modernise, diversify and head in a new direction.

RIC loans not only have a constructive impact on the productivity and profitability of farm businesses, but can also provide direct economic stimulus to rural communities. Enabling opportunities for cashflow to local suppliers, retailers and other associated businesses and services, supports stable and ongoing employment in rural and regional areas.

The RIC works together with the Department of Agriculture, Fisheries and Forestry (DAFF) to ensure more sustainable, productive, internationally competitive and profitable Australian agricultural industries.

2. Regional Investment Corporation Board

The Regional Investment Corporation is governed by a skills-based independent Board established under *the Regional Investment Corporation Act 2018* (Cth). The role of the Board is to ensure the proper, efficient and effective performance of our key functions. The Board is appointed by the Minister for Agriculture and the Minister for Finance.

The Board has the knowledge and experience to oversee significant government investments in farm business and its members have a range of qualifications, skills and experience in relevant areas of expertise including issues concerning rural industries and communities.

The Board's obligations under the FDF Act are:

- Upon request, to give advice to the Drought Minister about whether the Drought Minister should make an arrangement or grant under s 21, or enter into an agreement under s 22
- In giving that advice, to comply with a Drought Resilience Funding Plan (Plan) that is in force, by having regard to the content of the Plan in formulating its advice to the Drought Minister and ensuring that its advice is not inconsistent with the Plan

- To disclose any material personal interests that relate to the advisory affairs of the Board in accordance with s 30. This entails:
 - Each member disclosing the details of such an interest, as soon as practicable after becoming aware of it, at a meeting of the Board and to the Drought Minister
 - Including the details of the nature and extent of the interest, and how it relates to the advisory affairs of the Board, in the disclosures at the Board meeting and to the Drought Minister
 - Ensuring that the disclosure made at the Board meeting is recorded in the minutes
 - A member who has disclosed such an interest, not being present while the matter is considered at the Board meeting, and not voting on the matter.

2.1. Regional Investment Corporation Board Composition

Chair - Karen Smith-Pomeroy

Ms Karen Smith-Pomeroy was appointed Chair of the Regional Investment Corporation board in March 2020.

Karen is an experienced non-executive director, with involvement in several market sectors including agribusiness, energy, property and financial services. She has significant experience as a senior executive in the financial services sector. Karen has specific expertise in risk and governance, deep expertise in credit risk and specialist knowledge of a number of industry sectors, including property, energy and infrastructure.

Karen is currently a non-executive director of Kina Securities Limited, Stanwell Corporation Limited, and Queensland Treasury Corporation (Capital Markets Board). She is also the Chair of National Affordable Housing Consortium. Karen holds accounting qualifications and is a Graduate of the Advanced Risk Management Course Wharton College, University of Pennsylvania, USA.

Karen is also a Fellow of the Institute of Public Accountants, Senior Fellow of the Financial Services Institute of Australasia, and a Graduate of the Australian Institute of Company Directors.

Member - Prue Bondfield

Ms Prue Bondfield has significant agribusiness and farming expertise from her role as General Manager and Director of the Palgrove Group, a corporate livestock business with properties in Queensland and NSW. Prue holds a Law degree and has strong agriculture industry networks from various roles on Commonwealth and State entities and advisory committees.

Prue is currently a Director of Australian Livestock Export Corporation Ltd and Black Box Co Pty Ltd.

Prue was Chair of the Beef Industry Sustainability Framework Steering Committee, which was formed by the Red Meat Advisory Council. Prue was previously a Director of the State Management Council for the NSW Livestock Health and Pest Authorities, and the Beef Improvement Association.

Member - Sharon Starick

Ms Sharon Starick runs a combined grain and pork business in the Murraylands in South Australia. She brings not only practical on-farm knowledge, but 20 years' experience with industry bodies, natural resource management groups, government boards and other private and public organisations.

Sharon is the current Chair of Animal Health Australia and APIQ which is the quality assurance program for the pork industry. Sharon is also on the board of the Grains Research and Development Corporation, Murray Plains Farmers, Nature Foundation and Royal Automobile Association of SA.

Until 2020, Sharon was the Chair of Rural Business Support, which provides rural financial counselling services for South Australia and Northern Territory.

Member - Sally Freeman

Ms Sally Freeman is an experienced Non-Executive Director with a proven ability in risk management, financial and internal audit, board governance, and compliance.

Sally's current directorships include Netwealth, Netwealth Superannuation Services and Eastern Health. Sally is currently an audit committee member of Health Share Victoria, Commonwealth Games Australia, and Caulfield Grammar. Sally's executive career comprised over 30 years' experience in the Accounting and Consultancy industries culminating in number of leadership roles with KPMG: Global Executive - Risk Consulting Services, Australia Managing Partner Risk Consulting, Partner in charge Board Advisory and Managing Partner Internal Audit.

Sally is a member of the Institute of Chartered Accountants, a member of the Australian Institute of Company Directors, and a member of Chief Executive Women.

