GOVERNMENT OF WESTERN AUSTRALIA

RBDC Rural Business Development Corporation

Our Ref:

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Mr Mark Fitt
Committee Secretary
Parliamentary Joint Select Committee
on the Australian Fund Establishment
PO Box 6100
Parliament House
CANBERRA ACT 2600

Prepared Statement for the Parliamentary Joint Select Committee on the Australian Fund Establishment by the Rural Business Development Corporation of Western Australia

The Rural Business Development Corporation (RBDC) welcomes the opportunity to present to the Joint Select Committee on the Australian Fund Establishment.

I am Rob Sands, the Chairman of the Rural Business Development Corporation.

The RBDC Board is appointed by the responsible Minister, the Honourable Ken Baston MLC, Minister for Agriculture and Food in Western Australia. The RBDC was established under Section 5 of the RBDC Act 2000 in December 2000. The RBDC utilises the services of the Department of Agriculture and Food, Western Australia under a service level agreement to enable it to administer the schemes.

The role of the RBDC is to properly and fairly administer approved assistance schemes for the farm sector on behalf of the Western Australian State Government, and deliver other services for the benefit of rural industry.

The objective of the RBDC is to improve the long-term profitability and viability of farm businesses, leading to an internationally competitive and sustainable farm sector in Western Australia.

The RBDC currently administers a number of State and Federal Government schemes of assistance which I will briefly detail as follows:

- Farm Business Assessment Scheme — This is a State Government scheme which provides up to a $10 000 grant to farm businesses in drought affected shires to have their business assessed by an external professional. The professional assistance is to develop and implement a strategic plan for the farm business.
- Farm Exit Support Grant — This is a State Government scheme which provides a $20 000 grant to farm businesses who have decided to exit farming. The grant is to provide for living and transitional costs for those farmers who are struggling with costs of living. The grant will be paid after all land of the farm business has been sold.

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- Farm Finance Concessional Loan Scheme — This is a Federal Government scheme that aims to assist farm businesses that are experiencing debt servicing difficulties but are considered commercially viable in the longer term by providing loans to undertake productivity enhancement activities. Recently, this scheme in WA was enhanced by the inclusion of a debt restructuring component, and increasing the maximum loan amount to $1 million. $50 million of funding is available.
- Drought Concessional Loans Scheme — This is a Federal Government scheme that aims to assist farm businesses recover from an existing drought and prepare for future droughts and return to viability in the longer term. Under the scheme, $20 million is available to drought affected farmers in Western Australia.

I will provide data on both of the Federal Government Concessional Loans Schemes in Western Australia.

Farm Finance Concessional Loans Scheme

- Round One
  - Applications opened on 20 January 2014 and closed on 30 April 2014 ($25 million in funding available).
  - The RBDC received 44 applications in total with 24 approved, 10 declined and 10 withdrawn.
  - Total approved funding was $5.19 million with an average loan size of $216 000.
  - The main use of the funds was for soil amelioration activities, equipment upgrades, purchase of breeding stock, land purchase, and on-farm processing.
  - The main reason for declines was applicants were not viable, not in need, or lacked security.

- Round Two
  - Applications opened on 1 July 2014 and will close on 30 April 2015 with a total of $25 million in funding available.
  - To date (16 January 2015), the RBDC has received 9 applications with 1 approved, 2 declined and 1 withdrawn.

Drought Concessional Loans Scheme

- Applications opened on 23 September 2014 and will close on 30 June 2015.
- To date (16 January 2015), the RBDC has received 8 applications with 1 approved and 4 declined.

For the Farm Finance Scheme, the uptake has been lower than expected due to the following reasons:

1. A record grain harvest in 2013 across most of the Western Australian wheatbelt. The impact of this is that many farm businesses that may have been eligible were no longer able to demonstrate a need for the concessional loan.

2. Many of the businesses that are in financial difficulty have high debt loads from trading losses over the last five years. In most cases banks have supported these businesses to the limit of sensible lending criteria and therefore there is no additional security available for these businesses to take on more debt. Even where these limits haven't been reached, the business owners are reluctant to take on more debt unless there is a very strong case for the intended productivity improvement at a relatively low risk.
3. Round One of the Scheme in Western Australia was restricted to only provide productivity enhancement loans from $50 000 up to $400 000; Round 2 now includes loans for debt restructuring of up to $1 million. This amendment to the Farm Finance Concessional Loans Scheme is in response to the continuing dry seasonal conditions in the Northern and Eastern wheatbelt areas that have not met the BoM rainfall deficient areas.

For the Drought Concessional Loans Scheme, we have had the following issues:

1. Again, the record grain harvest in 2013 made many wheatbelt businesses ineligible for this Scheme.
2. This Scheme is reliant on the Bureau of Meteorology (BoM) rainfall deficiency data, based on annual rainfall figures. In Western Australia, as we have a Mediterranean climate with only a six month growing season, the 12–24 month BoM data does not suit the Western Australian short and single growing season. Accordingly, the BoM maps for WA shows areas that have not experienced drought as being in severe drought, and other areas that have experienced severe drought are shown as having experienced 'normal' seasons. While the Scheme is a national scheme, the BOM data has disadvantaged some Western Australian farm businesses, which in turn has made it hard to 'market' the Scheme to farmers.

Feedback from farm businesses, their consultants, and their industry bodies indicates that debt restructuring may cause problems for the business when the funds that have been provided by the Federal Government need to be paid back. If the business hasn't generated sufficient funds in the five years (or seven years under certain circumstances), their commercial financier may not be able to, or willing to, take this debt back on.

