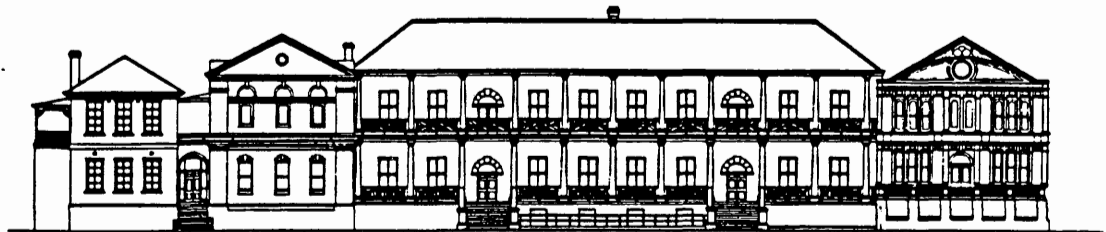




PUBLIC ACCOUNTS COMMITTEE

Rural Assistance Authority



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Public Accounts Committee Secretariat

**Patricia Azarias, MPA *Princeton*, BA(Hons) Oxon., BA(Hons);
*Director***

**David Blunt BA(Hons), M(Phil) *Sydney*
*Senior Project Officer***

**Jozef Imrich, BA *Deakin*;
*Clerk to the Committee***

**Caterina Sciara
*Assistant Committee Officer***

**Kendy McLean, BA
*Assistant Committee Officer***

**John Lynas, FCPA,
Accounting and Auditing Advisor
*Auditor-General's Office***

**Public Accounts Committee
Parliament House
Macquarie Street
Sydney NSW 2000**

**Telephone (02) 230 2631
Facsimile (02) 230 2831**

MEMBERS OF THE PUBLIC ACCOUNTS COMMITTEE

Mr Ian Glachan, MP Chairman

The Liberal Member for Albury since 1988, Ian Glachan has had a varied background. He served five years at sea as a marine engineer, was a farmer for ten years, and operated a newsagency in Albury for 18 years. Mr Glachan is also a past president of the Albury-Hume Rotary Club and a Paul Harris Fellow, an active member of the Anglican Church, and the Legislative Assembly member on the Board of Governors of Charles Sturt University. Other parliamentary responsibilities include Chairmanship of the Minister's Advisory Committee on Health, and vice-chairmanship of the Minister's Advisory Committee on Roads and Transport. Mr Glachan was elected Chairman of the Committee on 15 September, 1994.

Mr Peter Cochran, MP, Vice-Chairman

Following a background in farming, the Army, the Commonwealth Police, ASIO, and the Cooma-Monaro Shire Council, Peter Cochran won the seat of Monaro for the National Party in 1988. His other parliamentary responsibilities include the chairmanship of the Minister's Advisory Committee on Land and Water Conservation, deputy chairmanship of the Committee for Police and Emergency Services, and membership of the committee for the Environment and the Select Committee on Public Sector Superannuation. He is also the Premier's representative on the Anzac House Trust and the Anzac Memorial Trust.

Mr Geoff Irwin, MBA, ProdEngCert, DipTech, DipEd, MP

Geoff Irwin was elected to Parliament in March, 1984 as the Labor Member for Merrylands, and he has been the Member for Fairfield since March 1988. Before entering Parliament he worked in industry as a planning and supply manager and taught business studies at TAFE. He served as a member of the Select Committee upon Small Business and as Opposition Spokesperson on Business and Consumer Affairs. *Resigned from Parliament on 24 January 1995.*

Mr Terry Rumble, FCPA, MP

Terry Rumble was elected Labor Member for Illawarra in March 1988. Before entering Parliament he qualified as an accountant and was employed in public practice and in the coal mining industry. He has served as a member of the Regulation Review Committee and is the Chairman of the Leader of the Opposition's Backbench Committee which involves Treasury, arts and ethnic affairs.

Mr Andrew Humpherson, MP

The Liberal member for Davidson since May 1992 Andrew Humpherson was Deputy Shire President of Warringah Shire Council having served several terms on the Council. Mr Humpherson was an Area Manager for Shell. He has also worked as an Engineer for Repco and Shell. He holds a degree in Chemical Engineering from the University of New South Wales. His other parliamentary responsibilities have

included the Chairmanship of the Select Committee on Motor Vehicle Emissions and Legislation Committee upon the Endangered Species Bill. He has served as a Member of Select Committee into Water Board, State Owned Coal Mines, Bushfires and the Joint Committee on the Office of the Ombudsman.



The Public Accounts Committee

**From left: Terry Rumble, Andrew Humpherson, Ian Glachan (Chairman), Geoff Irwin
(Resigned from Parliament on 24.1.1995), Peter Cochran (Vice-Chairman)**

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Public Accounts Committee



During the inquiry the Committee conducted Public Hearings and a Public Forum at Dubbo on 4 November 1994.

(Photographs supplied by Luis Luzuriaga, Daily Liberal, Dubbo)

CHAIRMAN'S FOREWORD

This was an inquiry which the Committee did not believe could be carried out exclusively from the Parliament in Macquarie Street in Sydney. The Committee believed that, because the Rural Assistance Authority deals with farmers, rural counsellors, and farmers' accountants and advisers in rural areas, it was important to talk to those it affects on their home ground, rather than to require them to come to Sydney. As a result, the Committee travelled to eleven country towns in all areas of the State — Albury, Wagga, Griffith, Cobar, Cooma, Yass, Grafton, Moree, Walgett, Gilgandra and Dubbo. In Dubbo the Committee held formal hearings and an informal Open Forum where the public was able to express views fully and freely. In the other centres, public meetings were held. All these were advertised previously in the local press. Submissions were also advertised for.

As well, Committee members and staff visited and worked for considerable periods in the offices of the Rural Assistance Authority. There, files were consulted, interviews were conducted, and meetings were held. Visits to Perth, Melbourne, Adelaide and Canberra were also made, and several ideas for this report emerged from the bodies consulted there.

The normal process of public hearings in Parliament was followed as well. Three full days of hearings were held, where a wide range of witnesses appeared.

The Committee's deliberations on the final report were long and extensive. The Committee believes that the result of this exhaustive process is a report which will stand not only as an expression of its findings and recommendations, but also as a comprehensive record of history and data pertaining to rural assistance in NSW, perhaps the first such document.

I would like to record my appreciation of the bipartisan spirit in which this inquiry was conducted. As ever, the co-operation and harmony among my fellow members, Peter Cochran, Terry Rumble, Geoff Irwin and Andrew Humpherson, were exemplary.

The Committee owes a great debt to David Blunt, Senior Project Officer, who carried out almost all the research for this report, participated in virtually all the field trips, and wrote the text of the report. The inquiry could never have been carried out so successfully without Mr Blunt's exceptional analytical abilities and hard work.

I would also like to thank the Committee's staff: Patricia Azarias, Director, who supervised the project; John Lynas, the Committee's Accounting and Auditing Adviser, who provided valuable insights into financial methods; Jozef Imrich, the Committee's Clerk, who carried out initial research and painstakingly arranged all field visits; and Caterina Sciara and Kendy McLean, who prepared the manuscript for publication.

Last but not least, I would like to express our appreciation to Graham Maslen, who provided unstinting assistance to members and staff of the Committee and readily answered all questions and requests for information; and to his staff, particularly Steven Griffiths, who co-operated fully in the inquiry.



Ian Glachan
Chairman

SUMMARY OF FINDINGS AND RECOMMENDATIONS

1. BACKGROUND

a. Background information on the Rural Assistance Authority (RAA)

1. One of the main objectives of the rationalisation of rural agencies and the establishment of the Rural Assistance Authority in 1989 was to achieve efficiencies and savings in the cost of administration of rural assistance in NSW. The Rural Assistance Authority has achieved this objective. The cost of administration of rural assistance in NSW has fallen from 33 cents for every dollar of assistance in 1989 to less than 7 cents in the dollar.
2. The Rural Assistance Authority has a range of responsibilities, including administration of the Special Conservation Scheme, the Natural Disasters Relief Scheme and its loans portfolio. However, most evidence received by the Committee concerned the Authority's administration of the Rural Adjustment Scheme and this report therefore concentrates on the Authority's administration of RAS.
3. The Rural Assistance Authority has been given a central co-ordinating role under the provisions of the *Farm Debt Mediation Act 1994*. It is unclear at this stage what the Authority's workload will be under the Act.

Recommendation 1

That, in the context of the follow up review recommended below, the impact of the Farm Debt Mediation Act on the Authority be reviewed by the Public Accounts Committee after 12 months. (p.23)

b. Rural Adjustment Scheme (RAS)

4. The Rural Adjustment Scheme (RAS), one of the key schemes administered by the Rural Assistance Authority, is subject to continual changes. The Committee has received evidence that this complicates the work of the Authority and causes confusion in the farming community about the nature of the assistance which is available.
5. The current version of the Rural Adjustment Scheme, RAS '92, charts a new direction in rural assistance. RAS '92 targets for assistance those farmers who have

long term prospects of viability. It focuses on productivity enhancements, skills enhancement, training and assisting those farmers who need to leave the industry to do so with dignity. The *Rural Adjustment Scheme Agreement Act 1993*, which provided for the NSW Parliament's ratification of RAS '92, received bipartisan support when it passed through the NSW Parliament.

6. The Senate Rural and Regional Affairs and Transport References Committee tabled a report on *Rural Adjustment, Rural Debt and Rural Reconstruction* in December 1994. Like the Senate Committee, the NSW Public Accounts Committee has heard considerable criticism of the use of interest subsidies as an adjustment measure. The Senate Committee recommended that the Commonwealth Department of Primary Industries and Energy reassess the effectiveness of interest subsidies. The Senate Committee recommended that future assistance measures should focus on skills enhancement, professional advice and financial management, as well as the re-establishment grant. The NSW Public Accounts Committee agrees with these recommendations.

Recommendation 2

That the Board makes clear to the Federal Government that future assistance measures should focus on skills enhancement, professional advice and financial management, as well as the re-establishment grant. Productivity enhancement should also continue to be a major focus of future assistance, through the means of interest subsidies or other appropriate mechanisms. (p.40)

7. RAS '92 will be the subject of a comprehensive review in 1996 and has a sunset date of 31 December 2000. However, in view of the other assistance measures administered by the Rural Assistance Authority and the likelihood of other ongoing assistance measures, there will continue to be a role for the Authority after the year 2000. In any case the Authority has a key role in the adjustment process over the next five years through its administration of RAS '92. The recommendations concerning the delivery of assistance by the Rural Assistance Authority are designed to ensure that RAS '92 is most effectively delivered to farmers in NSW over the next five years. Some of these recommendations are also applicable to the Authority's administration of other assistance measures.

