



Mildura Office:

72 Lemon Avenue, Mildura, Vic 3500
PO Box 2824, Mildura, Vic 3502
Telephone: (03) 5022 0799
Fax: (03) 5022 0599

Swan Hill Office:

Cnr Curlewis & McCrae Streets, Swan Hill, Vic 3585
PO Box 1340, Swan Hill, Vic 3585
Telephone: (03) 5032 2562
Fax: (03) 5033 0189

Email: admin@sunrcs.com.au
Internet: www.sunrcs.com.au

TO: Productivity Commission, Canberra

FROM: The Committee of Management of the Rural Financial Counselling Service Victoria – Murray Mallee

SUBJECT: Inquiry into Government Drought Support – Response from Rural Financial Counselling Service Victoria – Murray Mallee

DATE: 18th December 2008

1. Purpose

1.1 The purpose of this document is to provide a response to the Productivity Commission report titled "*Inquiry into Government Drought Support*".

2. Introduction

2.1 Page 99 of the Productivity Commission's report details "***a need to encourage the adoption of self-reliant approaches to managing for climate variability***". There is a section of our irrigated horticulturist who have been slow in adapting their farming practices to cope with reduced water allocations. This is a new phenomenon for irrigated horticulture and in direct contrast to that of dry land farmers who deal with low rainfall on an annual basis. Other factors, that have impacted on their ability to adjust and these include:

1. Culturally and Linguistically Disadvantaged Groups.
2. Lower Education levels and less value placed on education for next generation.
3. Value of assets declining.

2.2 Some of the major issues affecting Rural Financial Counselling service clients include high debt levels due to investment to improvements on farm, for example, Irrigation, trellis, new plantings, adopting best practice. Other factors such as low productivity levels in grape production, declining commodity prices, high debt levels, poor financial management skills and for many an incapacity to adapt to new farming and business management practices also contributed.

2.3 As for dry land farmers the issues are different. Land values continue to rise making it difficult to purchase additional land for expansion. The combination of high debt levels and at times low commodity prices and low productivity due to drought are other factors impacting on dry land farmers. Despite the issues the majority of dry land farmers are adopting new technology and new practices such as minimum tillage, new varieties of grain and new breeds of livestock.

2.4 There is an identified need to empower individuals and groups of people by **providing these groups with the skills they need to effect change in their own communities**. Service providers from a range of disciplines must work together to take a lead role in this process if we want to achieve greater community resilience. Communities must be involved in the identification of solutions to local problems. Some strategies may include;

- Development of partnerships with government departments, Training organisations, industry groups, other social agencies, community groups and experts;
- An increase in the proportion of local resources and effort being spent on collaborative programs at a local, regional, state and national level.

Education and training

2.5 In recent times we have witnessed a shift towards a corporate approach to farming. This applies to the larger corporate models as well as the medium to smaller farming entities. However, there is a percentage of farmers who, despite there being recognition of the need for training, the take up rate is low due to a number of factors. Perhaps the greatest barriers are distance, time and financial. Industry specific training often results in good attendance, especially if it is a requirement for the farmer to sell his produce, gain assistance or meet regulatory requirements. Funding is required in order to assist those farmers who are deemed to be viable make that shift to a corporate model. The areas of training to be offered may include but not be restricted to:-

- Succession Planning
- Risk Management;
- IT
- Marketing;
- Business Planning; and
- Managing the water market.

When finances are low – cost of educating themselves can be prohibitive. Exceptional Circumstance payments have provided a great opportunity for farmers wishing to exit farming to access training for new employment. ***“The availability of funding to assist those farmers, who, with targeted training, would remain viable, has been non-existent”***. This comment contained within the report identifies a lack of funding regarding training for those farmers deemed to have viable businesses. Our service is actively engaged in formulating partnerships with training providers and business advice experts to fill this void but as stated in paragraph 2.5 additional funding is required.

Proposed approach

2.6 Our Service proposes to establish a strategic collaborative alliance with organisations to develop and implement a program that will assist (by way of subsidising fees) viable clients access relevant training and/or business and accounting advice. The organisations we form such alliances with will have a long history of providing successful, relevant and qualified training and/or advice to small business operators, including businesses involved in agriculture. Insisting that such organisations have the appropriate accreditation in training and/or quality assurance will ensure that high quality, relevant programs are conducted and that meaningful outcomes achieved.

2.7 The combined training and marketing resources of all consortium organisations will be accessed as required. The facilities, equipment, finance, training support materials, teaching expertise, technical advisory services and other resources required will be jointly provided and accessed as required. The experience and skills to be obtained with such a program for small business, particularly the farming sector, will be important in achieving desired outcomes for not only the agriculture community but the community in general. All partners in this collaborative arrangement employ experienced, well qualified and successful managers. Administrative and support staff will be provided to ensure the successful delivery of the

program. As part of planning for such a program risk management planning will form an important component in identifying the major risks.

