

Rural Financial Counselling Service NSW - Central West Inc.

ABN 54 606 039 416



REGIONAL OFFICE, DUBBO – L1, Suite 1, 137 Macquarie Street

Postal Address: PO Box 922, Dubbo NSW 2830

Ph: 02 6884 2275 ~ Fax: 02 6884 4926

Email: dubbo@rfcs-cw.com.au

22nd August 2008

**Inquiry into Government Drought Support
Productivity Commission
Locked Bag 2, Collins St East
Melbourne Vic 8003**

RE: INQUIRY INTO GOVERNMENT DROUGHT SUPPORT

On behalf of the Board and staff of Rural Financial Counselling Service NSW – Central West (RFCS – CW), please find attached our submission regarding the Commission’s inquiry into Government Drought Support.

Any questions or issues regarding this submission can be directed to the CEO, RFCS-CW on the contact details as listed.

Thank you for this opportunity to have an input into your response to Government regarding this matter.

Yours sincerely

A handwritten signature in black ink that reads "Caldbeck".

Jeff Caldbeck

CEO

Rural Financial Counselling Service NSW – Central West

INQUIRY INTO GOVERNMENT DROUGHT SUPPORT

RFCS-CW SUBMISSION

1. Background

The Productivity Commission has been asked to undertake a public inquiry into the current government drought support arrangements in Australia. The Commission has been asked to identify the most appropriate way for governments to assist farmers, farm businesses and farm dependent rural small businesses improve their self-reliance and preparedness for drought events.

Specifically, the Commission is requested to:

- report on the appropriateness, effectiveness and efficiency of the Commonwealth, state and territory governments' business support and income support measures;
- identify impediments to improving self-reliance and preparedness for periods of financial difficulty; and
- identify the most appropriate, effective and efficient responses by Commonwealth, state and territory governments, to build self-reliance and preparedness to manage drought.

This is a public inquiry and the Commission has invited interested people and organisations to register their interest and make a written submission.

Each submission, unless made in confidence, will be published on the Commission's website shortly after receipt, and will remain there indefinitely as a public document. Copyright in submissions sent to the Commission resides with the author(s), not with the Commission.

2. Business support and income support measures

2.1 Interest Rate Subsidy: (ECIRS)

The current IRS assistance has assisted many farmers and small business's to maintain viability and without it they may have not survived this prolonged period of exceptional circumstances. The ECIRS may have been of greater assistance to small business if implemented earlier.

ECIRS needs to continue after the EC period expires to help alleviate significant pressure during this period, as in many cases it may still be considerable time (6-12 months) before income is available after the EC period ceases. This is due to periodic income for many business's or purely due to a lag in the flow on effect for small business.

It has been suggested by some that a reduction in assistance by 25% in the first year after EC ceases a further reduction of 25% in second year and a subsequent 25% in the third year. This will assist those that are unable to fully come back into production after one season.

2.2 Relief Payment: (ECRP)

This has been essential for many families and for many the only means of funding food and household necessities. The ECRP should also be continued after the EC period ceases for a similar time frame to that of the ECIRS and if recipients receive sufficient income from their business (farming or other) it would minimise or discontinue payment due to exceeding required income limits.

This payment would assist many who may not have any other income for the period immediately after the EC period ceases and would also allow other benefits such as health care cards to still be utilised for the period where there is still minimal income.

A concern heard on a number of occasions from clients with the ECRP procedure was that receiving information of eligibility criteria was, to say the least, variable. Centrelink as the administrator of the ECRP on a number of occasions gave incorrect advice or direction to some of its customers. Advice from varying sources reveal that when contacting Centrelink they were told one thing and when contacted again they were told another thing, and below is an instance of this incorrect information delivered which caused considerable stress and anxiety to a young adult.