2. DELIVERY OF ASSISTANCE BY THE R.A.A.

a. Approval Rates

8. There are clear differences in approval rates between NSW and other states. During 1993 - 94 NSW approved 44.3% of applications for assistance under RAS in comparison with the national average of 62.1%. The differences between the national average and the NSW approval rates for particular forms of assistance including productivity enhancement grants and drought assistance are even more marked. However, preliminary figures provided to the Committee suggest that

during the first four months of the 1994-95 reporting year there was a rise in NSW approval rates and a decline in the gap between NSW approval rates and the national average.

9. Caution must be exercised in making comparisons between the approval rates for RAS in NSW and other states. There are a number of reasons for this. Firstly, the Rural Assistance Authority adopts a procedure whereby a duplication of registration of a single application can occur. Secondly, the Authority does not have a regional network or other filtering system. Thirdly, the size of farms and off-farm income has a bearing on the eligibility of farmers for assistance under RAS.

Recommendation 3

That the Rural Assistance Authority change the way in which it compiles statistics so as to bring it into line with those in other states, so that valid comparisons can be drawn between its approval rates and those of the other states. (p.62)

10. There are clear differences and inconsistencies between the states in their application of the Commonwealth guidelines for RAS. The Commonwealth Government has convened a working party including representatives of rural assistance authorities to develop a more consistent approach to the guidelines for RAS. The Senate Committee recommended that the guidelines for RAS should be more prescriptive.

b. Consistency

11. Evidence was received from rural counsellors, accountants and farmers about inconsistency in the Rural Assistance Authority's decision making about applications for assistance. This evidence appeared to be confirmed by statistics provided to the Committee by the Authority, which showed differences of up to 50% in the approval rates for different assessment staff. The Committee was surprised that the sort of data that it requested from the Authority to assess the concerns about inconsistencies had not previously been sought by, or provided to, the Authority Board. The Committee is of the view that the Authority Board was remiss in not examining the issue of inconsistency until July 1994.

Recommendation 4

That the Authority Board address the issue of internal inconsistency in decision making as a matter of priority. The Authority Board should be given regular reports including statistical data on the approval rates for each of the Authority's assessment staff. A number of possible safeguards to ensure greater consistency in the Authority's decision making should be considered by the Authority Board. These include the consistent application of Commonwealth criteria, the provision of reasons to unsuccessful applicants, the Authority's appeals system, and the qualifications and training of assessment staff. (p.74)

c. Reasons

12. The Authority is now providing more detailed written advice to unsuccessful applicants, including some reasons for its decisions. Authority staff are providing detailed reasons to unsuccessful applicants and their advisers over the phone. However, the Committee considers that there is still room for improvement in this area - all unsuccessful applicants should receive detailed reasons for the Authority's decisions in writing.

Recommendation 5

That the Authority provide unsuccessful applicants with comprehensive written reasons for its decisions. (p.80)

d. Appeals

13. The Authority has developed an internal system for the consideration of appeals. This system is not well publicised. The Authority Board has recently requested the establishment of an appeals register. However, the Committee's view is that there must be further improvement in this area. Rural assistance authorities in other states have developed more formal appeals systems which appear to be working well.

Recommendation 6

That the Authority establish a more formal appeals mechanism. Unsuccessful applicants should be advised of this appeals mechanism when they are advised of the reasons for the Authority's decisions. The Authority Board should determine the nature of the new appeals mechanism after a review of the mechanisms which operate in other states. (p.80)

e. Assessment staff

14. When the Rural Assistance Authority was established in 1989 it inherited most of its staff from the State Bank of NSW. The overwhelming majority of the Authority's assessment staff have a background in banking. This is no doubt appropriate for the administration of old versions of RAS and State schemes which involve the provision of loans. Indeed the Authority's assessment staff are titled loans officers. However, this may not be appropriate for the administration of RAS '92.
15. The Authority has recently employed a number of assessment staff from a non-banking background. These include staff from a farming background and with qualifications in agricultural science.

Recommendation 7

That the Authority seek to recruit further assessment staff from a farming background and ideally with tertiary qualifications in areas such as agricultural science. It is important that the Authority use these staff in the administration of RAS '92, particularly with regard to applications for productivity enhancement grants. The Authority should also ensure that its current assessment staff are provided with training opportunities, including opportunities to undertake tertiary education. The Authority Board should consider approaching the Commonwealth Government for any necessary financial support to implement these measures. (p.94)

16. The Authority currently has a very flat structure. There is a large gap between the Chief Executive and Chief Manager Lending, and the rest of the Authority's staff, particularly those involved in the assessment process. This means that there is a lack of promotional opportunities for experienced assessment staff. It also means that the Chief Executive and Chief Manager Lending shoulder the entire management responsibility for the administration of the assessment process.

Recommendation 8

That the Board take note of the Authority's flat structure and give consideration to appointing staff at an intermediate level, as part of the management team, with defined authority which will enable them to take over some of the administrative responsibilities of the Chief Executive and Chief Manager Lending. However, this must not create another level through which applications have to be processed, thereby slowing up the assessment process. (p.95)

Recommendation 9

That the Authority consider a new title for its assessment staff, (eg Assessment Officers) particularly those who are considering applications for assistance under the provisions of RAS '92. (p.95)

f. Procedures manual

17. The Authority does not have a formal procedures manual for its assessment staff. A practical manual including information on the interpretation of eligibility criteria and the assessment of viability would undoubtedly contribute to greater consistency between assessment staff.

Recommendation 10

That the Authority Board prepare and introduce a procedures manual for assessment staff by 30 June 1995, and staff receive training in its use as soon as possible. (p.95)

g. Regional offices and on-farm inspections

18. A regional network was considered prior to the establishment of the Authority but it was not proceeded with on the understanding that the Authority would use State Bank valuers to conduct on farm inspections and that commercial banks would act as agents for the Authority. This has not eventuated as envisaged. No doubt the decision not to establish regional offices and to rarely conduct on-farm inspections has yielded considerable administrative savings for the Authority. However, these efficiency savings need to be considered against the effective delivery of rural assistance, particularly in view of the new emphasis of RAS '92 on productivity enhancements.
19. Some evidence was received supportive of the establishment of regional offices. It was argued that a regional network would make the Authority more accessible to farmers. The Committee reviewed the regional office network of the Rural Finance

Corporation of Victoria. The Committee was not convinced that the establishment of a regional network in NSW would provide sufficient benefits to justify the cost.

20. Evidence was received supportive of the reintroduction of on-farm inspections. The Senate Committee found that on-farm inspections are preferable where RAS authorities are considering applications. The Chief Executive of the Rural Assistance Authority indicated that he would support the reintroduction of on-farm inspections for applications for productivity enhancement grants under RAS '92.

Recommendation 11

That the Authority Board consider the reintroduction of on-farm inspections, for applications for productivity enhancements grants under RAS '92. The Committee acknowledges that such on-farm inspections will not be necessary in every case. The Authority Board should consider who should conduct such on-farm inspections - valuers, accredited rural consultants or some other group of accredited contractors. While the reintroduction of on-farm inspections will increase the Authority's administrative costs, the Committee believes that this measure will improve the delivery of rural assistance, particularly RAS '92, to NSW farmers. The NSW Government should approach the Commonwealth Government seeking an increase in the Authority's funding for administration to cover the cost of reintroducing on-farm inspections. (p.103)

21. Evidence was received critical of the Authority's allocation of assessment staff on an alphabetical basis. Other state rural assistance authorities allocate assessment staff on a regional basis. This enables assessment staff to develop a familiarity with the farming industries and particular conditions in an area.

Recommendation 12

That the Authority allocate its assessment staff on a regional basis rather than an alphabetical basis. The Committee is conscious of the dangers of familiarity clouding objective decision making and therefore recommends that assessment staff be periodically rotated among regions. The Committee considers the range of two to five years to be appropriate for assessment staff to be responsible for a particular region. (p.103)

h. Publicity and information

22. Evidence was received that there was widespread misunderstanding in the farming community about the objectives and focus of RAS. This is due in part to the frequent changes made to the scheme. However, the Committee is of the view that not enough has been done to publicise and promote the scheme. The Senate Committee found that both the Commonwealth Government and State RAS authorities must improve the promotion of RAS.

Recommendation 13

The Committee recommends that the Authority continue to expand its publicity and promotion of RAS. (p.109)

23. During the course of this inquiry the Committee met with a number of rural counsellors. The Committee was impressed by the professionalism of rural counsellors and wishes to record its support for their role. The Committee also met with other professionals who assist farmers complete applications for rural assistance. Some of these professionals were concerned that they did not have access to the same degree of training or information from the Authority as rural counsellors.

Recommendation 14

That the Authority develop mechanisms to improve the information provided to accountants and other professionals in relation to RAS. (p.110)

24. The Committee was surprised to find that the Authority does not yet have a formal procedure manual for its assessment staff and has recommended that the Authority prepare such a manual as a priority. The Senate Committee recommended that state RAS authorities make publicly available the procedural guidelines and policies used to assess eligibility for RAS.

Recommendation 15

That the Authority make publicly available a version of its procedure manual and a document setting out any other guidelines used to assess eligibility for RAS. (p.110)

25. Evidence was received that the Authority is generally accessible and has become more "user friendly" in recent years.

Recommendation 16

The Committee commends the Authority's increased accessibility to farmers and recommends that the Authority continually seek to improve its accessibility to its clients. The Committee commends the recent establishment of a 008 number and recommends the continuation and promotion of this service. (p.110)

i. Specific issues concerning RAS '92

26. RAS '92 is more outcomes oriented than previous rural assistance measures. Consequently there is a greater need for evaluation of the effects of assistance provided under RAS '92 than other assistance measures. It is the Commonwealth Government's responsibility to develop performance indicators for RAS. However,

the Authority has an important role to play in monitoring and evaluating the effectiveness of the assistance which it administers.