2.8 We are concerned at the many assumptions made the Productivity Commission regarding the relevance, effectiveness and importance of Rural Financial Counselling Services. The comments attributed to the Productivity Commission show a lack of understanding of the role that Rural Financial Counsellors play in assisting farming entities to make difficult decisions regarding business viability and exit pathways. We were also concerned that the Productivity Commission has limited its use of responses from Rural Financial Counselling Services to those made from the Gippsland Service. There are 15 other services that all take an active role in drought assistance many, we assume, provided responses to this inquiry.

“The current system rewards rather than discourages poor performance and lack of preparation” (page XXIV)

2.9 This statement may be true for irrigated and dry land farmers alike. The subsidy and welfare support programs penalise those farmers who strive to become self reliant in spite of business losses being incurred. For example, the inclusion of off-farm wage income and contracting revenue in the calculations of surplus or deficit cash flows penalises those farmers who are prepared and able to work off-farm compared to those who are unwilling to work off-farm.

2.10 Short term support programs are essential in times of financial crisis caused by drought conditions to the long term survival of all struggling farmers. The major causes of their current financial dilemmas are not likely to be solely due to a lack of planning or poor operational performance but a combination of factors already detailed in this paper.

2.11 A major factor contributing to the lack of irrigation water is the poor risk assessment associated with the allocation of water rights throughout Australia's irrigation districts by successive governments. This has resulted in a drastic over allocation of “high priority” water rights throughout the Murray Valley, particularly in Victoria. Financial support for farmers in a format which encourages better performance in the future is therefore justified, governments must accept some of the “responsibility” for the current lack of irrigation water, and it is not all due to drought and climate change. Poor performance, incompetence or lack of preparation by farmers are also minor contributing factors to non-viability during drought.

“It is hard to separate social impacts of drought from long term trends” and “Policy needs to address the social needs of farm families, rural businesses.....” (page XXV)

2.12 The Productivity Commission has failed to address the economic and social cost of the loss of major primary production industries in rural towns where most of the economic wealth is generated by irrigated agricultural production. The loss of productive infrastructure and families from communities in rural Australia due to drought will be significant, particularly as there is a long term trend towards urbanization in Australia. The drought is likely to speed up this long term trend and result in the demise of smaller regional towns as farmers are forced to seek alternative employment and lifestyle opportunities. These towns will be stripped of current public services and government agencies. The loss of population in rural Australia should have been a major consideration in the deliberations of the Productivity Commission, particularly the loss of young innovative farmers. These farmers are critical to the long term survival and growth of agricultural industries and the maintenance of the districts in which they live. There has been no attempt to assess the economic cost to urban centres in rural Australia if farmers leave the district, or the social cost of declining populations in rural areas.

“Policy should not maintain resources within agriculture that are otherwise unviable” (page 110)

2.13 The transition to case management by Rural Financial Counselling Services will provide Rural Financial Counsellors with the ability to assist in facilitating the process of rationalising resource allocation in all aspects of farming entities whether dry land or irrigated. The non-viability of many horticulture properties in the Murray-Mallee region has been created by the drought conditions and the resulting severe rationing of water rights since 2005. The reduction to 24% of “high security” water entitlements in Victoria (while NSW based horticulturalists access 100% of their permanent water rights); will have a far greater impact on viability in the Victorian horticulture districts than price reductions in produce markets and adverse production conditions. Drought and over allocation of Murray Valley water resources by successive state governments have created the current crisis in primary industry viability throughout the region. Government support and policies which allow for long-term change in the allocation and use of water must be developed and implemented. These policies should not be based on the principle of removing all financial and social support programs from agriculture and horticulture in the Murray Valley. After all, a major cause of the current crisis in irrigated agriculture viability in the Murray Valley is the water allocation policies of various governments over the past hundred years.

“Interest Rate Subsidies are inappropriate and inefficient” (Page 111)

2.14 The long-term use of interest rate subsidies is likely to create distortions in resource allocation in primary industries which will not be sustainable. However, as a drought assistance measure and a policy to support farmers with permanent plantings who may therefore lack the capability to effectively sustain their main income sources due to a lack of irrigation water, the use of interest rate subsidies is an effective policy. Interest rate subsidies should be maintained where farmers who are deemed to be viable. This would be effective where in the case of irrigated horticulture, inability to access sufficient irrigation water to maintain their permanent plantings. Continued support for a period not exceeding 3 years is suggested to allow them to change their plantings or leave the industry.