Case Study 1:

A young adult completed year 12 and received entry to university had deferred entry for a year to earn additional income to become independent. On the start of the university year (12 months later) and having obtained the required income amount, she was not eligible for independent status due to time frame involved. This young adult found this difficult to understand as other young adults who completed year 12 at the same time were receiving youth allowance and rent assistance at university. Her mother then contacted Centrelink and was asked if they owned a farm, having stated yes, Centrelink staff member (and a long time staff member) had informed the mother that all she required was an Exceptional Circumstances Certificate and her daughter would be eligible for youth allowance. The mother and daughter were then informed by the RFC that the EC certificate would not allow her to receive the youth allowance as they did not meet other criteria to receive ECRP and without receipt of the ECRP payment they would not be eligible. The mother notified the Centrelink person of this and they informed the mother that they would be eligible if they had an EC Certificate. After considerable time and contact with different people in Centrelink the applicant was informed they were not eligible, due to not being in receipt of ECRP. The mother contacted Centrelink original contact person and informed them of this ruling and her disappointment in the wasted time.

The young adult attended university and after further assessment, form filling and discussion with Centrelink received assistance in their own right as an independent. The mother has never asked or applied for another EC Certificate or is in receipt of any EC assistance of any sought but is still periodically sent an EC certificate for the current period. The young person was disgusted with the episode and incorrectness from Centrelink and had undue pressure and anxiety as she was trying to manage her finance commitments for university.

This has not been an isolated case and for many who were under significantly more pressure than this young adult it has been both inappropriate and unprofessional for the administrator of the assistance to be incorrect on such a basic situation. Confusion of eligibility criteria and incorrect information received from administering organisations is a concern. Clear criteria, guidelines and alterations to criteria should be promptly and clearly accessible to administering organisations and their staff.

Having given a downside to Centrelink, it must be reinforced that the drought centres generally are very supportive of the circumstances surrounding enquires and on occasions are more than helpful. The staff have to try, as many organisations do, to understand changing circumstances in the eligibility and administration of assistance to clients.

2.3 Benefits of Assistance:

Many organisations and individuals, along with parliamentarians have stated that the assistance is unfair, misused, unwarranted or too costly. In looking at this, a concern is that on a number of occasions the people stating this are supposedly there to assist those affected by the on going drought, in fact many are probably funded from drought funds to deliver assistance. The concern is that if those who are supposedly there to help are making comment it is obvious that there is little understanding of the situation or simply that there is jealousy abounding due to lack of assistance that they or others they know are receiving.

It should be clearly understood that farming and some small business that are involved in farming communities can usually survive a 1 or 2 or even 3 year downturn, but to manage longer than this is uneconomical and probably beyond the scope of management or financial return of most industries. Some facts that should be remembered when discussion of assistance is looked at historically and for future reference is that there are approximately 154,000 farms in Australia with approximately 137,000 of these solely dedicated to agriculture production (<http://www.nff.org.au/farm-facts.htm>! NFF fact sheet sourced from Australian Bureau of Statistics, *Agricultural Commodities 2005/2006*). It also states from modelling Australian farms and their closely related sectors generate \$103 billion-a-year in production (based on modelling by Econtech for the Australian Farm Institute, *Australia's Farm Dependent Economy Report, 2005.*)

Further to this the Australian Government Productivity Commission, *Trends in Australian Agriculture 2005* also states 'that over the last 30 recorded years (1974-75 to 2003-04), Australian farms have consistently achieved average multifactor productivity growth of 2.8%-a-year.

No other industry, with the sole exception of telecommunications and information technology, comes close to this achievement.' The Australian Bureau of Statistics, Value of Principal Agricultural Commodities Produced, Preliminary 2006/2007 also indicated on the same page that the gross value of Australian farm production (at farm-gate) totals \$35.6 billion-a-year. This information when taken into consideration of the drought conditions at the time dispels ideas that the approximate \$760.9 million for the 2008-09 drought funding by the Federal Government is an uneconomical or waste of taxpayer's monies. It relates to assisting an industry to the amount of approximately $\frac{3}{4}$ of 1% and if looked on purely on export income figures of \$27.6 billion for the 2006-07 period assistance is still only approximately 2.7% of the export earnings.