Recommendation 17

That the Authority Board consider the most appropriate mechanism for the follow up and monitoring of farmers who have received assistance under RAS, particularly productivity enhancements grants under RAS '92. (p.121)

27. The Committee has reviewed the new pilot program for the administration of RAS '92 developed by RAFCOR in Western Australia. The pilot program involves an easy check questionnaire, the preparation of farm business plans and the conduct of post support reviews. The Committee is of the view that this pilot program may represent the sort of system required to achieve the objectives of RAS '92. Of course this needs to be balanced against the possible administrative cost of such a system.

Recommendation 18

That the Authority Board carefully consider the possible application of RAFCOR's new pilot program as a model for the administration of RAS '92 in NSW. (p.121)

28. The Rural Assistance Authority does not have any mechanism to filter out those applications which clearly fall outside the guidelines for RAS. The Committee has reviewed the new easy check questionnaire developed by RAFCOR in Western Australia and believes this approach is worthy of detailed consideration by the Authority. This enables farmers to quickly come to a realistic view as to their prospects for obtaining RAS assistance and helps to minimise the creation of unrealistic expectations.

Recommendation 19

That the Authority develop a filtering system along the lines of the easy check questionnaire developed by RAFCOR. (p.122)

29. Farmers who exit the industry in Western Australia and receive a re-establishment grant are also provided with up to \$3,500 for career counselling. RAFCOR also provides psychological counselling for exiting farmers. The Committee believes that greater attention needs to be paid to the psychological trauma involved in leaving farming and the provision of assistance to exiting farmers to develop alternative careers.

Recommendation 20

That the Authority Board consider the application of RAFCOR's provision for career counselling and psychological counselling as a model for the enhancement of the administration of the re-establishment grant in NSW. (p.122)

30. The Rural Finance and Development Division of the South Australian Department of Primary Industries has recently allowed a number of farmers who have exited the industry and received the re-establishment grant to remain in their family home, keep up to 100 acres and even run a few hundred sheep. The Rural Assistance Authority has facilitated some exiting farmers being able to remain in their homes in NSW. There are some circumstances in which this approach would be not practicable and caution must be exercised to ensure against the development of numerous small, unviable holdings. However, the Committee sees merit in the application of this approach where possible as a means of easing the psychological trauma for farmers leaving farming.

Recommendation 21

That the Authority allow farmers exiting the industry to remain in their family homes wherever this is practicable. (p.122)

31. The Commonwealth Government has recently announced a new regional approach to RAS. Adjustment issues can be common to farmers in a particular area or locality.

Recommendation 22

That the Authority give consideration to providing grants to groups of farmers to enable them to address common adjustment pressures on a community basis. (p.123)

32. RAS '92 provides productivity enhancement grants to farmers with prospects of long term viability. At the other end of the spectrum farmers leaving the industry have to have assets of \$45,000 or less to receive a full re-establishment grant. There is a large group of farmers who are receiving no assistance under RAS '92. These are farmers who do not have prospects of long term viability but who are not yet leaving the industry. The Committee would like to see these farmers receiving professional advice so that they can realistically assess their future and, if necessary, decide to leave the industry while they can do so with dignity and with sufficient resources to be able to re-establish themselves.

Recommendation 23

That the Authority Board develop a referral system for the Authority to use. Under this system farmers who are declined assistance on the grounds that they are not viable would be referred to a rural counsellor or other accredited professional for advice, funded by the Authority. (p.123)

3. THE ROLES OF THE BOARD AND CHIEF EXECUTIVE

33. Evidence was received from members of the current Authority Board. The Committee was pleased to note that the Board was enthusiastic to address a number of the issues identified by the Committee during this inquiry. Indeed the Board had initiated work on a number of these issues before this inquiry commenced.
34. The respective roles of the Authority Board and the Chief Executive are identified in sections 10 and 12 of the *Rural Assistance Act 1989*. These sections should not preclude the Board from being closely involved in the detail of any of the issues addressed in this report.

Recommendation 24

That, if there is any doubt about the Board's role in addressing the issues identified in this report, the Rural Assistance Act should be amended to clarify the Board's role. The Authority Board should have a key role in the implementation of each of the recommendations contained in this report. (p.132)

35. During the inquiry it became apparent that the management of the Authority is highly centralised. This is not in accordance with modern management practices. Furthermore, it is evident that the Chief Executive and Chief Manager Lending have carried a large part of the burden of administering rural assistance in NSW. This burden should be shared with senior staff involved in the Authority's core business of assessing applications for assistance.

Recommendation 25

That the Authority Board review the Authority's management structure with a view to ensuring more delegation of responsibility to senior staff involved in the core business of assessing applications for assistance. (p.133)

4. FINANCIAL MANAGEMENT

36. The 1993-94 NSW budget papers revealed a \$39 million decrease in the cash reserves of the Rural Assistance Authority. Under RAS schemes prior to RAS '92 the Commonwealth allocated funding to the states according to a formula and allowed state RAS authorities to retain unexpended payments. Considerable cash reserves were built up by all state RAS authorities. In July 1993 the Commonwealth changed the funding method for RAS. Cash reserves were to be drawn down to one month's requirements and further funding was provided by the Commonwealth on a monthly acquittals basis. Overall the Authority's expenditure increased from \$58.596 million in 1992-93 to \$63.414 million in 1993-94.
37. The Auditor-General's report for 1993 noted that the Authority's suspense account contained several large amounts that had remained unidentified and undeclared for long periods, some in excess of twelve months. The Committee understands that this involved loan repayments on old loans which were unidentified during the 1991-92 financial year. Staff of the Audit Office have advised that this issue has been satisfactorily resolved by the Authority.
38. RAS '92 provides assistance only in the form of grants. However, the Rural Assistance Authority has a substantial loan portfolio. The Authority manages loans of \$21 million from old RAS schemes and \$11 million from old state schemes. It also manages loans of \$45 million from the Special Conservation Scheme and \$32 million from the Natural Disasters Relief Scheme. Within this portfolio the Authority has made provision of \$6 million for doubtful debts. \$1.4 million was written off for bad debts in 1993-94.
39. The Authority considered divesting itself of its loan portfolio in 1989 but, in view of the likely return to the NSW Government and the possible disruption to the Authority's clients, decided to retain the loan portfolio. However, the Commonwealth Government is seeking to have repayments on pre-1985 RAS accelerated and RAFCOR is in the process of divesting itself of its loans portfolio.

Recommendation 26

That the Authority Board reconsider the question of whether the Authority should divest itself of parts of its loans portfolio from old schemes. (p.145)

40. The Committee notes the positive comments of staff of the Audit Office and NSW Treasury about the Authority's financial management and accountability.

5. DROUGHT ISSUES

41. The primary purpose of drought declarations in NSW is to trigger subsidies for the transportation of fodder, stock, etc. The Committee understands that all states have

agreed that, as part of the National Drought Strategy agreed to in 1992, such subsidies will be phased out.

42. Evidence was received critical of the criteria used by the Commonwealth Government to determine eligibility for Exceptional Circumstances Drought assistance under RAS '92. The requirement for areas to be drought declared for 24 out of the previous 36 months is overly restrictive and inflexible.

Recommendation 27

That the NSW Government urge the Commonwealth Government to reconsider the criteria used to determine eligibility for Exceptional Circumstances Drought assistance under the provisions of RAS '92. (p.157)

43. Evidence was received critical of the inflexibility of applying Exceptional Circumstances Drought assistance on the basis of Rural Lands Protection Board (RLPB) areas.

Recommendation 28

That the NSW Government urge the Commonwealth Government to consider a mechanism whereby properties bordering RLPB areas which qualify for Exceptional Circumstances assistance could be considered on a case by case basis. (p.158)

44. When Exceptional Circumstances assistance is provided under RAS '92 a State Government can contribute funds to provide an interest subsidy of between 50% and 100% to eligible applicants. When Exceptional Circumstances drought assistance first became available the Queensland Government decided to provide a 100% subsidy on new debts and a 50% subsidy on old debts. The NSW Government decided to provide an 80% subsidy on both new and old debts. At the time of these decisions Exceptional Circumstances assistance under RAS was "funds limited". In September 1994 the Prime Minister announced that Exceptional Circumstances assistance would be "demand driven", that is funds would not be limited and all eligible applicants would receive assistance. The Queensland Government then decided to provide a 100% subsidy on all debts, both new and old. The NSW Government continues to provide an 80% subsidy on both new and old debts.
45. State and Commonwealth Agriculture Ministers have recently agreed upon a core set of criteria to enable the declaration of droughts to be objectified and scientifically based. The Committee supports the development of a clear and agreed definition of drought. However, there is concern that this definition might be quantified in such a restrictive way as to prevent any area in NSW currently qualifying for Exceptional Circumstances Drought assistance.

46. Evidence was received critical of the provision of Exceptional Circumstances assistance under RAS. The Exceptional Circumstances Wool scheme generated considerable controversy, particularly the requirement that for farmers to qualify they needed to have received at least 65% of their income from wool or sheep. The provision of exceptional circumstances assistance under RAS has contributed to the confusion in the farming community about the objectives of RAS '92. The Committee notes the recommendation of the Senate Committee that Exceptional Circumstances assistance should be removed from RAS and included in a separate Commonwealth - State agreement.
47. Since the commencement of this inquiry both the NSW and Commonwealth Governments have announced the availability of a wide range of assistance measures to drought affected farmers in NSW.

6. FOLLOW UP REVIEW

Recommendation 29

That the next Public Accounts Committee undertake a follow up inquiry to monitor the Authority's implementation of the recommendations contained in this report twelve months after its tabling. (p.161)

CHAPTER ONE

BACKGROUND TO THIS INQUIRY

1.1 Reference from the Legislative Assembly

1.1.1 This inquiry was referred to the Public Accounts Committee (the Committee) by the Legislative Assembly in accordance with the provisions of section 57(1)(f) of the *Public Finance and Audit Act 1983*.

