



## Farm Household Support Amendment Bill 2007

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## Farm Household Support Amendment Bill 2007

**Date introduced:** 1 March 2007

**House:** House of Representatives

**Portfolio:** Agriculture, Fisheries and Forestry

**Commencement:** On Royal Assent.

### Purpose

The purpose of the Farm Household Support Amendment Bill 2007 is to provide agriculturally dependent small business operators with access to Exceptional Circumstances assistance.

### Background

Severe and prolonged drought currently affects much of Australia, especially the main agricultural production areas. As at March 2007, more than 44 per cent of Australia's agricultural land has been Exceptional Circumstances (EC) declared<sup>1</sup> and there have been calls for the extension of the financial assistance available to farmers to other rural businesses whose livelihoods have also been affected by the drought. For example in March 2004, the Drought Review Panel, which reported on a series of consultations concerning drought issues observed:

Stakeholders would encourage the Government to give consideration to providing effective support to assist non-farm rural small businesses and rural communities that were severely affected by the drought. These businesses in many cases were as badly affected by the drought as farm industries, but did not have the same range of measures available.<sup>2</sup>

More recently, in January 2006 the National Farmers Federation (NFF) called on the Government to:

reintroduce EC business assistance measures for rural service businesses (eg: rural distributors, shearing and harvesting contractors etc), recognising the significant flow-on effects of drought on regional economies.<sup>3</sup>

Similarly a Drought Discussion Paper released by the NSW Farmers Association in October 2006 sought:

Concessions in the assessment for family support (NewStart) criteria in order to provide assistance for farm contractors.

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Assistance that provides agricultural contractors with the ability to maintain their equipment and business during the period of low or zero income as a result of the drought.<sup>4</sup>

The issue of extending drought assistance to non-farm rural businesses has been a long term issue. It was addressed, for example, in a report of the Senate Standing Committee on Rural and Regional Affairs in July 1992 which supported extension of two specific tax concessions to non-farm rural businesses but, in relation to direct financial assistance, expressed concerns about a suitable definition of non-farm rural businesses and the desirability of differentiating between these and other rural based businesses.<sup>5</sup>

### **Basis of policy commitment**

On 7 November 2006 the Prime Minister announced the Small Business Drought Assistance package. The major component of this was an extension of eligibility for Exceptional Circumstances assistance, previously available only to farmers, to small business operators. He stated that small business operators able to demonstrate that 70 per cent or more of their total income comes from farm business in Exceptional Circumstances declared areas will now be able to access income support and interest rate subsidies.<sup>6</sup>

### **The current drought**

#### **Physical characteristics<sup>7</sup>**

The Bureau of Meteorology (BoM) reports that the average total rainfall for Australia as whole for 2006 was slightly more than the long-term average. It notes, however, that this figure was made up of well above average totals across the north and inland Western Australia cancelling out the well below average totals recorded in the southeast and far southwest.

With regard to Australia's major agricultural regions the BoM has pointed out that:

- parts of southeast Australia experienced their driest year on record, including key catchment areas which feed the Murray and Snowy Rivers, as did parts of the Western Australian coast, including Perth
- record high falls were observed in parts of the tropics and inland Western Australia
- 2006 was the third-driest year on record for both Victoria and Tasmania, and
- for the broader southeast Australian region, which also takes in southeast South Australia and southern New South Wales, 2006 was the second-driest year ever.

On the temperature front Australia's annual mean temperature for 2006 was 0.47°C above the standard 1961-1990 average, making it the eleventh warmest year since comparable temperature observations became available in 1910.

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The BoM's March Drought Statement notes that heavy rain during February eased drought conditions in parts of southern coastal NSW and far East Gippsland, but for the past twelve months rainfall deficiencies remain evident in western WA, southern South Australia and from Tasmania to southeast Queensland.