Though assistance may have been misused by a relatively small few, this will always be the case in any assistance from Government, whether unmarried mothers, aged or invalid pensions, youth allowance or support to the car industry etc, it will always have some misappropriation from certain individuals.

Generally in the overall situation though there is doubt that the perceived misappropriation are as real and from experience there a number of those that are unable to receive assistance either farmers or non farmers who are quick to make comments that the funds are utilised for other than the intended purpose. This statement does not say that some recipients do not abuse the system.

2.4 Transport Subsidies:

NSW transport subsidies should be maintained in assisting eligible producers with freight subsidies as currently existing with maybe consideration to some change to farmer's utilising their own equipment. They are paid a reduced rate implying that their labour and hence their own time is worth nothing. Maybe commercial rates should be utilised for a scale of all payments. The comment that is also made in relation to freight subsidies is that all it does is increase the freight rate and is therefore not beneficial but rather a detriment to farmers with higher freight cost as the subsequent outcome.

2.5 Payroll Tax relief:

We are unable to make any real comment as it was only occasional comments from a recipient that informed Counsellors that it was hardly worth the trouble, but any thing at this stage was helping him. The business owner did not want to loose trained and valuable staff.

2.6 Specific Drought Service Providers:

Government funding of specific drought service providers assisting drought affected families, both Federal and State funding, needs to be continued after the drought to assist those who are suffering from the stresses brought on from the continual drought and affects on the financial, physical and emotional well being of farming and small business operators.

2.7 Other Forms of Assistance:

Other forms of assistance which include and are not limited to are, Drought Household Payments, CWA assistance, St Vincent De Paul Society, Centacare, Anglicare and other private organisations and individuals that supported drought assistance financially or through gift donations etc. These payments though limited in funding were very helpful to many to assist in household accounts and along with hampers and gifts were of great moral support to many drought affected families. Many of the staff of these organisations and some individuals have also been placed under significant pressure themselves and many are volunteers, the unknown cost of these other sources of assistance is a cost that is not always considered when assessing the cost of the drought. This should be considered both on the cost of funds and gifts distributed and the cost of volunteers associated with the distribution of the funds and gifts, this then may be of assistance in looking at the real cost of assistance and may better prepare any future funding policy decisions.

3. Impediments to improving self-reliance and preparedness

3.1 Exceptional Circumstances: (EC)

The current declaration format is for drought only and though once implemented assistance is forthcoming the implementation of an EC declaration appears costly and not necessarily accurate. The area boundaries create problems with eligibility on one side of a road or river and non-eligibility on the other side of that same road or river. The assessment of data can also be subject to accuracy especially in regards to rainfall. Though the utilisation of unofficial rainfall may be inappropriate for assessment of areas it is essential to be considered in conjunction with official records as on occasions there can be significant difference within the area being considered from the official records to unofficial records. Having stated this, it is believed that EC declarations should be able to cover a broader area for applicants and then the criteria would eliminate those who don't meet and the criteria, but would not eliminate those who live over the RLPB boundary or across a creek boundary etc.

3.2 Interest Rate Subsidiary: (ECIRS)

The current IRS assistance has been of tremendous help to many farmers and their families. There still however are those excluded from accessing the assistance possibly from criteria implemented to keep out rogue high flying business people or those running farms as a tax dodge/ lifestyle.