1.1.2 On 14 September 1994 the Shadow Minister for Agriculture, Bob Martin MP, moved a motion for urgent consideration that the Legislative Assembly refer the performance of the Rural Assistance Authority (the Authority) to the Committee. In speaking to the motion Mr Martin made four substantive points:

- (i) The Auditor-General's report for 1993 had stated that the Rural Assistance Authority's suspense account included several large amounts that remained unidentified and undeclared for long periods, some in excess of six months.
- (ii) The 1993-94 budget papers revealed a decrease in the Authority's cash balance of \$39.411 million. Mr Martin said that, "in other words, half the money has been syphoned into consolidated revenue. That is creative accounting or hollow logging"
- (iii) The Chief Executive of the Authority was under threat, with the Government having put him on two months notice.
- (iv) Only 47% of applications for assistance are approved by the NSW Rural Assistance Authority, compared with 68% of applications approved in Queensland and up to 90% in other States.¹

1.1.3 In response the Minister for Agriculture, Ian Causley MP, said that the Authority was a well run organisation. He said it was inappropriate for comparisons to be drawn with other States, as they had a filtering process whereby applications were processed on a regional level and applications were not recorded until they came through to a central system. In NSW all applications were received and processed centrally. Mr Causley went on to criticise the criteria for eligibility for rural assistance established by the Commonwealth Government. He said that all funds provided to NSW for

¹ See *Hansard*, Legislative Assembly, 14 September 1994, pp.2950-2951 for full transcript.

rural assistance had been allocated. Mr Causley said he would not oppose the motion as the Rural Assistance Authority had nothing to hide from a Public Accounts Committee inquiry. Finally, he said that if the Committee found that other States had been providing assistance contrary to the Commonwealth Government's guidelines the NSW Government would have no hesitation in doing the same.²

1.1.4 The motion passed by the Legislative Assembly on 14 September 1994 was:

That this House refers to the Public Accounts Committee the performance of the Rural Assistance Authority.

1.2 Terms of reference

1.2.1 Following the receipt of the reference from the Legislative Assembly the Committee agreed upon the following terms of reference for this inquiry.

To examine:-

- 1. The economy, efficiency and effectiveness of the operations of the Rural Assistance Authority.*
- 2. The Authority's methods of applying Commonwealth criteria for the evaluation of drought relief applications, particularly in comparison with the methods used in other jurisdictions.*
- 3. The criteria and methods used in NSW to declare drought areas, in comparison with other states.*
- 4. The Authority's liaison and co-operation with other agencies of Government, including NSW Treasury and Federal bodies.*
- 5. The financial management systems of the Authority, including its cash management practices and debt management procedures.*
- 6. The Authority's procedures for following up applications at the local level.*
- 7. Any other matter relating to the accountability of the Authority.*

1.3 Conduct of this inquiry

1.3.1 The first step taken by the Committee in the inquiry was to advertise in the *Sydney Morning Herald*, the *Land* and regional newspapers, calling for public

² *ibid.*, pp.2951-2953

submissions. The Committee received 47 written submissions. These are listed in Appendix 2.

- 1.3.2 During the first week of November the Committee undertook a series of visits to country areas. These visits enabled the Committee to meet with farmers who had made applications to the Rural Assistance Authority for assistance. The Committee also met with rural counsellors, accountants and bankers who had assisted farmers with their applications to the Authority for assistance. In order to cover as many areas of the state as possible, Committee members and staff split into three groups. The Committee Chairman, Ian Glachan MP, and the Committee Clerk visited Albury, Wagga Wagga, Griffith and Cobar. Peter Cochran MP and the Committee's Accounting and Auditing Adviser visited Comma and Yass. Terry Rumble MP and the Committee's Senior Project Officer visited Grafton, Moree, Walgett and Gilgandra. Public meetings were held in each town. These meetings were attended by approximately 120 people.
- 1.3.3 On 3 November the Committee met together in Dubbo. Informal discussions were held with rural counsellors who had been in Dubbo for their annual meeting. The Committee held a public hearing in Dubbo on 4 November. At the conclusion of the public hearing an informal public forum was held during which a further 20 people told the Committee about their experiences with the Rural Assistance Authority.
- 1.3.4 Further public hearings were held in Sydney on 14 and 21 November. The final hearing, at which the Committee received evidence from the Chief Executive and Board of the Rural Assistance Authority, was held in Sydney on 20 December. The Chief Executive and Chief Manager Lending gave evidence in public. Three of the part-time members of the Board gave evidence in camera. The Chief Executive and the part time Board members then gave evidence together in public. All those who gave evidence before the Committee at its hearings are listed in Appendix 1.
- 1.3.5 In view of the concerns raised about the Authority's approval rates and interpretation of Commonwealth Government guidelines in comparison with similar bodies in other States, the Committee thought it was important to review the operations of rural assistance authorities in a number of States. During October the Committee Chairman, Ian Glachan MP, Geoff Irwin MP and the Committee Director took the opportunity of visiting the Rural Finance Corporation of Victoria whilst in Melbourne on other Committee business. Terry Rumble MP and the Committee's Senior Project Officer visited the Rural Finance Corporation of Victoria at a later date. They also visited the Rural Adjustment and Finance Corporation of Western Australia and the Rural Finance and Development division of the South Australian Department of Primary Industries. Geoff Irwin MP and the Committee's Senior Project Officer also visited Canberra for discussions with senior officers of the Department of Primary Industries and Energy and members of the Senate Standing Committee on Rural and Regional Affairs. A list of all those with whom the Committee met on its interstate visits is provided in Appendix 3.

- 1.3.6 Committee members and staff have visited and worked in the offices of the Rural Assistance Authority on numerous occasions. In addition to the Authority's submission the Authority has been required to respond to requests for specific information. A few days before the hearing on 20 December the Authority was asked to provide detailed statistical information on the approval rates for each of its assessment staff, together with a staff profile. The Committee understands that the presentation of this information required the Authority to undertake a considerable amount of work. The Committee wishes to record that the Authority responded quickly to each request for information and adopted a co-operative and positive approach to this inquiry.

1.4 Structure of this report

- 1.4.1 This report is divided into three parts. The report begins with a number of background chapters which include essential background information on the Rural Assistance Authority and the Rural Adjustment Scheme. Chapters Four to Eleven are concerned with the delivery of rural assistance by the Authority. There are chapters on the assessment process, approval rates, consistency, reasons and appeals, background and training of assessment staff, regional presence, publicity and information, and specific issues concerning the delivery of assistance under the provisions of the most recent form of the Rural Adjustment Scheme. Chapters Twelve to Fifteen deal with a number of other key issues which arose during the course of the inquiry. There is a chapter on the role of the Authority Board. Another chapter addresses issues related to the financial management of the Authority. There is also a chapter dealing with issues related to the drought which have arisen during the course of the inquiry. Finally, there is also a brief concluding chapter which discusses the prospects for change within the Authority and the need for a follow up review to examine the implementation of the recommendations contained in this report.
- 1.4.2 As discussed in Chapter Two the Rural Assistance Authority administers a range of assistance schemes. However, the evidence received by the Committee during the course of this inquiry, including the concerns which were put to the Committee about the effectiveness of the Authority's operations, almost exclusively related to the Authority's administration of one scheme, the Rural Adjustment Scheme. As a result most of the Committee's recommendations are specifically targeted at the Authority's administration of this scheme and there is considerable discussion of this scheme in the body of the report. Other recommendations are general in nature, though, and the Committee has sought to present a report which will also be relevant to the Authority's administration of rural assistance generally.

1.5 General context: current drought

- 1.5.1 At the time the Committee received this reference, NSW was in the grip of severe drought. During the course of the Committee's inquiry the drought has worsened. By the end of December 1994 98% of the state was drought declared and the state had lost \$2 billion in production. The winter wheat harvest was reduced from 5.5 million tonnes in 1993 to just 0.5 million tonnes in 1994.³ Nationally the wheat crop has fallen by more than 50% to its lowest level since 1972. The loss in crop exports is expected to reach \$1.6 billion. The national economy is expected to lose \$2.9 billion and gross domestic product will fall by 0.7%.⁴ The beef industry has lost \$500 million, the lamb industry \$374 million and the cost of feed grain has risen by up to 353%.⁵ The cotton crop has also been drastically reduced with a loss of \$500 million forecasted.⁶
- 1.5.2 These economic statistics give some impression of the magnitude of the current drought. In addition to the economic cost of the drought the Committee has also been conscious throughout this inquiry of the immense social cost of the drought. Farming properties which have been owned by families for generations are increasingly vulnerable to being sold or repossessed. Farm incomes have been drastically reduced and many farming families are living below the poverty line. Farming families are under severe stress and many are suffering from anxiety and depression. Marriage breakdown, physical illness and emotional and psychological problems have resulted.⁷
- 1.5.3 Soon after the Committee received this reference the NSW and Commonwealth Governments each announced a range of assistance measures for drought affected farmers. Further assistance measures have continued to be announced by both Governments. These are discussed in Part Five, along with the procedures for the declaration of droughts.
- 1.5.4 Some of these assistance measures are administered by the Rural Assistance Authority and the Authority's workload has increased significantly during the course of this inquiry as new assistance measures have been announced. Despite the increase in the Authority's workload in relation to drought assistance, the evidence which the Committee received was, as outlined in paragraph 1.4.2 above, mostly concerned with the Authority's administration

³ "Drought now worst in history", *Sydney Morning Herald*, 31 December 1994

⁴ "Drought forecasts warn of \$2.9 billion loss to nation", *Australian*, 2 December 1994

⁵ "Australia's Two billion Dollar Drought: A Complete Analysis", *Sydney Morning Herald*, 22 September 1994

⁶ "Drought could cost cotton industry \$500 million", *Australian Financial Review*, 25 November 1994

⁷ NSW Legislative Council Standing Committee on Social Issues, *Suicide in Rural New South Wales*, November 1994, pp.16-18

of the Rural Adjustment Scheme generally. Therefore this report is not primarily about drought assistance.