To place the situation in some perspective, the BoM predicts that the worst of the rainfall deficiencies are likely to remain for some time and observes that in order for them to be removed by the end of May 2007, rainfall over the period April to May would need to be in the highest 10% of the historical record in many areas, or at record high levels in some instances.

In addition, the deficiencies discussed above have occurred against a backdrop of multi-year rainfall deficits that have severely stressed water supplies in the east and southwest of the country.

The BoM has declared that the 2006-07 El Nino event has ended and observed that this would normally be associated with a return to more normal, or in some cases above normal rainfall patterns. However it points out that in some instances, several years of healthy rainfalls will be required for water supplies to recover to a satisfactory level.

#### Economic impact<sup>8</sup>

Australian Bureau of Agricultural and Resource Economics (ABARE) estimates that the impact of drought has reduced economic growth in the September 2006 quarter by 0.3 percentage points and that for 2006-07 overall, the rate of economic growth in Australia will be around 0.75 percentage points from what would otherwise have been achieved. The drought has had a significant effect on the farm economy, resulting in large falls in farm production, exports and incomes.

- winter crop production in 2006-07 is estimated to have fallen by around 60 per cent relative to the previous year
- production of summer crops is forecast to fall by around 60 per cent from last year.
- the livestock sector has also been significantly affected through increased feed costs, higher slaughterings and deaths and lower wool production.
- farm cash incomes for broadacre farmers, on average, will decline by around 67 per cent to \$27 400 in 2006-07
- dairy industry farm cash incomes, on average, are forecast to fall some 79 per cent to about \$17 800 in 2006-07

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## Exceptional Circumstances (EC) assistance

### EC rationale

Exceptional circumstances are those climatic and other events of sufficient rarity and severity as to be considered outside the scope of reasonable and responsible risk management strategies. Relatively short periods of income decline due to fluctuations in both seasonal and market conditions are not included as farmers are expected to have strategies in place to deal with these. This means, for example, that a drought as defined in meteorological terms does not automatically qualify for EC.

For a region or industry to be declared eligible for EC assistance the event must be rare and severe, the effects of the event must result in a severe downturn in farm income over a prolonged period and the event must not be a predictable part of the process of structural adjustment.

### EC components

EC assistance is the mechanism by which direct, short-term, financial assistance is provided to farmers for the purposes of both welfare support to farm households and farm business assistance. The EC Relief Payment (ECRP) is the welfare component of EC and equivalent to the Newstart Allowance. EC Interest Rate Subsidies (ECIRS) is the business assistance element of EC although the level of support under this provision has been phased down.

### EC origins and drought

Following the removal of drought from the Natural Disaster Relief Arrangements in 1989, Commonwealth and State Ministers agreed on a National Drought Policy in August 1992. The (then) Rural Adjustment Scheme (RAS) was the nominated vehicle for providing assistance to farmers in times of exceptional circumstances including, but not limited to drought. One of the key features in major changes to the RAS announced in September 1992 was the introduction of the Exceptional Circumstances provisions which included differentiation between financial assistance to the farm business and the farm household.

In 1993 EC declarations were made in relation to two non-drought events: heavy rainfall in Southern Australia and the collapse of wool prices. Since then all EC declarations are believed to have either been for drought or for a combination of developments with drought being a major factor. In September 1994 the Drought Relief Payment (DRP) was introduced to provide welfare support for farm households in drought EC areas and this was renamed the Exceptional Circumstances Relief Payment (ECRP) in late 1997.

A more detailed history of drought policy and EC assistance is provided in Appendix 1 of the [report](#) of the Drought Review Panel 2004.<sup>9</sup>

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## Extent of assistance to farmers

Table 1 shows that between 2001-02 and 2005-06 the Commonwealth spent some \$950 million in EC assistance to farmers with a relatively even split between household support and business support. The number of recipients of ECRP for the period was almost 36,000 while some 23,000 applications for ECIRS have been approved.

