Submission on Government Drought Relief Programme
The Interest Rate Subsidy

Firstly, let me advise that we applied for and were rejected for the subsidy and went through the process twice. Whilst I am sure many farmers have welcomed this scheme in my case the process of exploration inquiry including reasons for rejection into the scheme has raised numerous issues. Almost all of these issues have the potential to impact on many farmers and essentially back to DAFF. Clearly I don't know of any arrangements between DAFF and the authorities regarding the detailed administration of the scheme but the issues raised below deserve further investigation as they have the ability to detract from the equity and efficient financial operation of the scheme and effectiveness of its outcome. The administration of any programme has the potential to be overly concerned with processes e.g. forms design ,reporting of numbers, processing delays except and lose sight of the outcomes that the scheme envisaged. The scheme was preceded by a general ministerial statement describing the scheme and then it is left to DAFF to develop guidelines for the Minister to issue to relevant state authorities. These guidelines are meant to provide guidance on the detailed operation of the scheme and eligibility criteria for the states who administer the scheme. In my view the guidelines are confused, contradictory and result in far to high a level of subjectivity in assessing applications.

The stated purpose of the scheme is to assist "qualified" farmers who as result of drought **have *suffered a reduction in income* which *has led to financial difficulty*** I believe a significant weakness in the scheme is that *financial difficulty* is not defined anywhere. I note the Rural Assistance Authority (RAA) has assessment criteria provided by DAFF which have to be considered or taken into account but that's not the same as a clear definition or a truly independent determination .To "*consider* " or" *take into account*" gives no indication of weighting or relative value or worth of each point. It's left open to a considerable level of interpretation and opinion and virtually impossible to explain objectively or to ensure consistency.

For example is ***financial difficulty*** a relative or absolute term.. An easy example is a farmer who spends $100,000 of farm cash savings to keep operational. Is this effectively the same as one who borrows $100,000 to keep operational. To spend $100,000 of savings to my mind could result in being described as financially worse off at the very least .

The scheme's published criteria are also to my mind potentially logically inconsistent and confusing. An applicant was effectively allowed to have up to about $460,000 as at 2006 of off farm assets under one set of criteria **BUT** you also have to convince the RAA you would not have the capacity to achieve or maintain sustainable long-term profitability without the support under the scheme. RAA are required to "consider" the off farm assets- whatever that means in practice. If off farm assets exclude farmers from eligibility why not just say so? Also you have to be long term profitable (viable?) to qualify to be considered for the grant but at the same time need this grant to achieve long term profitability.

In the early days I spoke to DAFF Canberra who advised in writing that the off farm assets (well below the limit) would not "jeopardise" an application. A rural finance counsellor also thought the off farm assets within the limit were not considered. But, I was later told by RAA NSW that they do take both off farm assets and income into account in determining the level of financial difficulty even within the limit. At a later date even the Minister's office also thought they were not considered within the limits. Firstly, there was obvious confusion about handling off farm assets and unless one had interest expenses in tens of thousands the off farm assets test would virtually rule out every small farmer who only incurred a borrowings of a few hundred thousand dollars not millions . I'm not sure that's the intent of the scheme If the scheme permits one to have off farm assets why do other criteria require RAA to consider the off farm assets and income in determining the level of financial difficulty.

The definition of financial difficulty that I can deduce from my conversations with RAA NSW is very narrow. It is as best I can determine, that you have increasing levels of debt and borrowings as a consequence of the drought. The actual amount of debt and interest payable is also relevant. The fact that you use cash reserves or savings does not warrant consideration and having off farm assets and smallish debt appears to rule you out. It

would also appear that the RAA NSW assess whether a farm's financial difficulty also leads to the concept of being at" financial risk"- a term I cannot find referred to anywhere but one used to reject our application .It would seem they could assess the farmer as being in financial difficulty but not at financial risk or enough financial risk as a result of the drought. Where did this concept come from?
Prudent farmers who have avoided excessive debt or relied on equity are "penalised". In fact the way the scheme is apparently administered has the potential to encourage unintended consequences and reward high risk taking applicants.

There is a complicated method to determine the actual amount of the potential interest rate subsidy and it may bear no resemblance to the actual cost incurred. Why an actual statement of interest paid cannot be provided in arrears is beyond me? I was left wondering how state assistance authorities administer amongst other things the issue of overdrafts and lines of credit which can move on a daily basis.

In general, it was suggested to me that New South Wales was the most generous and I have no idea of how others manage this issue. This is another obvious potential problem in the scheme's administration. For a scheme largely funded by the Australian Government the need to ensure consistency, equity, transparency together with accountability is clear.

I would worry that the same application assessed in different states would end up with different answers and levels of support. How is this potential outcome averted? In fact I have been told by staff that this is entirely possible.

What views do DAFF staff have on this matter for instance? It was very difficult to obtain relevant comments on the scheme's administration from DAFF officers. I also comment on the RAA NSW appeals process. Although they consider the appeal independent in that the officers involved in the initial decision-making are excluded, the senior review officers are still RAA NSW staff members who are interpreting existing RAA policy. It's hardly independent and will rarely if ever consider policy issues and mindsets which may exist in things like interpretation of financial difficulty. New additional data is what is suggested one needs when appealing.. How can one question interpretation of relevant policy matters. In fact on two occasions RAA staff suggested that eligibility just may just come down to a matter of opinion as to whether we are in financial difficulty. I pointed out that spending taxpayers money on opinions rather than definitive criteria or a truly independent evaluation or interpretation of substance was hardly what good governance was about.

There are glaring discrepancies between the way this drought measure has developed and the way Centrelink administers the income support and the planning and advice grant. At least Centrelink is open, transparent and consistent.

Summary

The real question is what was the intent of the scheme and has the way the scheme's administration evolved in the states met this intent ? Exactly who was the scheme targeting as the general publicity surrounding the political message was not matched by the reality. I believe there is a case that the way it is being administered may well be resulting in the intent not being given effect.

It seems the lower the equity (within reason), the higher the debt/borrowings, the lower the off farm assets and income, the higher the amount of interest payable (within reason) the more likely one is to qualify for a subsidy. A farmer who has diversified risk, managed borrowings conservatively, kept operating costs low and planned a financially secure retirement and tried to mitigate the impact of drought with sound non farm stategies is less likely to qualify even though they have suffered a significant loss of income as a result of drought.. This being so, the message such interpretations leave with potential recipients is not what will make farming attractive and using public funds to support farming defensible in the long run.

I doubt very much that there are many smallish farmers who **but for** the interest subsidy would **not** survive. Because of their relatively small size many are required to secure off farm employment. There is no doubt they too have suffered loss of income and financial difficulty in their farm business as a result of drought. You have to be long term viable to qualify for consideration anyway, but then need the grant to make you long term profitable. An apparent inconsistency in the criteria. You can have off farm assets BUT they seem to count in determining eligibility- another apparent inconsistency. The terms risk and difficulty and viability and profitabilty are used interchangeably seemingly to meet the ends being sought.

I have also noted a report No 52, 2004/05 by the Auditor General concerning the administration of the scheme in previous droughts where DAFF'S administration of the scheme was criticised. It is clear to me that DAFF blames the state authorities for any administrative and policy problems and the states blame DAFF for poor unclear guidelines. When DAFF cannot defend in a intellectual way the guidelines it simply stops talking to you and will not answer phone messages or mail. I consider the economic rationale for the scheme is fuzzy and the way the guidelines have been developed and then so loosely and probably differently .interpreted by the states has resulted in the intent of the scheme and its cost being less efficient than it should have been.

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