1.6 Concurrent Developments

- 1.6.1 While this inquiry was examining the performance of the NSW Rural Assistance Authority, another inquiry was examining the effectiveness of the Rural Adjustment Scheme. The **Senate Rural and Regional Affairs and Transport References Committee** (the Senate Committee) received a reference from the Senate in March 1994 to review the **Rural Adjustment Scheme**, rural debt and rural reconstruction. The Senate Committee conducted hearings around the country, including in NSW. As outlined in paragraph 1.3.5 above, Geoff Irwin MP and the Committee's Senior Project Officer met with members and staff of the Senate Committee in late November. It was agreed that both Committees had received evidence about similar concerns. It was also agreed that the reports of the two Committees would be able to be complementary, with the Senate Committee dealing with broad issues of concern about the Rural Adjustment Scheme and the Public Accounts Committee dealing with issues of concern about the delivery of rural assistance in NSW. The Senate Committee tabled its report on 7 December 1994. The contents of the Senate Committee's report are discussed in Chapter Three.
- 1.6.2 In March 1994 the **Legislative Council Standing Committee on Social Issues** received a reference from the Deputy Premier to examine the escalating suicide rate in a number of local government areas. The Committee resolved to consider the issue of rural suicide across NSW country areas as a whole. The Committee conducted hearings in a number of country areas. The Committee's report on *Suicide in Rural New South Wales* was tabled in the Legislative Council on 23 November 1993. The Committee's report begins with a profile of rural communities in changing economic times. The main body of the report discusses the extent and nature of suicide in rural NSW, the factors associated with suicide and strategies for the prevention of suicide in rural NSW. The Committee's recommendations include the establishment of a National Centre for Suicide Research, the creation of a senior position within the NSW Department of Health to deal with issues of suicide prevention, giving priority to rural communities in education campaigns about mental disorders, encouragement of the establishment of local Suicide Prevention Taskforces throughout NSW, and implementation of the NSW Government's goals and strategies for Rural Mental Health Services. The background chapter on rural communities in changing economic times contains a brief discussion of rural assistance schemes. The report notes that farmers have many concerns about the Rural Adjustment Scheme and highlights the lack of any guidelines or rules about eligibility for applicants for assistance. The report calls for the Minister for Agriculture to negotiate with the Commonwealth Minister for Primary Industries and Energy "to ensure that the

operation of the Rural Adjustment Scheme maximises positive and swift responses to farmers' applications".⁸

- 1.6.3 On 27 October 1994 the Shadow Minister for Consumer Affairs, Richard Amery MP, introduced the *Farm Debt Mediation Bill 1994* into the Legislative Assembly. The bill was intended to provide both for voluntary mediation and also mandatory mediation covering farm debts before a creditor could take possession of a property or take other enforcement action under a farm mortgage. The bill was based upon farm-creditor mediation services operating in the United States.⁹ Following initial debate on 17 November and extensive discussions between representatives of the NSW Farmers Association, the Australian Bankers Association and a number of MPs amendments were introduced on 24 November which simplified the bill.¹⁰ The bill was further amended in the Legislative Council on 30 November.¹¹
- 1.6.4 The *Farm Debt Mediation Act 1994* was proclaimed on 12 December 1994 and will take effect from 12 February 1995. The Act provides that a creditor cannot take enforcement action against a farmer in respect of a farm mortgage until at least 21 days' notice has been given to the farmer. A farmer who has been given such notice may request mediation concerning the farm debt involved. Once a farmer has requested mediation no enforcement action can be taken until either satisfactory mediation has been completed, the farmer has declined to mediate, or 3 months have elapsed during which time the creditor has attempted to mediate in good faith.¹² In addition to its significance as a piece of legislation affecting the farming community and rural finance, attention is drawn to the *Farm Debt Mediation Act* because of the role which the Rural Assistance Authority has been given in its administration. This role is discussed further in Chapter Two.

⁸ *Suicide in Rural NSW*, p.21

⁹ *Hansard*, Legislative Assembly, 27 October 1994, p.4822

¹⁰ *Hansard*, Legislative Assembly, 24 November 1994, pp.5769-5783

¹¹ *Hansard*, Legislative Council, 30 November 1994, pp.5943-5947, 5956-5968

¹² *Farm Debt Mediation Act 1994*, sections 8 - 11

CHAPTER TWO

THE RURAL ASSISTANCE AUTHORITY

2.1 Predecessors to the Rural Assistance Authority

- 2.1.1 Over the years the administration of rural assistance in NSW has become increasingly complex. Rural assistance was first introduced in NSW through the *Farmers Relief Act 1932*. This Act provided assistance mainly through the imposition of stay orders to prevent creditors from taking action against farmers in respect of debts. Such stay orders were to be made by the Farmers Relief Board which would then appoint a supervisor to manage and administer the farmers affairs. The Board also had the power to provide carry on finance to the farmer.¹³ The *Rural Reconstruction Act 1939* renamed the Farmers Relief Board as the Rural Reconstruction Board in an effort to "eliminate wherever possible the essence of relief and all that the word connotes".¹⁴ The *Rural Assistance Act 1971* changed the name of the Board to the Rural Assistance Board.
- 2.1.2 The *Rural Bank Act 1932* established a Government Agency Department within the Rural Bank to administer the financial activities of a number of government agencies. The *Rural Bank (Agency) Act 1934* transferred the Farmers Relief Agency and the Rural Industries Agency, amongst others, to the Government Agencies Department of the Rural Bank. The object was to achieve efficiencies and improve the administration of schemes under which the government provided loans to farmers and others. It was felt that the Rural Bank would be better placed to collect debts than individual agencies. It was also hoped that by pooling the funds from the various government assistance schemes more money could be made available at any one time to those most in need.¹⁵ These provisions were retained in the *State Bank Act 1981*.
- 2.1.3 The Rural Assistance Board took on principal responsibility for the administration in NSW of Commonwealth rural assistance schemes, such as the 1971 Rural Reconstruction Scheme and the Rural Adjustment Scheme from 1976. The board acted as an independent authority but used the State Bank as an agent in the delivery of assistance to farmers. The Rural Industries Agency

¹³ *Farmers Relief Act 1932, Part Two*

¹⁴ *Hansard, Legislative Assembly, 7 June 1939, p.5237*

¹⁵ *Hansard, Legislative Assembly, 20 November 1934, p.4171*

of the State Bank, on the other hand, was responsible for the administration of state rural assistance schemes.

- 2.1.4 The Rural Assistance Board comprised seven appointed members. By 1988 it met approximately every fortnight for two days to review each application for assistance under the Rural Adjustment Scheme (RAS). Twenty five staff were seconded from the State Bank to administer the Board. The State Bank also acted as the Board's agent, receiving applications for assistance, conducting field inspections and reporting to the Board on each application. The State Bank provided the Board with all of its administrative and accounting services. In addition to the 25 staff seconded to the Board, the State Bank employed the equivalent of a further 55 full time staff in its role as the Board's agent.¹⁶
- 2.1.5 By 1988 the Rural Industries Agency of the State Bank administered three state schemes known as the General Scheme, Special Scheme and Relief Scheme. The Rural Industries Agency was responsible for processing applications for assistance and the administration of loans under these schemes. In addition to this agency other staff of the State Bank, including valuers, branch staff and various head office staff, were also involved in the administration of state schemes. In total the State Bank employed the equivalent of 140 full time staff in the administration of state rural assistance schemes.¹⁷

2.2 1988 Review of NSW Rural Agencies

- 2.2.1 In December 1987 the NSW Treasury commissioned Coopers & Lybrand WD Scott to undertake a review of NSW rural agencies. The review was commissioned for three reasons:
- (i) Concern that the operations of the Rural Assistance Board and the Rural Industries Agency of the State bank overlapped, leading to administrative inefficiencies.
 - (ii) The cost of administering rural assistance in NSW in comparison with other states appeared to indicate scope for improving the cost effectiveness of the schemes.
 - (iii) Farmers and their advisers appeared to be somewhat confused by the number of schemes and the fact that they were administered by two separate agencies.¹⁸

Coopers & Lybrand reported to the Treasury in April 1988.

¹⁶ NSW Treasury, *Report on the Review of New South Wales Rural Agencies*, April 1988, pp.9-10

¹⁷ *ibid.*, pp.10-11

¹⁸ *ibid.*, pp.1-2

2.2.2 Coopers & Lybrand calculated the total cost of administration of rural assistance in NSW as \$7.398 million in 1986/87. The totals arrived at for the years 1984/85, 1985/86 and 1986/87 by Coopers & Lybrand are set out below in table 2.1.

Table 2.1 - Summary of Administrative Costs ¹⁹			
	1984/85	1985/86	1986/87
R.A.B.	\$2.533m	\$2.647m	\$2.940m
R.I.A.	\$3.374m	\$3.457m	\$4.458m
Total NSW	\$5.907m	\$6.104m	\$7.398m

Coopers & Lybrand further calculated the cost/benefit ratio of the delivery of rural assistance in NSW. It was calculated that the NSW rural sector benefited by a total of \$22.4 million in 1986/87. The delivery cost of this benefit was \$7.4 million. The delivery cost/benefit ration was therefore 33% (\$7.4 million on \$22.4 million). The ratio for Rural Assistance board schemes was 25% (\$2.9 million on \$11.5 million) and for Rural Industries Agency schemes 41% (\$4.5 million on \$10.8 million). This cost/benefit ratio was then compared with that of other states and the results are set out below in table 2.2. The report drew a number of conclusions from this data.

[T]he costs of delivery of rural assistance in NSW are high, relative to the benefit provided to the rural sector. For every \$1 of effective assistance provided, it costs the taxpayer about 33 cents, per year, to deliver the assistance.... [T]he differences [between NSW and the other states] are substantial, particularly in WA and lead to a conclusion that NSW is not delivering its rural assistance schemes as cost effectively.²⁰

The report also concluded that because of the way the costs of delivering rural assistance are apportioned between and within the Rural Assistance Board and the Rural Industries Agency, it was "difficult to hold any manager directly responsible and accountable for the overall costs of administration of those agencies".²¹

¹⁹ reproduced from *ibid.*, p.15

²⁰ *ibid.*, p.26

²¹ *ibid.*, p.21

Table 2.2 - Cost of Delivery Ratios²²			
	Admin. costs	Average balances outstanding	Cost/benefit ratio
	\$ million	\$ million	%
Western Australia (RAFCOR)	1.8	101	18%
Victoria (RFC)	6.8	318	21%
NSW (RAB & RIA)	7.4	224	33%

- 2.2.3 In view of the cost of administration of rural assistance in NSW revealed in the report, the focus of the recommendations was the achievement of administrative efficiencies. The major recommendation contained in the report was that the Rural Assistance Board and the Rural Industries Agency be amalgamated into one body, taking the form of a Rural Assistance Corporation. The new body would have a small policy board and report to the minister for Agriculture and Rural Affairs. It would administer both the Rural Adjustment Scheme and state schemes. All commercial banks, rather than just the State Bank, were to assist farmers prepare applications for assistance.
- 2.2.4 The report considered the existing arrangements for State Bank valuers to undertake field inspections of properties during the consideration of applications. The report concluded that field inspections were not required in every case and recommended that the requirement for field inspections be reduced with a view to achieving cost savings. The report recommended that more emphasis be placed on commercial bankers' assessments of a farmer.²³ The report suggested that contract valuers be used to conduct field inspections in unusual or complex cases.
- 2.2.5 In addition to setting out the general direction of rural assistance in NSW the Coopers & Lybrand report is also of interest in that it addressed a number of the same issues which have arisen during the course of this inquiry. Some of the report's major findings and recommendations are set out below.
- The Board of the new body should be small and concerned with policy, and should not consider individual applications.
 - Staff of the new body should be organised into a central head office and four or five regional offices with experienced valuers in each regional office. However, the report also suggested the role of the commercial banks as agents

²² reproduced from *ibid.*, p.26

²³ *ibid.*, p.55

for the new body should be further explored. The need for regional offices would be obviated if the banks were to act as agents for the new body.