“There is no evidence of a significant increase in departures from farming....”
(Page 114)

2.15 The incentives offered in current exit packages are not substantial or flexible enough to act as realistic options to most farmers who are considering leaving the land. The current package provides up to \$150,000 when a farmer sells the property, but they must leave the land and look for alternative employment or income generation options. Often there is an inability to sell irrigated horticulture properties due to depressed rural commodity prices, lack of finance to support potential purchasers or depressed property prices which could leave the property owner with minimal equity after repaying all debts to financial institutions. There is a lack of alternative employment opportunities in many rural areas, particularly as the impact of the ongoing drought and recent global financial crisis has had an adverse impact on the general level of business confidence and therefore employment. Many farmers, particularly those in older age groups will not have readily transferrable employment skills into the non-agricultural sectors, therefore the incentive to sell the property, leave the family home and look for work needs to be far more lucrative to be effective. Realistic long-term support, particularly in training, re-location, family education and income support should be part of the total package if there is to be any likelihood of farm departure policies being effective in the future.

2.16 The social upheaval associated with exiting farming must also be considered. Family members changing schools, or being forced to leave school, loss of social support networks, re-location costs, high costs associated with housing in urban and city areas and the taxation liabilities associated with the exit package; also act as a substantial barrier to the successful implementation of departure packages. Local council planning laws that inhibit the subdivision and sale of land in rural districts is another disincentive to farmers considering leaving a farm. These policies prohibit subdivision of agricultural land and therefore limit the amount of net equity to effectively re-locate a family, maintain a reasonable lifestyle until alternative employment is found

for family members and accommodation is purchased or rented. Alternatively, older farmers will be assessing whether there is enough incentive in the package to help significantly towards self funded retirement. If not, they are likely to remain farming.

“Rural Financial Counselling Services have made significant inroads into building confidence with the rural sector and providing support services they are willing to accept”. (Page 121)

2.17 There is strong evidence to support this statement based on the recent operations of the Murray Mallee Rural financial Counselling Service, for example:

1. The number of horticulturalists registering for the Exit Grant: 80 plus.
2. The number of clients registered with the service, particularly from non- English speaking backgrounds.
3. Referrals from other agencies, particularly Centrelink, Welfare agencies, farmer and horticulture groups (VFF, ADFA, Table and Wine Grape Growers Associations, Mallee Family Care, etc.
4. The number of horticulturalists seeking assistance with irrigation, interest rate and retraining grants and subsidies.
5. The number of “return clients”.
6. Improved public profile of the Rural Financial Counselling Service in the region.
7. Support and assistance provided to farmers to develop improved self reliance due to budgeting, business planning, succession planning, risk management planning and referrals to appropriate professionals in production, irrigation, law, finance, personal counselling etc.

“One government drought program (financial counsellors) is largely targeted at helping farmers to access another program (interest rate subsidies) and necessitates skilled professional advice that may not readily be available in all parts of Australia.....assistance is not necessarily being directed to its best end use – assisting farmers to understand their financial situation and improve their viability or plan for exit”. (Page 122)

2.18 Access to rural financial counselling services throughout Australia could be extended by the use of technology and innovative service delivery approaches. Accessing Rural Financial Counsellors is voluntary and the service is free. Many farmers may not need the assistance or support of Rural Financial Counsellor to manage their financial affairs, construct forward planning documents; or to apply for grants, incentives and reimbursements from government agencies. However, there are a large number of horticulturalists in the Murray Mallee region who would be substantially disadvantaged if the Rural Financial Counsellor Service was not available. Many horticulturalists are from non-english speaking families, or from families where English is the second language. These fruit growers rely on the support and assistance of the rural financial counselling service to collate reports, analyse available options, complete submissions and communicate with funding organisations. The opportunity to provide assistance and referrals to a wide range of support agencies evolves from this initial engagement and contact with Rural Financial Counselling Services. The transition process involved in providing wide ranging support beyond the critical short-term need to “fill in the forms”is not a rapid one. Initially there is usually a strong financial incentive to engage with the Rural Financial Counsellor within a specified timeline. The opportunity to engage in the broader based analysis required to assist farmers in developing a better understanding of their business, particularly in regard to financial matters can evolve from the initial contact. However, farmers are generally proud, independent and self reliant and will not necessarily embrace the opportunity to take a more long-term holistic approach to farm planning, particularly when there are pressing short term financial and production issues to be managed.