The main ones severely affected and the affecting criteria are noted as follows:

Case Study 2:

Young farming families purchasing rural property within the last 7-10 years. As a result of the drought often both partners have been forced to remain working off farm. Hence they could not meet the majority of income criteria. Their off farm income and the poor income from the farm as a result, they have no way of proving their intentions. In Gilgandra there is a case of a young farmer who has approx. 1500 acres he has worked off farm since he purchased the farm in order to try and get ahead. The drought set in and his wife also sought employment off farm in order to try and put food on the table. They have three small children. The wife was working three part time jobs, all hours in order to get enough income to cover basic living needs. This family are "lucky" in that they live only 6 km from the centre of town and the expense of fuel was not going to hinder them dramatically in seeking off farm employment. This family could not access Interest Rate Subsidy, neither could they access Income support because their off farm income was outside the criteria. This family are working twice as hard and can't get any assistance at all. If this family can qualify under the ATO rules as a Primary Producer, why can't the RAA accept them as a true farming business. The RAA check assets thoroughly, so I can't see any issues with transparency of a true farming family versus the rogue business person mentioned above. These young farmers have a tough enough time to get established.

If they can't be helped via the IRS assistance, more needs to be done through another scheme or via the Agstart scheme with low interest loans etc to allow these businesses some chance of getting established and being able to maintain a relatively healthy family life. The husband of this particular family works the farm on the weekends and afternoons after work. On two occasions that I know of, he has been admitted to hospital for exhaustion during peak work periods such as harvest and sowing. It is not that he is a weak person or an unfit person. He is doing everything he possibly can to keep his passion for farming alive. These are the types of farmers – that we should want to keep for the "Future of Farming" in Australia.

Case Study 3:

Off farm investments that are in the form of liquid assets, such as shares and that are \$20K above the off farm assets limit and where the business has no or minimal superannuation many of these businesses have been forced to use majority of savings just because of their business structure. In these cases the majority of such cases had also used up any FMD's that they had.

In cases such as these the need for assistance is clearly demonstrated due to the downturn in income but also the use of FMD's etc, but still the client cannot access IRS due to the fact they are slightly above the off farm assets limit and are expected to use the remaining liquidity that they have.

The ECIRS has assisted many farmers but there are still some in real need falling through the crack's. The small business community are now also starting to really feel the impacts of the drought. There criteria still is quite tight in SB IRS. Many are excluded because they can not show a close enough connection to the rural sector. Others also that are finding it hard to access assistance are the SB applicants that have also only been in business for less than 5 years and have also sought out of business employment whilst the spray rig or gain truck is not running. Hence again we cannot prove the majority of their income is coming from the business. The only reason they had sought out of business employment was to cover loan costs and cover basic living expenses.

ARC data has shown in the last 3.5 years in the Gilgandra, district that debt has increased on average by just over \$100,000, equity has increased by 3% purely due to the increase in land values. Serviceability or income has decreased by \$14K over that same period.

Moving forward ECIRS payments in some form needs to continue for at least 18 months to 2 years post drought declaration periods. The time lag of lost income and increasing debt will take at least that long for people to gain some preparedness and financial independence. If this is not allowed we will have a further weakening and vulnerable agricultural sector, less able to cope with the other many challenges that they face, excluding drought.

It would be very beneficial to farmers if a longer term plan could be given to the farmers so that they can plan their futures a little better and for the purposes of succession planning. Many have entered or started succession plans during this drought but had to back out of them due to the inability of their business during the drought to support the financial transition of parents to children. This is a real need as the average age of the Australian Farmer is 57 years. If we are to have a strong farming sector we need highly skilled and energetic, healthy operators. Our 57 year old farmers have served the food on the table very well up until now, but are not in a position to do so for much longer. Who will put the fresh food on our table then? Will it be imported and grown in human effluent, or will it be the multi national companies that will have the power to tell us they will only grow what they want to grow and how they want to grow it.

3.3 Farm EC Exit Programme:

The uptake of this programme has been minimal and there may be a number of reasons for this, some of them may well be:

- Asset limit exceeded due to recent increase in land values thus many who may have been eligible 3-4 years ago have now been fortunate enough to have land asset value increase and hence are now not eligible for the assistance.