- Interest subsidies were the most appropriate form of rural assistance. Once again this conclusion was based, at least in part, on the lower cost of administration of interest subsidies compared with loans.
- The report was critical of the external reporting previously provided by the Rural Adjustment Board and the Rural Industries Agency and recommended the provision of further information about the value of assistance provided and the cost of its delivery in the annual reports of the new body.
- Applications forms in use should be simplified and perhaps combined into one form for all schemes.
- There should also be better publicity of the assistance measures available.
- The report noted that appointment to the Rural Assistance Board was not seen as a positive career development for State Bank staff. The report recommended a detailed management review of the new organisation, including staff grading, staff development and remuneration, with a view to overcoming these perceptions.²⁴

2.2.6 The findings and recommendations contained in the Coopers & Lybrand report were supported by the Premier and Treasurer. A Working Party consisting of representatives of the Department of Agriculture, NSW Treasury, State Bank and Rural Assistance Board was established to develop an implementation plan for the consultants recommendations. The Working Party set out a plan for the establishment of a new Authority to become operational by 1 July 1989. The Working Party supported the consultants' recommendations that the new Board deal with policy only and that the Chief Executive Officer be responsible for the determination of individual applications with the power to delegate as so determined. The Working Party noted that satisfactory arrangements were likely to be made for the commercial banks' to act as agents for the new Authority. Therefore, the Working Party did not support the establishment of any regional offices. It was noted that the banks willingness to assist their clients in relation to rural assistance "may be at a cost to their farmer clients" and that this "would in effect reduce the administration costs of the new Authority". The Working Party also noted that the State Bank would be prepared to have its valuers conduct field inspections on a contract basis for the new Authority where necessary. The Working Party proposed a salary structure for the new Authority and suggested an initial staffing level of fifty. It was estimated that the cost of the

²⁴ *ibid.*, pp.28, 40, 42, 45, 38, 56

administration of rural assistance by the new Authority would be \$4.87 million per year.²⁵

2.3 Rural Assistance Act 1989

- 2.3.1 The *Rural Assistance Bill 1989* was introduced into the Legislative Assembly on 10 May 1989. The Minister for Agriculture noted that establishment of the new Rural Assistance Authority would improve the efficiency and effectiveness of the delivery of rural assistance in NSW, resulting in cost savings of \$3 million annually.²⁶ The bill received bipartisan support. The only concern raised by the Opposition was that the State Bank, which in its previous form as the Rural Bank and its current form had been "prominent in assisting country people", would no longer have an influence in the handling of rural assistance.²⁷
- 2.3.2 The *Rural Assistance Act 1989* (the Act) constitutes the Rural Assistance Authority (the Authority) as a statutory corporation ultimately accountable to the Parliament. The Act provides for the Authority to administer both Commonwealth and state schemes, including those previously administered by the Rural Assistance Board and the Rural Industries Agency of the State Bank. Existing loans from those two organisations are transferred to the Authority under Schedule Three to the Act.
- 2.3.3 The Act does not set out in detail the schemes or the nature of the assistance to be administered by the Authority. This is left to the direction of the Minister for Agriculture. Nor are the procedures which the Authority is to follow set out in any detail in the legislation.
- 2.3.4 Section 9 constitutes the Board of the Authority. The Board is to consist of the Chief Executive and four part-time members. Two of the part-time members are to represent farmers and the other two are to have qualifications in banking, farm management or an associated area. Section 10 provides that the Board "has the function of determining the policies of the Authority". Section 12 provides that the affairs of the Authority are to be managed and controlled by the Chief Executive in accordance with the policies of the board.
- 2.3.5 Section 7 of the Act provides that the Authority may authorise a bank to lodge applications for assistance, pay money either by or to the Authority, execute documents on behalf of the Authority, or transact other business on behalf of the Authority. However, the Authority may not authorise a bank to determine an application for assistance.

²⁵ *Working party Report on New South Wales Rural Agencies Review*, September 1988, pp.5, 8, 15, 17, 22

²⁶ *Hansard*, Legislative Assembly, 10 May 1989, p.7903

²⁷ *Hansard*, Legislative Assembly, 11 May 1989, p.8150

- 2.3.6 The Act contains a regulation making power. The *Rural Assistance (General) Regulation 1990* is largely concerned with the procedures for making protection orders under the Act. The regulation also provides oyster farming as a farming operation which may receive assistance under the provisions of the Act.
- 2.3.7 There has only been one minor amendment to the *Rural Assistance Act* since it was passed in 1989.

2.4 Transitional arrangements

- 2.4.1 The Rural Assistance Authority was established when the *Rural Assistance Act* came into operation on 1 July 1989. The Acting Director of the Rural Assistance Board, Graham Maslen, was appointed Chief Executive of the Authority, a position which he still holds. Staff were seconded from the State bank until 8 January 1990 when they were given the opportunity of transferring to the new Authority (thereby retaining their existing banking benefits including concessional home loans) or accepting voluntary redundancy. Facilities and services continued to be provided by the State bank on a fee for service basis until October 1990 when the Authority had established its own in house computer facilities. The following quote from the Chief Executive provides some insight into the difficulties faced by the new Authority.

At the time of the establishment of the Authority the basic staff equivalent was 50 and Chief Executive was not given the time or the instruction to set his own staff structure; he had to run with what he had. When outside staff were appointed in 1990 the number of qualified loans officers to select from was very limited, the market was very depressed in the sense of getting personnel. However, staff were urgently needed to meet the first disaster. We not only look after assistance to primary producers, we also look after assistance to small business. The first disaster was the Newcastle earthquake in December 1989. We also had to put our own management information service in place for staff to become computer literate. When I took over the agency everything was done manually. This particular area was, and still is, of some concern to the Chief Executive.²⁸

- 2.4.2 The Authority was originally located in State Bank premises at No. 1 Oxford Street, Sydney.

²⁸

Evidence, Graham Maslen, 20 December 1994, p.8

2.5 Corporate Objectives of the Rural Assistance Authority

2.5.1 The Charter of the Authority is as follows.

*In broad terms the function of the Authority is to administer a wide range of assistance measures to the rural sector. These assistance measures are both Commonwealth and State funded. Whilst the rural sector is the Authority's core client, it is also responsible for the administration of relief assistance to small businesses that have suffered loss or damage due to natural disaster.*²⁹

The Authority's Mission Statement is as follows.

*The New South Wales Rural Assistance Authority is dedicated to providing accessible, timely and flexible financial assistance to primary producers or any other persons eligible to obtain such assistance.*³⁰

2.5.2 The Authority's Corporate Objectives are to:

1. *Administer assistance schemes within the framework of State and National programs in a cost efficient and effective way.*
2. *Promote community awareness by the provision of timely and accurate information so that financial assistance can be directed to the right people at the right time.*
3. *Provide Government, industry and the community with quality information and timely information and service.*
4. *Process applications and reviews for assistance in a timely, efficient, confidential and effective manner.*
5. *Promote excellence in performance by developing and maintaining a highly skilled, motivated and professional workforce.*³¹

²⁹ New South Wales Rural Assistance Authority, *Annual Report for the Year ending 30 June 1994*, p.1

³⁰ *ibid.*

³¹ New South Wales Rural Assistance Authority, *Submission*, November 1994, p.5

2.6 Assistance schemes administered by the Rural Assistance Authority

- 2.6.1 The Authority administers both Commonwealth and State rural assistance schemes. As mentioned in paragraph 1.4.2 above, most evidence received by the Committee related to the Authority's administration of the Rural Adjustment Scheme (RAS), a Commonwealth scheme. The RAS is discussed in some detail in Chapter Three. The Authority administers two versions of RAS.
- 2.6.2 The 1988 version of the RAS (RAS '88) provides assistance to farmers suffering or likely to suffer financial difficulty. Assistance under this scheme was provided in the form of interest subsidies. No new assistance is able to be provided under this scheme as it is currently being phased out. However, the Authority carries a considerable number of clients under RAS '88 and the extension of interest subsidies to these existing clients is possible. In 1993-94 the Authority expended \$29.599 million, all of it Commonwealth funds, on existing clients under the provisions of RAS '88.³²
- 2.6.3 The 1992 version of RAS (RAS '92) came into operation on 1 January 1993. It targets for assistance those farmers who have long term prospects of viability in an effort to facilitate structural change in Australian agriculture. In 1993-94 the Authority expended \$26.202 million on RAS '92, of which \$21,396 million was Commonwealth funds and \$4,806 was NSW funds.³³ Assistance is provided in a number of forms.

Farm productivity enhancement measures: Interest subsidies of up to 50% of the cost of commercial finance may be provided to enable farmers to undertake productivity improvement measures. During 1993-94 the Authority approved 331 applications and \$3.13 million was expended on this form of assistance.

Skills enhancement measures: Grants of up to \$5,000 may be provided to farmers for training to upgrade their farm business and property management skills, and to assist with the cost of obtaining expert financial, planning and other advice. During 1993-94 the Authority approved 1,019 applications and \$0.733 million was expended on this form of assistance.

Re-establishment measures: Grants of up to \$45,00 may be provided to farmers (subject to a means test) who have left farming. The grant is designed to help farmers re-establish themselves after leaving the industry and often goes towards the cost of buying a house in a country town. During 1993-94

³² Rural Adjustment Scheme Advisory Council (RASAC), *Annual Report 1993-94 including Rural Adjustment Scheme Annual Report 1993-94*, Australian Government Publishing Service, Canberra, p.50

³³ *ibid.*

the Authority approved 172 applications and \$7.161 million was expended on this form of assistance.