Currently they are dealing with Rural Financial Counsellors in Rural Financial Counselling Services who are legally not able to provide financial advice. It is widely accepted by those in the industry that it is not possible for Rural Financial Counsellors to develop an all inclusive range of options for the farmer to consider and they

therefore breach a 'legalistic' definition of advice. Increasing the status, improving the professional standing, improving the public profile and changing the role of Rural Financial Counsellors to include the provision of financial advice to farmers may be necessary but much debate will be needed before this option is considered. Counsellors are currently restricted in their ability to provide the services specified above.

“The scheme (Rural Financial Counselling) appears to have a relatively high retention rate of clients” (page 172)

2.19 Farmers who seek the services of Rural Financial Counsellors are often unable to afford the commercial fees associated with the preparation of various applications and documents. Many are from non English speaking backgrounds and therefore require and appreciate the extra assistance they are given by Rural Financial Counsellor's. A large percentage of Rural Financial Counsellor clients are referred directly from Centrelink. These clients require ongoing financial support to survive and will continue to access a free service where possible as they are unable to afford commercial fees for the services required.

2.20 The introduction of fees would reduce the retention rate very rapidly. However many Rural Financial Counsellor clients would have substantial difficulty in accessing the various grants and subsidies available to support them if this proposal was adopted. Often the clients of Rural Financial Counsellor's are not financially literate, lack basic English language skills and do not have the personal and professional networks required to access the support provided by Rural Financial Counsellor's. Education in rural business management, taxation, social security, succession planning, legal issues, finance, insurance and other business skills is required before many primary producers should be prevented or discouraged from accessing the services of Rural Financial Counsellor's. This transition will have to be a long term process or the financial viability of many vulnerable farm businesses will be threatened.

“The largely private benefits from financial counselling suggest that the rationale for government provision is weak” (page 173)

2.21 Rural Financial Counselling is a community risk management tool that recognises risks that are associated to farming environments. The community benefits if the services provided by Rural Financial Counsellor's assist in helping farmers remain viable on their properties in times of financial hardship. Many farmers do not have readily transferable skills to other occupations and will therefore require long term welfare support and expensive retraining if they are forced to leave an agricultural industry. Appropriate financial support and assistance in assessing financial and business decisions will assist farmers in remaining viable, therefore reducing the public cost of welfare payments to unemployed farmers.

2.22 Continuation of high levels of production in each primary industry sector results in economies of scale in storage, transport, distribution and marketing. If Rural Financial Counsellor's support helps maintain viability of some farmers, then all farmers benefit. Successful Rural Financial Counsellor intervention is therefore not all private benefit, the whole industry, community and governments benefit from such intervention. Stranded assets could emerge if farmers are forced to leave an industry and infrastructure remains idle. Community provided and funded irrigation infrastructure may be stranded if horticulturalists leave the industry on an ad-hoc basis and new or existing farmers are unable or unwilling to purchase the vacated properties. Financial counselling services have a role in supporting farmers to remain on the land, therefore assisting in maintaining the use of these community assets and reducing the maintenance costs to the community.

“Some conditionality should be imposed to reinforce self-reliance and the ability to determine a future in farming”. (Page 201)

2.23 The long-term viability of farm businesses should be assessed on regular basis. If businesses are not likely to be viable, the focus of support and assistance to the

business owners should move from incentives to increase production or save input costs; to income support, welfare and transition out of the industry.

This approach must be based on long-term planning and not short-term ad hoc approaches. Farm businesses in industries with permanent plantings and extensive irrigation infrastructure should be supported for up to ten years.

“Farmers tend not to exit agriculture until they are forced out by low levels of income and/or by high debt”. (Page 205)

2.24 While the farm business is performing well there will be less financial incentive to exit agriculture, particularly if the business has been developed by a succession of generations over a long period. The best time to exit a rural industry is when there is strong demand from buyers to purchase the farm business and alternative employment opportunities are prevalent. In this environment the family and social needs of the farm family can be met by selling out and moving from the farm. If retirement is contemplated, there will need to be adequate net financial resources available to allow this to occur.

2.25 The worst time to exit farming is when there is little interest from prospective buyers of farm businesses. This usually occurs due to prolonged drought, when commodity prices are low, due to excessive input prices or when essential resources (eg. water, labour etc) are not available. The current conditions in the Murray Mallee are not conducive to receiving reasonable prices for horticulture or dry-land farms, as evidenced by recently failed auctions and the numerous properties on the local property market. There is limited interest from prospective buyers due to the poor economic outlook for many industry rural sectors. Therefore those farmers who sell or exit in the next few years are likely to be encouraged or forced to sell by financial institutions due to the inability to meet debt repayments.