**Table 1: EC assistance 2001-02 to 2005-06**

	2001-02	2002-03	2003-04	2004-05	2005-06	Total 2001-02 to 2005- 06
ECRP (\$m)	19.6	43.9	137.5	118.4	153.4	472.8
ECIRS (\$m) <sup>1</sup>	12.8	38.1	92.5	99.2	232.5	475.0
Total Commonwealth EC (\$m)	32.4	82.0	230.0	217.5	385.9	947.8
ECRP recipients at 30 June (no.)	1373	7162	11096	6271	10055	35957
ECIRS applications approved (no.)	752	3323	4639	5528	9022	23264

1 Does not include IRS administration expenses.

Source: National Rural Advisory Committee Annual Report, various issues

## Previous scheme for non-farm business

Drought assistance to non-farm rural businesses was previously available under the Small Business Interest Rate Relief (SBIRR) program. This measure was part of a package announced on 9 December 2002 by the Prime Minister<sup>10</sup> and was the first time drought assistance had been made available to small business. The program was wound down in 2004.

Centrelink administered the program for the Department of Industry, Tourism and Resources (DITR) which was the responsible policy department. DITR forecast that it would receive up to 17,500 applications, with up to 14,000 successful. In contrast, only 452 applications were received, with just 182 successful. Program payments over the life of the program totalled just over \$1.1 million, compared with an initial estimate of \$70 million. A Centrelink survey indicated that reasons for businesses not applying for the relief included complexity of the forms and processes, and not being able to meet the criteria for reduction in turnover and/or value of assets.<sup>11</sup>

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## The new measures

In his 7 November 2007 announcement the Prime Minister stated that eligible small business operators would receive relief payments, at the rate of the Newstart Allowance, to help them meet daily living expenses. Eligible small business operators could also access interest rate subsidies of 50 per cent of interest costs in the first year and 80 per cent of interest costs in the second and subsequent years of an Exceptional Circumstances declaration, to a maximum of \$100,000 per year or \$500,000 over five years.<sup>12</sup> These provisions mirror those available to farmers.

The main eligibility criteria are that small business operators must:

- source a minimum 70 per cent of their usual turnover from the provision of goods and services for farming activities in Exceptional Circumstance declared areas
- employ up to 100 full time equivalent staff
- have experienced a significant downturn as a result of the drought and
- contribute a significant part of their labour and capital to the business and derive a significant part of their income from the business.

The Government has stated that examples of businesses which may be eligible include fencing contractors, contract harvesters, seed, feed and fertiliser suppliers, livestock transporters and shearing contractors and suppliers of farm machinery and equipment.<sup>13</sup>

At announcement the Government stated that assistance would be available to farm dependent businesses employing up to 20 staff. In February the Government announced that this limit would be increased to 100 staff.<sup>14</sup>

There are potentially more than 5000 small businesses which could be eligible for EC assistance.<sup>15</sup> The Government has observed that there are currently some small business operators who can also be considered farmers but may not be eligible for assistance as their off-farm income is too high.<sup>16</sup>

## Views of interested parties

The announcement of support for small businesses in EC declared areas was welcomed by the National Farmers Federation.<sup>17</sup>

## Financial implications

The Explanatory Memorandum states that the Government has allocated \$127 million to 30 June 2008 towards the measures covered by the Bill.<sup>18</sup> The total cost of the measures announced on 9 November 2006 is \$210 million.

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## Main provisions

### Amendments to the *Farm Household Support Act 1992*

An amendment to the long title of the Act (**item 1**) extends the application of the Act to include eligible small business operators. The amendment reflects the policy change to allow eligible small business operators (as well as individuals) to receive EC Relief Payments under the Act.

**Items 2-7** make various consequential amendments to the Act, following extension of EC Relief Payments to small business operators. For instance, **item 3** inserts a new definition of ‘exempt assets’ into the Act. This new section distinguishes the ‘exempt assets’ of an individual farmer from those of a small business operator, for the purposes of assessing eligibility for EC assistance (as well as other benefits such as Austudy or Youth Allowance). Generally, the exempt assets for a small business include land, plants or machinery, stocks, and rights to insurance or superannuation.