Exceptional Circumstances: Where the Commonwealth Minister determines that exceptional circumstances exist, interest subsidies of up to 100% of the cost of commercial finance may be provided to farmers for the purposes of carry on finance, debt restructuring or productivity improvement. Exceptional circumstances may be determined to exist in specified industries or specified regions for a specified time. During 1993-94 three forms of exceptional circumstances assistance were made available. The Authority approved 848 applications and expended \$11.725 million on Wool assistance. The Authority approved 138 applications and expended \$1.593 million on Heavy Rain assistance. The Authority approved 121 applications and expended \$1.86 million on drought assistance. Of course, the provision of Exceptional Circumstances Drought assistance will be a very important part of the Authority's work in 1994-95.

- 2.6.4 There are two State rural assistance schemes administered by the Authority. The **Special Conservation Scheme** is an incentive based scheme aimed at promoting improved land management practices. Loans are provided at concessional interest rates to enable farmers to undertake works for soil conservation, the development of stock and domestic water supply, irrigation or similar purposes. During 1993-94 the Authority approved 362 applications and expended \$7.768 million on this form of assistance.³⁴
- 2.6.5 The **Relief Scheme** provides assistance to farmers and small business in times of specific natural disasters, such as bushfires, floods, hail, frost etc. Assistance was provided under this scheme to victims of the Newcastle earthquake. Assistance is provided by way of loans of up to \$80,000 for carry on requirements at an interest rate of 6%. During 1993-94 the Authority approved 19 applications and expended \$0.653 million on this form of assistance.

2.7 Other responsibilities of the Rural Assistance Authority

- 2.7.1 In addition to administering the rural assistance schemes discussed in section 2.6 above, the Authority has a number of other responsibilities. The Authority is responsible for the issuing of **Drought Exceptional Circumstances Certificates**. Farmers in areas determined by the Commonwealth Minister to be affected by exceptional circumstances drought can apply to the Authority for one of these certificates. Once the Authority has issued a farmer with a Drought Exceptional Circumstances Certificate they are eligible to receive Drought Relief Payments from the Department of Social

³⁴

Rural Assistance Authority, 1994 Annual Report, p.43

Security (subject to a means test). The Authority has now issued more than 5,000 of these certificates.

2.7.2 The Authority is responsible for the management of a loan portfolio worth \$111 million. This consists of \$45 million in loans under the Special Conservation Scheme, \$31 million in loans under the Relief Scheme, \$21 million for loans under old RAS schemes and \$11 million for loans under old State schemes.³⁵ The size of the Authority's loan portfolio is decreasing, from \$126.476 million in 1992-93 to \$111.445 million in 1993-94. However, the Authority will continue to have responsibility for a loan portfolio for some years to come - some of the loans are not due to be repaid in full until the year 2010.³⁶

2.7.3 The *Farm Debt Mediation Act 1994* (the Act) was discussed in section 1.6 above. The Act comes into operation on 12 February 1995. The Authority has been given a central co-ordinating role in relation to the mediation process established by the Act. The Authority is required to develop and approve forms for the notification of the parties to mediation. Under section 11 of the Act the Authority is required to issue certificates indicating either that satisfactory mediation has taken place, that a farmer has declined to mediate, or that 3 months have elapsed since notice was given by a creditor of intention to take enforcement action and the creditor has throughout that period attempted to mediate in good faith. Section 12 provides that the Authority is to institute, in consultation with the Australian Bankers Association and the NSW Farmers Association, arrangements for the accreditation of suitable mediators. When he appeared before the Committee on 20 December 1994 the Chief Executive of the Authority said that he was in the process of consulting with both organisations on the accreditation of mediators. He noted that although the Authority would be administering the Act he had not been consulted during its development or consideration by the Parliament. When asked about the possible impact of this new responsibility upon the Authority, the Chief Executive said that it was difficult to forecast but that the Authority may be required to deal with 2,000 mediations.³⁷

2.8 Administrative Structure and Cost of the Rural Assistance Authority

2.8.1 As noted in paragraph 2.2.6 above, when the Rural Assistance Authority was established it was envisaged that it would have an initial staff of 50 and would cost \$4.87 million a year to run. The Authority was initially established with 37 staff. By the end of June 1994 this had risen to 71: 66 permanent and 5

³⁵ *Evidence*, NSW Treasury, 20 December 1994, p.6

³⁶ *Evidence*, Stephen Griffiths, 20 December 1994, p.18

³⁷ *Evidence*, Graham Maslen, 20 December 1994, p.11

temporary staff. Table 2.3 below sets out the numbers of employee by category. Figure 2.1 on the following page is the Authority's organisational structure. It is interesting to note that the Authority's assessment staff are categorised as grade 4/5 and the loans managers as grade 8/9. The appropriateness of this grading is discussed in Chapter Four.

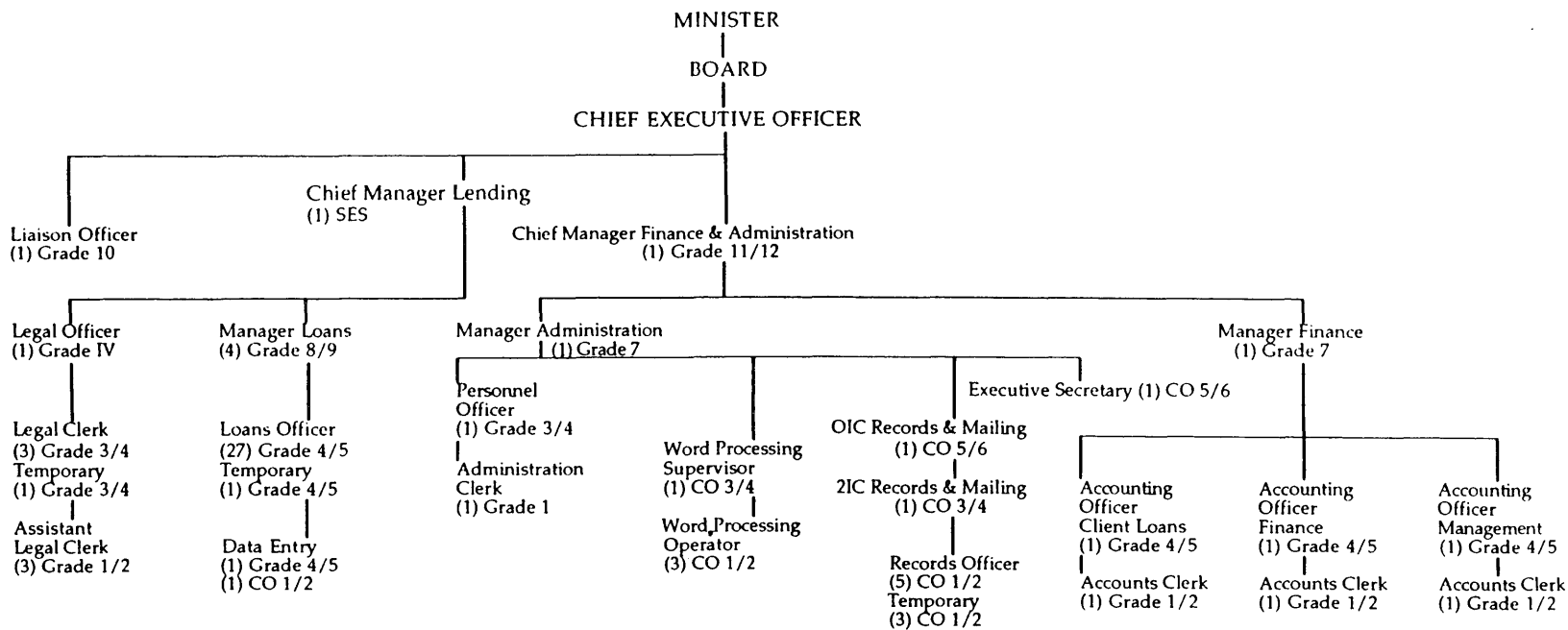
TABLE 2.3 - NUMBER OF EMPLOYEES BY CATEGORY³⁸

	1992/93	1993/94
Chief Executive Service	1	1
Senior Executive Service	1	1
Clerk Grade 11/12	1	1
Clerk Grade 11	1	0
Clerk Grade 10	0	1
Legal Officer Grade IV	1	1
Clerk Grade 8/9	3	4
Clerk Grade 7	3	2
Clerk Grade 4/5	30	32
Clerk Grade 3/4	5	5
Clerical Officer 5/6	2	2
Clerk Grade 1/2	5	6
Clerical Officer 3/4	2	2
Clerk Grade 1	1	1
Clerical Officer 1/2	<u>21</u>	<u>12</u>
	77	71

³⁸

Reproduced from Rural Assistance Authority, 1994 Annual Report, p.27

RURAL ASSISTANCE AUTHORITY
ORGANISATIONAL CHART



The Authority has a complement of 66 Permanent and 5 temporary staff.

FIGURE 2.1 - ORGANISATIONAL STRUCTURE³⁹

2.8.2 The total cost of administration of the Authority in 1993-94 was \$4.3 million. Provision has been made in the 1994-95 budget for the cost of administration of the Authority to rise to \$4.8 million. Of this figure the Commonwealth Government will provide \$2.8 million, which is 90% of the Authority's costs for the administration of RAS '92. The NSW Government contributes approximately \$2 million which represents the balance of the Authority's costs for RAS '92 and the administrative costs in respect of the State schemes.⁴⁰ The Authority included in its submission a comparison of its administrative costs with those of the other state rural assistance authorities. This is reproduced below in table 2.4. The Authority's administrative costs are shown to compare very favourably with those of the other state rural assistance authorities. The cost of administration of rural assistance in NSW is shown to be 6.8 cents for every dollar of assistance.

TABLE 2.4 - ADMINISTRATIVE COSTS: STATE COMPARISONS⁴¹

Source: Rural Adjustment Scheme Consolidated Financial Statements and Statistics as disclosed in RASAC Report on Operations 1992 - 93.