“...there is often a lack of effective succession planning by farmers and their families”. (Page 210)

2.26 Farmers, like most small business owners are unlikely to have well developed succession plans which are easy to implement. The law in this area is complex, particularly taxation, income support, pensions and transfer of ownership. There is also difficulty in transferring effective control of all decision-making and management of the farm business from one generation to the next. This creates barriers in the intergenerational transfer of agricultural assets which are likely to be the major assets of the combined farming families. There are opportunities for Rural Financial Counselling Services to take a proactive role in this area by facilitating forums on Succession Planning in collaboration with farmer organisations such as the Victorian Farmers Federation, commodity groups and suitably qualified and experienced professionals. There are succession planning programs developed into online format by the Victorian Law Foundation through the Rural Law Online Program. These excellent resources could be used to support training programs, perhaps in collaboration with a University or TAFE provider.

3. Recommendations from the Report

3.1 Recommendation 6.1 states – “Exceptional Circumstances relief payments should be terminated, with the last year of eligibility for those in EC areas being 2009-10”.

3.1.2 If the major aim of Exceptional Circumstances relief payments is to provide financial support to farmers in the drought, the recommendation to terminate the scheme/s by July 2010, particularly in irrigated horticulture industries with permanent plantings, should not be endorsed. There is likely to be a shortage of irrigation water well beyond the 2009/10 irrigation season as the reservoirs in the Murray basin are at historically low levels and will take many years to fill. There is an inability to change quickly from one crop to another in these industries. Therefore the abolition of support will create great financial difficulty for fruit-growers relying on additional assistance as they change their irrigation systems, replant non viable varieties and

alter the farm production mix to meet new and emerging market trends. To achieve transition to more viable plantings assistance and support should continue for the lead time to change varieties grown and improve production techniques, usually five to eight years. If the major aim of Exceptional Circumstances relief payments is welfare related, the support schemes could be disbanded and realistic arrangements introduced to help many irrigators, particularly horticulturalists, to leave the industry.

3.2 Recommendation 8.2 states – ***“The contribution of Rural Financial Counsellors to greater farmer self-reliance should be reviewed to assess:***

- ***The institutional barriers to the provision of private sector financial advice services in rural and remote regions;***

3.2.1 A major barrier in accessing private sector advice is that many farmers, particularly the group who access information through Rural Financial Counsellors, are unable or unwilling to pay the commercial fees charged by financial advisors and other professional groups.

3.2.2 The advice provided by some financial advisors may be influenced by their association with particular finance and banking groups which pay advisors for referrals through fees based on the value of referrals. Farmers are aware of these schemes and therefore are skeptical and wary of “independent” private sector financial advice. Due to licensing and legal issues Rural Financial Counsellors are not able to provide financial advice unless they have the relevant licences, therefore they are not able to maximise their contribution to farmers’ self reliance in financial matters. This matter requires urgent attention if the role of Rural Financial Counsellors is to remain relevant in the future.

- ***The extent to which the scheme’s case-management provides for referrals to other relevant services in a timely manner;***

3.2.3 Case Management is to become a major focus of Rural Financial Counsellors in the future. It is too early in the transition to case-management to evaluate this aspect of Rural Financial Counsellors’ roles.

3.3 Draft Recommendation 7.1 states ***“The objectives of the Australia’s Farming Future initiative should be revised and expanded to the following:”***

- ***assist primary producers to adapt and adjust to the impacts of climate variability and climate change***
- ***encourage primary producers to adopt self-reliant approaches to managing risks***

3.3.1 Rural Financial Counsellors currently have an integral role in supporting and assisting farmers to develop and implement plans related to the improvement in their self reliance, particularly in managing risks and adapting the farm business to the pressures of climate change.

3.4 Draft recommendation 8.1 states ***“Significant public funding should be directed to research, development and extension to assist farmers prepare for, manage and recover from the impacts of climate variability and change”.***

3.4.1 Rural Financial Counsellors could have an important role in supporting farmers in the financial and business planning aspects of processes associated with preparing for, managing, implementing new processes/practices and crops necessary to achieve recovery from the impacts of climate variability and change

3.5 Draft recommendations 8.3 and 9.1

Rural Financial Counsellors have an important role in providing farmers with support and assistance in developing professional and personnel development programs

involving continuous learning within the Farm Ready Program, Recognition of Current Competencies, investigating re-training and training options, improving opportunities to gain off-farm income and assisting in the transition into other industries.

4 Conclusion

4.1 We would like to take this opportunity to thank the Productivity Commission members for allowing service providers and broader community to have input into the original draft document and to submit subsequent responses. We look forward to reading the completed paper and recommendations.

On Behalf of the Committee of Management

Lyn Heaysman
Deputy Chairperson