- Inequitable situation- to sell farm and purchase a house elsewhere (in town) they would be no better off than they are now as after purchase of house and to have some funds available for living they would still require government assistance as additional funds to survive. As they are on the farm they still are able to turnover some production in reasonable years and have an asset they can borrow funds against, even though it may be reducing equity and could be worse off in the longer term they feel they are still useful and that they are in control and that if eligible for the same government assistance (pension) why would they want to leave the home they love.
- Many farmers live in hope – like gamblers- for the “big year” and believe that if only one good year, we might make enough to be able to get out with more. It is the “hope” that prevents them from applying or even considering leaving.
- Some farmers simply will not leave as they were born a farmer, lived a farmer and want to die a farmer.

It is believed the exit programme should still exist in some form and not be linked necessarily to EC. It may be utilised to assist farmers who are in desperate situations and wish to leave and also look at it with possible succession to younger generations as well. Maybe assistance to for older generation to leave and linked to assistance to younger generations in taking over in the form of grants of similar value.

3.4 Other Impediments:

There may be many impediments to farmers, farm businesses and farm dependant rural small businesses improving self-reliance and preparedness for periods of financial difficulty, but it appears at present that many have not been able to produce sufficient income due to a variety of reasons including low commodity prices prior to the drought, climatic damage to cropping – frost, hail, prior to the drought, to set aside funds to manage the financial difficulties. The productivity of some farms may have been a cause along with management skills of others and in some situations, business structure may also be an impediment. It is also thought that in some cases Government policy may have also been detrimental to some as they try to invest in off farm income sources, which has tied up funds that are not easily recouped for farm use without tax implications. The downsizing of Government funded extension officers, the changing direction in farming from conventional to conservative farming and the associated cost of change along with the overall reduced terms of trade are all contributory factors to insufficient funds available for financial difficult periods.

Younger farmers are generally more adept in accepting technology and appear prepared to accept higher risk and debt levels and this current drought over the past 5-6years in this area has caused significant concern for them in trying to manage these higher debt levels.

For many young farmers they had never experienced continual negative incomes over a sustained period and with aggressive lending from financiers and the belief that they could “just work harder” to meet a shortfall some have over extended themselves and unfortunately their excitement, enthusiasm and belief has placed some of them in a situation that they may not be capable of getting out of before the next drought (financial shortfall) is upon them and this in itself is another impediment and probably has been for some coming into this current drought period as well.

4. How to build self-reliance and preparedness to manage drought

4.1 Exceptional Circumstances Declarations: (EC)

EC declarations should also consider all exceptional circumstances and not just drought. Exceptional circumstances may need to look at other natural disaster induced circumstances, such as flood, fire excessive rain fall and non natural causes which may include but not be limited to market fluctuation extreme downward pressures or government action which would remove or make impractical available markets which would hence create a extreme market downward pressure. (i.e. embargo's against a major agricultural purchaser.). Natural disasters are generally covered by state assistance and there may be some conflict or doubling of assistance in some circumstances, but surely this can be negated by cooperative administration.

4.2 Use of Advisers:

Farmers and their families contemplating retirement and succession often benefit from professional advice. There is, nevertheless, a generally low uptake of retirement and succession planning advice, whether provided directly by the market or through government assistance.

Advisers with expertise and strong referral networks are crucial in making sure farmers receive informed and balanced assistance to help decision making (Gamble et al.2003). But advisers need to be aware of the difficulties some older farmers have with formal learning activities (Foskey 2005). They must also have strong multidisciplinary skills, including a thorough understanding of what motivates farmers, how they learn and manage change, and how best to expose them to the myriad of options they need to consider.

By and large, the market should continue to provide specific advice on these issues. It is not a role for governments. Government funded rural financial counsellors can, however, be a valuable referral point to the appropriate sources of expert advice for farmers who need help across a range of areas, including succession planning, family mediation, personal counselling, accountancy, legal issues and education. These counsellors must therefore be well skilled, fully aware of the network of professional advisers available and able to direct farmers to the right sources of advice.

