Inquiry into Government Support Productivity Issues Paper

Submitted by Liz Mann

In general, do current drought support programs provide an incentive for farmers, farm businesses and farm dependent rural small businesses to become more self reliant and adopt strategies that better prepare them for instances of severe drought? Do they do the opposite?

Growers who have formed partnerships with neighbours or who have remained faming in a large business structure with family members, for the benefits of economies of scale, have been unable to access any form of financial assistance. Off-farm asset limits are set at $750,000 for a business to access a number of the assistance programs, including the Exceptional Circumstances Interest Rate Subsidy (ECIRS), the Irrigation Management Grant and the Professional Planning and Advice Grant. This level is sufficient in the majority of the cases where the farm business consists of 1 to 2 family units, but in cases when the farm business consists of a greater number of family units this limit is very easily exceeded, thus they have been unable to access any assistance. This has been the case for a number of horticultural business in the Goulburn Valley that have operated together in a partnership/trust or company with neighbours or other family members to fully utilise specialised machinery/packing sheds and coolstores. They feel that the current exceptional circumstances assistance system does not encourage the efficient operation of farm businesses through the economies of scale, in fact they encourage the opposite.

The current off farm asset limit for a farm business as detailed above has been viewed by a number of large horticultural businesses as inequitable. Adjustments need to be made for cases where a farm business consists of multiple family units.

At the present time if a farmer works off farm, the first $20,000 they earn is exempt from the income test to access the Exceptional Circumstance Relief Payment through Centrelink (ECRP). Upon accessing ECRP they effectively gain access to an additional $20,000 for a couple. Hence they have the $20,000 off farm income plus $20,000 from ECRP (providing the farm does not generate a profit).
If the farmer chooses to stay on the farm and work harder to try to keep costs at a minimum and they happened to make $20,000 at the end of the year (perhaps at the expense of their health and the wellbeing of the family), this is counted as income and the Exceptional Circumstance Relief Payment is reduced or cut altogether. Hence, they have the $20,000 they achieve from working harder and longer hours on the farm but are unable to access ECRP. In many cases this $20,000 may be used to pay machinery loan repayments and is not available to assist with the household costs.

- Under this structure there is no incentive for a farmer to try to operate their farm at a profit, as if they do they lose access to ECRP.

FMDs have been held by a number of horticultural businesses throughout the Goulburn Valley. These businesses have chosen to put aside money in the past when they have had a successful harvest to prepare for those years where they are affected by an "exceptional circumstance" such as drought, frost or hail. When the

Exceptional Circumstances assistance was expanded to include all farmers many horticultural producers found they were ineligible for the Interest Rate Subsidy as they were deemed to have sufficient available cash reserves. This may have been the case but if they had chosen to not deposit cash into FMD's in good years and taken the profit at the time and paid tax on it they would have then qualified for the Interest Rate Subsidy once the area was declared EC. In many cases FMD's are drawn down very quickly in horticulture to purchase temporary irrigation water.

Growers who do who have held FMDs have made comments that the current EC criteria discourage the use of FMDs. In some cases growers have held say $30,000 in FMDs, and then have missed out on qualifying for the EC Interest Rate Subsidy of approximately $30,000 (80% of their total 12 month interest bill). At the end of the year their FMDs have been depleted and they are worse off than if they had not been prepared to self-fund exceptional circumstances.