If Government's want to provide the benefit of a lower interest rate to farm businesses suffering financial hardship, it would be substantially easier and cheaper to provide this benefit through interest rate subsidies, not by becoming yet another lender in a market which is already well supplied by commercial lenders.

3. The current Western Australian policy on loans schemes does not allow the State Government to provide a 'carry-on loan scheme' or other similar schemes designed to assist farmers via Government acting as a lender of last resort.

This policy position was based on the previous experience with RAFCOR (Rural Adjustment & Finance Corporation — the predecessor of the RBDC) and its involvement of the provision of loans for a variety of purposes including debt restructuring to farm businesses in this state between 1971 and 1993. Over this period, the State Government wrote off approximately $11.78 million and it took 10 years, after the final loan was advanced, to complete the recovery process.

Since then the State Government has focused on building business capacity and risk management skills rather than direct farm business support. RAFCOR, and then the RBDC, has administered for the Commonwealth Government a number of schemes by providing interest rate subsidies such as Productivity Improvement (mid '90s) and the Exceptional Circumstances program 2001–2009.

The current Australian Government Concessional Loans Schemes do provide for debt restructuring and operating expenses. However, they are only administered by the RBDC on behalf of the Australian Government. Funding for these schemes is provided solely by the Australian Government with no State Government contributions towards the loan amount or administration funding. This ensures the State Government policy position is not compromised while Western Australian farmers in need have access to the available Australian Government concessional loans.

National Drought Reform Program

The RBDC and the Western Australian Government has been at the forefront in the development of the National Drought Reform Program by playing the lead role in the drought reform research process through the delivery of the WA Pilot of Drought Reform Measures implemented under a National Partnership Agreement between the Australian and Western Australian Government 2010–12. This had an objective of assisting farmers to shift from a reactionary approach to a proactive preparedness approach in managing business risks, including drought.

In relation to the effectiveness of the Australian Government concessional loans schemes in assisting farm businesses during drought or any other challenging environmental and economic conditions, the RBDC remains steadfast to the commitment made to the National Drought Reform Program and the Inter-Governmental Agreement (IGA) signed in 2013 that came into effect on 1 July 2014. The IGA established a set of nationally agreed objectives and principles for the states to follow. These are as follows:

The Agreement objectives are to:

a. assist farm families and primary producers adapt to, and prepare for, the impacts of increased climate variability;

b. encourage farm families and primary producers to adopt self–reliant approaches to manage their business risks;

c. ensure that farm families in hardship have access to a household support payment that recognises the special circumstances of farmers;

d. ensure that appropriate social support services are accessible to farm families;

e. provide a framework for jurisdictions' responses to needs during periods of drought.

The Agreement will facilitate achievement of the following outcomes:

a. Primary producers have an improved capacity to manage business risks.

b. Farm families are supported in times of hardship.

The Agreement will facilitate the following outputs:

1. The following measures will be implemented under this agreement:
    a. A farm household support payment.
    b. Continued access to Farm Management Deposits (FMDs) and taxation measures.
    c. A national approach to farm business training.
    d. A coordinated, collaborative approach to the provision of social support services.
    e. Tools and technologies to inform farmer decision making.

2. Future programs related to the objectives of this agreement will be consistent with the principles for reform agreed by the Standing Council on Primary Industries (SCoPI) at Attachment A.

3. Future programs providing temporary in–drought support will be consistent with the principles and processes agreed by SCoPI at Attachment B.

The Agreement's overarching national principles as follows:

1. There should no longer be Exceptional Circumstances declarations or 'lines on maps'. Instead, governments should focus on addressing the specific needs of farming families, farming businesses and farming communities.
2. Acknowledgement that drought is just one of a number of hardships that can adversely impact farmers.
3. Recognition of the important role of farmers as the nation's food producers.
4. Future farm family welfare assistance should require a level of mutual responsibility.
5. For access to the income support system, farming families should have a temporary period of exemption from the normal assets tests for farm assets, but otherwise receive the same access rights as the wider community.
6. Government farm business support should assist farming businesses plan and prepare for the future. Farm business support will be based on a willingness by those businesses to prepare for the impacts of drought and climate change.
7. The role of farmers in natural resource management and their role in maintaining vibrant rural communities.
8. The importance of maintaining and supporting the natural resource base during drought and climate change.
9. Government policies and programs should support farming communities to prepare for drought and enhance their long term sustainability and resilience.

The following principles have been identified as criteria to assess whether a possible in–drought measure is consistent with the intent of drought program reform.

Where a jurisdiction(s) decides to implement an in–drought support measure, the measure should:

a. be consistent with principles and complementary to measures already in place;
b. occur where there is a clear role for government and deliver a net public benefit;

c. address recognised welfare needs;

d. encourage good farm business decision-making and facilitate adjustment in the agriculture sector;

e. avoid government being positioned as the business ‘lender of last resort’;

f. enable links with other measures or between service providers;

g. recognise the importance of maintaining the natural resource base;

h. be underpinned by monitoring and performance information to ensure any measures implemented are appropriately targeted.

Farm Management Deposits

The RBDC believes that Farm Management Deposits (FMD) play an important part in managing the impact of adverse seasonal conditions. The RBDC would like to see a change in the current taxation policy to allow FMD’s to be brought back into a farm business to help fund the operating cashflow of the business within the current 12 month “excluded” period without that income being added back to the original taxable income from the previous period. This exemption would only apply where the farm business could demonstrate they had suffered a substantial loss of income in that excluded period.

Rob Sands
Chairman
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