Representative organisations should also encourage their members to examine and clarify their personal and financial aspirations, and to act on them. This can be a test for these organisations, which are facing increasing costs and declining revenue, and rely on a core constituency that is often dominated by older farmers. The longer term benefits of a more vibrant industry embracing farmers of all ages should be the overriding consideration

4.3 The Future:

What can be done to assist those concerned in self reliance and preparedness to manage drought is a difficult question. I believe that there needs to be better incentives for preparedness to implement infrastructure and fodder reserves along with a better Farm Management Deposit Scheme (FMD). The availability of FMD's should be extended to other small business that may be adverse to seasonal or climatic income variations (Share farmers, contractors, small business associated with farming etc). Incentives may be in the form of taxation incentives such as accelerated depreciation for certain capital works, income contingent loans for younger farmers getting established (to help reduce initial debt burden and hopefully prevent viability threat during adverse periods in first say five years).

Training- unfortunately many who need specific training in business, farm and financial management are the people who won't or can't afford (time or money) to attend the available training that is already there. Accessibility to training, child care facilities, timing and distance are other factors affecting the uptake of training.

With today's farming legislative requirements requiring more recording and reporting of activities, from livestock identification systems and crop chemical recording to completing the BAS for GST, the practical farmer is finding the "paper requirements" too difficult and in some cases failing to comply with requirements is easier than trying to learn or pay someone to assist.

These farmers have a limited future and it is essential that younger farmers coming into the business need to not only understand practical management but also business management including financial management and planning for their business.

It is also believed that the existing assistance for the exceptional circumstances was with all intention meant to cover what was believed to be an exceptional circumstance of a drought of two years, the industry to manage the first year of hardship, a reasonable ask, the second year to be assisted by EC assistance and then the recovery year was there to help for the year after the drought.

It is hoped that looking over previous records and that the current drought has indicated that droughts can occur for greater periods than 2-3 years, that the policy implemented for future droughts and other exceptional circumstances can be compiled and is not restricted to time frame.

4.4 The Future of Our Farmers:

There is no doubt that farmer's and our small businesses (timed lagged by at least 12 months) need help now and continued support for another two years. What can we do now to make them self reliant in future droughts or disasters.

1). Invest in Young Farmers – Low interest loans across a maximum 15 year period with, 5 year business objectives to be achieved, before moving onto the next phase of assistance. Secure the future and diversity of Australian Agriculture.

2). Investment into farm sustainability and family health in rural communities is essential. Having the infrastructure to not only create other employment opportunities but allows Australian Agriculture to be more efficient and self reliant.

3). Australian Agriculture as it stands today has to out perform it's global competitors and even in times of adversity , they manage to do it quite well. If the Australian farmer is to be exposed to the global market their needs to be market variations in line with those of it's competitors. By all means place their commodities on the open global stage, but ensure that they are getting the returns to their business in line with their competitors. Many overseas competitors don't care too much about price of their commodities as they are heavily subsidized and this has a negative impact on the prices received to the Australian Famer.

4). Training for farmer's and assistance for training for their children is a necessity. Due to this drought we have seen not only a cutback by the famer in terms of training or updating their computer of financial tracking system. This is the time when they need to do it more than even. We have also seen children putting off further education to help out on the farm simply because they cannot afford to send them. The child may not be able to afford to get a job elsewhere because of the fuel and long distances in either accessing employment or education. We need more education and skills now more than ever, as farmers are faced with more challenges and compliance issues.

5. References:

- <http://www.nff.org.au/farm-facts.html> NFF fact sheet sourced from Australian Bureau of Statistics, Agricultural Commodities 2005/2006). modelling by Econtech for the Australian Farm Institute, Australia's Farm Dependent Economy Report, 2005.
- Australian Government Productivity Commission, Trends in Australian Agriculture 2005
- The Australian Bureau of Statistics, Value of Principal Agricultural Commodities Produced, Preliminary 2006/2007
- Discussion Paper, RFC Rob Muffet, RFCS-CW Forbes
- Discussion Paper, RFC Cath Mabbott, RFCS-CW Gilgandra
- Creating our Future – Agriculture and Food Policy for the Next Generation, 2005