**Item 8** sets an end date for the provision of EC assistance to small business operators. Similarly to that for individual farmers, the end date of the relief scheme for small businesses is 30 June 2008. It should be noted, however, that the end dates (for both individuals and small businesses) can be amended by regulation. Such an extension has already been done so for individuals, who currently have access to EC assistance until 31 March 2009.

Division 1A of the Act sets out details of who may be qualified for EC relief assistance. **Item 10** amends the division to include the eligibility criteria for small business operators. It is largely similar to the eligibility criteria for individual farmers, with the exception of **proposed new paragraph 8A(5)(c)**, which requires small business operators to demonstrate that at least 70% the business’s gross income was derived from supplying goods or services to farmers, for use in relation to farm enterprises. The **proposed new subsection 8A(6)** sets out the method of measuring this (by examining a continuous 2-year period of the business at the applicant’s nomination) and also provides allowances for those business who have not carried on business for a 2-year period within the relevant timeframe.

**Item 11** proposes to amend paragraph 10(3)(a) of the Act which deals with the accounting for ‘exempt assets’ when evaluating an applicant’s assets, for the purposes of their application for assistance. The purpose of the amendment is to accommodate the varying definitions of ‘exempt assets’ for individual farmers and small businesses.

The proposed amendment in **item 11** also addresses the situation where there is a possible unintended ineligibility of certain farmers under the Act. While the Act requires farmers to ‘derive a significant part of his or her income from the farm enterprise’ to be eligible for assistance (subparagraph 8A(1)(b)(i)(C)), it is not intended that those farmers who also operate small businesses fall into that category (as their income from their small business

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may result in their being ineligible for EC assistance). **Item 11** therefore accounts for such circumstances, and outlines the assets test accordingly.

**Item 12** prevents individuals from ‘double-dipping’ by receiving EC relief both as an individual farmer (under subsection 8A(1)) and as a small business operator (under subsection 8A(5)).

**Items 13 and 14** clarify that certain sections of the Act are not intended to apply to small business operators. These sections deal with how the rate of payment is to be calculated. Calculation of the rate of payment for small business operators is instead dealt with in **item 15**. There is little substantial difference between the ways that rates of payment are calculated for farmers and small business operators; the separate provisions are required to assist with the smooth implementation of the programme following commencement.

**Part 2 of Schedule 1** makes a number of consequential amendments to the Act, following the proposed extension of the Act to allow small business operators to apply for assistance, and also to remove sections from the Act that were inconsistent with the *Age Discrimination Act 2004*. **Items 18 and 19** enable applicants (both farmers and small business operators) to have their farm or business assets exempt from means tests for Youth Allowance or Austudy.

**Items 20 to 22** provide transitional provisions for the new amendments, in particular, dealing with cases where a person applied for, or was already receiving, EC relief before the commencement of the Bill.

## Concluding comments

One of the significant changes in Australian agriculture has been the increased importance of off-farm income. An associated trend has been the increasing reliance by small farms - of which there are many - on off-farm income.<sup>19</sup> For this group of farmers, quite often the main source of off-farm income is work on other farms either directly as employees, sharefarmers or specialist contractors (eg fencing, harvesting, shearing, spraying, etc). Similarly there are specialist contractors who are not farmers *per se* but whose business performance and hence household welfare are highly dependent on seasonal conditions. Specialist contractors have generally fallen outside the assistance provisions available to farmers and this group of rural business operators may well comprise the major beneficiaries of the new measures.

## Endnotes

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5. Senate Standing Committee on Rural and Regional Affairs *A National Drought Policy Appropriate Government Responses to the Recommendations of the Drought Policy Review Task Force* Final Report, July 1992.
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7. This section draws heavily on Bureau of Meteorology Annual Australian Climate Statement 2006, 3 January 2007  
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