

Drought Assistance Proposal.

My name is Geoff Whelan. I am a 58 year old Certified Practising Accountant (CPA) operating an Accounting Practice with four support staff in the Melbourne suburb of Balwyn – ECA Partners Pty. Ltd.

I was born in Melbourne and have lived my entire life in Melbourne. I have never owned or had a part interest in a farm property. None of my family or friends has an interest in a farm property. None of my clients are primary producers, and in fact I have only ever set foot on a farm a handful of times in my life and most of those occasions have been vineyards where I haven't ventured beyond the cellar sales area!

I must admit that I have very limited knowledge of the **real effects** this prolonged drought is having on rural Australia. We City dwellers get various media reports from time to time regarding farmers drought hardship, but the information is not very detailed and I am sure does not adequately convey the difficult situation being experienced by thousands of farmers across the country.

So, having no farming knowledge and an equally limited understanding of the effect drought is having on rural Australia, why am I making this submission to the PC? Well, having been a Public Accountant practising in the taxation area for some 30 years, I do have a reasonable knowledge of the Taxation system and also what makes a small business successful.

First of all I think it is important to establish who the stakeholders might be when it comes to making decisions regarding appropriate drought assistance. There are three stakeholders in my view:

1. Farmers and the broader rural community.
2. The Government.
3. The Taxpayer.

So the aim in my view is to provide **appropriate support** to rural communities affected by drought requiring relevant **Government funding** which is **fair to all taxpayers**.

How can this be achieved? From my reading of the PC report and the various private submissions made to the PC, there are a number of varied proposals relating to interest rate subsidies, transport subsidies, tax depreciation acceleration concessions, Farm Management Deposit Scheme, Centrelink payment access, etc, etc.

What appears to be lacking in these proposals is the concept of **ACCOUNTABILITY**. For example, the New South Wales Farmers Association made a submission to the PC with 21 recommendations. Of these recommendations, only one proposed that farmers should be encouraged to make changes in their farming methods, the other 20 recommendations proposed an array of increases in financial support and various taxation and other concessions

So the central premise of this submission is based on **ACCOUNTABILITY** to all of the relevant stakeholders. A number of other submissions to the PC, including the Victorian Government submission proposed the objective that farmers should be

required to bear more of the risk burden associated with drought and taxpayers less of the risk.

The following are just some of the more obvious reasons for making ACCOUNTABILITY a prerequisite trade-off in return for receiving Government financial support:

1. Other industry sectors do not and have not in the past received Government financial support. Various manufacturing industry sectors have been decimated by overseas cheap imports from China and India, resulting in significant business closures and job losses. This is also the case with many other industry sectors, including retail shops coming under increasing competitive pressure from the larger shopping centres. Why should farmers get a "free kick"?
2. There is the probability that drought/climate change is likely to get worse in the future. Many farms that are not commercially viable now as a result of drought are likely to be less viable in the future. So, why should the Government and the taxpayer be asked to continue financially supporting these poor performing farms.
3. Finally, farmers continue to receive financial support from Governments without being required to make changes or improvements in their farming activities in order to reduce the impact of drought. While this approach continues nothing will change. Why would farmers make changes when they don't have to, and why should taxpayers be asked to continue supporting this apparent waste of public money without some form of ACCOUNTABILITY? Would farmers be happy to see the Government financially support thousands of other small businesses around the country that will lose money or go broke as a result of the economic recession, increased competition from imports, etc?

Please understand that I am not being critical of farmers, but rather I am being critical of the way drought assistance has been administered in the past. I can appreciate that support to the farming community is warranted as a result of the difficult drought conditions they are experiencing at present.

So, how should this support be provided to bring about the best outcome for all the stakeholders?

RECOMMENDATIONS.

1. Farm Management Deposit Scheme (FDS). In my reading of the PC report and various other submissions there appears to be almost universal support for the retention of this scheme. This scheme allows farmers to effectively self regulate their income by enabling them to average out the good and the bad years and there are no real disadvantages to any of the stakeholders through the operation of this scheme.

2. Existing Drought Assistance. It is my proposal that all other existing drought assistance measures be removed as they only benefit the farmers receiving the relevant assistance. These benefits cost the Government and effectively the Taxpayer \$1 billion per annum with no or little return on that financial investment – two of the stakeholders are adversely affected by the continuation of these assistance measures.

3. Farm Payments Scheme (FPS). The problem with the FDS (see 1. above) is that this scheme is only of any relevance to a farmer with accumulated prior year profits. The farmer who has no funds in the FDS has no money to access in the event of drought. My proposal is to establish a FPS with the main features as follows:
 - i. The Government provides an interest free advance to the farmer in return for the farmer providing the farm property as security to the Government for the funding advance.
 - ii. Government funding would be limited to say 50% of property value. (Including other existing secured debt).
 - iii. Government funding cannot be used to pay out any existing or new farm debt. Funding would only be provided to compensate for the prior year actual operating cash loss of the farm, excluding depreciation, wages to related parties and existing farm debt interest.
 - iv. In return for farmer receiving advance under FPS, farmer must agree to have an independent review carried out on the viability of the respective farm, and in order for the farmer to continue receiving advances under the FPS, the recommendations of the independent review must be implemented by the farmer within 12 months. Any costs associated with the implementation of the recommendations may also be drawn from the FPS.
 - v. Payments under the FPS would be limited to say a 3 – 5 year period based on the independent review.
 - vi. To be eligible for an advance under the FPS, the farm must have been in operation for a minimum period of time – say 3 years.
 - vii. When the farm returns to profitability, a pre-determined percentage of the operational profit is repaid to the Government against prior advances.
 - viii. Should the farm never become profitable, advances under the FPS would cease after the 3-5 year period, and the Government would ultimately be repaid when the property or part of the property was sold. It is assumed that the farm can't continue to make losses year after year and there would be a forced sale of the property, at which time the prior Government advances would be repaid.

These are some of the possible features of a proposed FPS. There would be a need for many other checks and balances to be incorporated into such a scheme to protect it from abuse. In my view this scheme provides a fair and reasonable outcome for all stakeholders. The existence of such a scheme makes the farmer ACCOUNTABLE. The Government is saying we will

provide you with funding, but you must pay it back. The farmer is then faced with a **business decision** – do I risk equity in my farm property in return for this Government funding?

The Government is giving the farmer a “hand-up” not a “hand-out”, and it is the farmer that is being asked to ultimately assess whether he/she has a viable business. No problem with this option to any of the stakeholders, other than possibly the farmer because under this proposal the farmer is not getting a hand-out, as is the case at present.

4. Centrelink Access. It is my view that farmers should have access to Centrelink payments. Even in drought conditions the farmer is still required to operate the farm with probably minimal income. They probably have limited ability to earn income outside the farming operation and it would appear reasonable to pay Centrelink payments at least for some pre-determined time frame.

In conclusion, I believe this proposal meets a balance in providing support to drought affected farmers and at the same time achieves farmer accountability, fairness to all taxpayers and proposes a scheme that is not a financial drain on Government.

I respectfully submit this proposal to the Productivity Commission for consideration.

Geoff Whelan. CPA.