3. RIC Administrative Operations for the Future Drought Fund

The RIC process is administrative in nature supporting the Board in its advisory function and given the Memorandum Of Understanding with the Department of Agriculture, Fisheries and Forestry.

The purpose of the MOU is to outline arrangements for the Board to fulfill its role under the *Future Drought Fund Act 2019* (Cth), in particular:

- the shared understanding of the parties about what that role requires
- the support the department will provide the RIC CEO, staff (and consultants) and the Board
- the processes and timeframes for seeking and obtaining Board advice arrangements for managing potential and actual conflicts of interest.

The RIC and its Board are provided with certain information and materials relating to the proposed arrangements, grants and agreements referred to the Board for advice. This material is mostly sufficient for the Board to form a view and provide advice about whether the Drought Minister should proceed with the arrangement, grant or agreement.

These administrative arrangements are undertaken through constructive, collaborative and positive engagement with the department's Future Drought Fund Program Management Office.

4. Legislative Underpinning

4.1. *Regional Investment Corporation Act 2018 (Cth)*

Division 2—Members of the Board

16 Membership

The Board consists of:

- (a) the Chair; and
- (b) at least 2, and no more than 4, other members.

17 Appointment of Board members

- (1) Board members are to be appointed by the responsible Ministers by written instrument, on a part-time basis.
- (2) A person is not eligible for appointment as a Board member unless the responsible Ministers are satisfied that the person has:
 - (a) appropriate qualifications, skills or experience in one or more of the following:
 - (i) agribusiness and the financial viability of businesses within the agricultural sector;
 - (ii) banking and finance;
 - (iii) water infrastructure planning and financing;
 - (iv) issues concerning rural industries and communities;
 - (v) economics;
 - (vi) financial accounting or auditing;
 - (vii) government funding programs or bodies;
 - (viii) law;
 - (ix) drought resilience; or
 - (b) expertise in an area that is relevant to a program prescribed by the rules under subsection 8(5).

4.2. *Future Drought Fund Act 2019 (Cth)*

Under the legislation, the Minister for Drought is required to have regard to the independent advice from the Board, and other expert advice if required, when making decisions to distribute funds. The FDF Act does not otherwise provide any role for the Board, or the RIC, in relation to funding decisions under the FDF Act. This includes internal departmental processes relating to funding rounds.

Future Drought Fund Act 2019

Division 3—Advice

s28 Drought Minister must request advice from the Regional Investment Corporation Board

- (1) Before:
 - (a) making an arrangement or a grant under section 21; or
 - (b) entering into an agreement under section 22;

the Drought Minister must request the Regional Investment Corporation Board to advise the Drought Minister about whether the Drought Minister should make the arrangement or grant, or enter into the agreement, as the case may be.

(2) The Regional Investment Corporation Board must comply with a request under subsection (1).

(3) In deciding whether to:

(a) make an arrangement or a grant under section 21; or

(b) enter into an agreement under section 22;

the Drought Minister must have regard to any advice that the Regional Investment Corporation Board has given to the Drought Minister under this section in relation to making the arrangement or grant, or entering into the agreement, as the case may be.

(4) Subsection (3) does not, by implication, limit the matters to which the Drought Minister may have regard.

s29 Compliance with Drought Resilience Funding Plan

In giving advice to the Drought Minister under section 28, the Regional Investment Corporation Board must comply with a Drought Resilience Funding Plan that is in force.

Note: A Drought Resilience Funding Plan is determined under subsection 31(1).

s30 Disclosure of interests

Scope

(1) This section applies if a member of the Regional Investment Corporation Board has a material personal interest that relates to the advisory affairs of the Regional Investment Corporation Board.

Note: For **advisory affairs** of the Regional Investment Corporation Board, see section 5.

Requirement to disclose interest

(2) As soon as practicable after the member becomes aware of the interest, the member must disclose details of the interest:

(a) at a meeting of the Regional Investment Corporation Board; and

(b) to the Drought Minister.

(3) The disclosure under subsection (2) must include details of:

(a) the nature and extent of the interest; and

(b) how the interest relates to the advisory affairs of the Regional Investment Corporation Board.

(4) A disclosure covered by paragraph (2)(a) must be recorded in the minutes of the meeting.

Consequences of disclosure

(5) If:

(a) the member has made a disclosure under subsection (2); and

(b) a matter in which the member has disclosed the interest is being considered at a meeting of the Regional Investment Corporation Board;

the member must not:

(c) be present while the matter is being considered at the meeting; or

(d) vote on the matter

Termination of appointment

(6) The Drought Minister may terminate the appointment of a member of the Regional Investment Corporation Board if the member fails, without reasonable excuse, to comply with subsection (2) or (5).

(7) Subsection (6) does not limit section 26 of the *Regional Investment Corporation Act 2018*.

Effect of subsections (2), (3), (4) and (5)

(8) Subsections (2), (3), (4) and (5) have effect despite anything in:

(a) subsection 29(1) of the *Public Governance, Performance and Accountability Act 2013*; or

(b) rules made for the purposes of subsection 29(2) of that Act.