	NSW	VIC	QLD	SA	WA	TAS	NT	TOTAL
Cost of Administration \$M	3.576	2.894	7.055	2.340	2.573	.667	.206	19.311
a) for each dollar of expenditure for assistance measures provided in 92/93	6.8¢	14.2¢	20.0¢	11.9¢	46.9¢	13.2¢	21.4¢	13.8¢
b) for each application for assistance processed in 92/93	\$736	\$1,134	\$1046	\$787	\$2,141	\$2,863	\$5,421	\$1,038
c) For each application approved in 1992/93	\$1,331	\$1,260	\$1,242	\$993	\$2,658	\$3,351	\$8,240	\$1,359

⁴⁰ Evidence, NSW Treasury, 20 December 1994, p.5

⁴¹ Reproduced from Rural Assistance Authority, *Submission*, p.11

2.9 Findings and Recommendations

2.9.1 One of the main objectives of the rationalisation of rural agencies and the establishment of the Rural Assistance Authority in 1989 was to achieve efficiencies and savings in the cost of administration of rural assistance in NSW. The Rural Assistance Authority has achieved this objective. The cost of administration of rural assistance in NSW has fallen from 33 cents for every dollar of assistance in 1989 to less than 7 cents in the dollar.

2.9.2 The R.A.A. has a range of responsibilities including administration of the Special Conservation Scheme, the Relief Scheme and its loans portfolio. However, most evidence received by the Committee concerned the Authority's administration of RAS and this report therefore concentrates on the Authority's administration of RAS.

2.9.3 The R.A.A. has been given a central co-ordinating role under the provisions of the Farm Debt Mediation Act 1994. It is unclear at this stage what the Authority's workload will be under the Act.

2.9.4 **The Committee recommends that, in the context of the follow up review recommended below in p.158, the impact of the Farm Debt Mediation Act on the Authority be reviewed by the Public Accounts Committee after 12 months.**

THE RURAL ASSISTANCE AUTHORITY -

A SNAPSHOT

- Established 1 July 1989, under the provisions of the *Rural Assistance Act 1989*
- Administers three principal schemes:
 - the Rural Adjustment Scheme (Commonwealth);
 - the Special Conservation Scheme (State); and
 - the Relief Scheme (State)
- Approximately \$65 million expended on these rural assistance measures during 1993-94
- Other responsibilities include:
 - management of \$110 million loan portfolio;
 - issuing drought exceptional circumstances certificates; and
 - co-ordinating role under *Farm Debt Mediation Act 1994*
- Total staff in 1993-94: 71, including 32 assessment staff who consider applications for assistance
- Total cost of administration in 1993-94: \$4.3 million
- For each dollar of expenditure on rural assistance, 6.8 cents was spent on administration during 1992-93

CHAPTER THREE

RURAL ADJUSTMENT SCHEME

3.1 Rural adjustment

- 3.1.1 The Rural Adjustment Scheme (RAS) and rural assistance generally in the 1990's are based upon the theme of rural adjustment. Rural adjustment has been described in a number of ways, and some of these descriptions are set out below. In 1984 the Industries Assistance Commission defined rural adjustment as follows.

[R]ural adjustment is taken to encompass the numerous ways in which farmers respond to change in the economic, technical and institutional environment. It includes the way in which farmers change their use of land, labour and capital in response to such things as changes in the prices of agricultural commodities and farm inputs; opportunities for investment in agriculture and deployment of farm resources elsewhere in the economy; the availability of new farm inputs, plant and machinery and new techniques of production; alterations to marketing arrangements and access to markets; variations in climatic conditions; and changes to legal restraints on the use of farm inputs and resources.⁴²

- 3.1.2 More recently, the Department of Primary Industries and Energy explained the need for structural adjustment in the following terms.

Australian agriculture is subject to constant change. As a net exporter of agricultural products, many of these changes arise from developments in overseas markets and the resulting impacts on sales and prices received. There are also many domestic forces such as economic conditions, climate and technology which affect farmers' profitability. All these factors bring about structural adjustment in agriculture which is reflected in changing farm size, production and marketing methods, employment, types of product produced and skills required.⁴³

⁴² Industries Assistance Commission, *Rural Adjustment*, Australian Government Publishing Service, Canberra, 1984, p.1

⁴³ Quoted in Senate Rural and Regional Affairs and Transport References Committee, *Rural Adjustment, Rural Debt and Rural Reconstruction*, December 1994, p.1

3.1.3 The Department of Primary Industries and Energy went on to outline the key causes of rural adjustment in recent years and the likely challenges for rural adjustment in the years ahead.

Key causes of rural adjustment in recent years have included:

- *the steady decline in the terms of trade for agricultural output;*
- *changing market demands for rural products;*
- *deregulation within the agricultural sector;*
- *microeconomic reform and deregulation of the non-rural sectors of the Australian economy, particularly financial and currency market deregulation;*
- *the accelerating impacts of technological change;*
- *the introduction of new, more competitive management and husbandry practices;*
- *degradation of the natural resource base; and*
- *changing farm family and community attitudes.*

[S]ources of change likely to... accelerate the pressures for adjustment in the years ahead... include:

- *the positive impetus to world agricultural trade provided by the outcome of the recent GATT round;*
- *the prospects for strong economic growth in demand for agricultural products within the Asian region;*
- *the development and introduction of new agricultural and processing technologies, including new biotechnologies;*
- *changes in consumers' demand patterns for food products;*
- *the increasing vertical integration between farm and off-farm production and marketing; and*
- *increasing appreciation of the biophysical limits within the agricultural sector and improved natural resource management techniques.*

Some of the specific challenges which may be emerging for RAS now include:

- *dealing with an ageing Australian farming population;*

- *responding to the structural changes which will confront some irrigation areas as water charges rise to reflect the full cost of service provision;*
- *dealing with farming areas affected by increasing salinisation or other land and pasture degradation issues; and*
- *responding to economic pressures created at the regional level by declining industries.*⁴⁴

3.1.4 The two most important causes of rural adjustment in Australia have been disappearing markets and declining commodity prices. During the nineteenth century and up to the 1930's Australian agriculture was primarily developed for export to Britain. After World War II, however, the size of the British market declined as Britain integrated into Europe. When Britain joined the European Economic Community in 1973 it adopted common market tariffs. Australian Governments responded by trying to develop new markets for agricultural exports. However, the pressures on newly developing markets have increased, with the US acting as a competitor to Australia in potential commodity markets. These pressures have increased further in recent years as the US and the European Community have sought to place subsidised agricultural exports into new markets. These subsidies have placed further downward pressure upon commodity prices. The end result has been that Australia has too many farmers producing agricultural commodities for the available markets.⁴⁵

3.1.5 It is acknowledged that rural adjustment causes considerable hardship. Professor Warren Musgrave has noted that one of the features of ongoing rural adjustment processes is the existence of "chronic and ephemeral poverty among rural people".⁴⁶ Richard Stayner has also commented on the human element of rural adjustment.

*The detached description of farm adjustment as an inevitable consequence of national and international forces is little comfort, of course, to those farm families who unwillingly find themselves as the central characters in the process.*⁴⁷

⁴⁴ Department of Primary Industries and Energy, *Submission to the Senate Standing Committee on Rural and Regional Affairs*, May 1994, pp.1-2, 17

⁴⁵ For a thorough account of these pressures on Australian agriculture see John Wilkinson, *The Rural Sector: A Changing Economy*, NSW Parliamentary Library, Current Issues: background paper, 1994

⁴⁶ Professor Warren Musgrave, "Rural Adjustment" in D B Williams (ed.) *Agriculture in the Australian Economy*, 2nd. ed., Sydney University Press, Sydney 1982, p.249

⁴⁷ Quoted in John Wilkinson, *Rural Assistance Schemes and Programs*, NSW Parliamentary Library Briefing Note, August 1994, pp.5&6

3.2 History of the Rural Adjustment Scheme⁴⁸

- 3.2.1 Government intervention in agriculture in Australia began during World War I. In order to handle British Government contracts for bulk purchases of wool and wheat the Commonwealth Government established wool and wheat marketing boards. A range of other marketing boards were established during the 1920s. During the 1930s and 1950s policies were adopted to equalise or stabilise the prices farmers received for produce. The emphasis was upon securing a financial basis for farmers to be able to stay on the land. At the same time national development policies encouraged farmers to enter the industry and expand production.⁴⁹ As outlined in paragraph 2.1.1 above, the NSW Government introduced rural assistance provisions through the *Farmers Relief Act* in 1932, designed to assist farmers remain on the land.
- 3.2.2 In response to the structural adjustment pressures outlined in section 3.1 above, together with crises in a number of agricultural industries, the Commonwealth Government introduced the Rural Reconstruction Scheme in 1971. There were two principal forms of assistance under this scheme. Long term low interest rate loans were provided for farmers for debt reconstruction and farm build up. Grants were also available to assist rehabilitate farmers who decided to leave the industry but there was little interest in this form of assistance. Concurrent with the Rural Reconstruction Scheme was the Marginal Dairy Farms Reconstruction Scheme which sought to facilitate the amalgamation of unviable small dairy properties into larger viable units. This was followed by the Dairy Adjustment program, which provided further funds for the amalgamation of dairy properties and the introduction of new technology. A Fruitgrowing Reconstruction Scheme also operated during this time to encourage fruit growers to leave the industry. Between May 1971 and the end of 1976 \$287 million was provided to some 16,000 farmers.⁵⁰
- 3.2.3 In 1974 the Industries Assistance Commission was commissioned to review the various rural reconstruction schemes. As a result of the Industries Assistance Commission's review, the Rural Reconstruction Scheme and the various other schemes were replaced on 1 January 1977 with a single assistance scheme known as the Rural Adjustment Scheme (RAS '76). RAS '76 had the objective of restoring to economic viability those farmers with a capacity to maintain viability once it had been achieved. Assistance was provided under three parts. Part A included concessional loans for debt reconstruction, farm build up and farm improvement, and rehabilitation grants for farmers leaving farming. Part B provided carry on finance to specific industries. Part C

⁴⁸ Much of the material in this section comes from Senate Committee, *Rural Adjustment*, pp.2-4

⁴⁹ For a detailed outline of these policies see John Wilkinson, *The Rural Sector: A Changing Economy*, pp.11-15

⁵⁰ Peter Threlfall, "Government Reconstruction and Adjustment Assistance Measures in the Australian Rural Sector", in *Quarterly Review of Agricultural Economics*, v.30, July 1977, pp.177-200

provided household support payments to non viable farmers considering leaving the industry. Between 1977 and 1983, 7,758 applications for assistance were approved and \$212.171 million was expended on assistance under RAS '76.⁵¹

3.2.4 In January 1983 the Industries Assistance Commission was commissioned to review the Rural Adjustment Scheme. The Commission's report, dated March 1984, contains a comprehensive analysis of the effectiveness of RAS. Some of the key findings are set out below.

- The Commission noted that in its 1976 report on the Rural Reconstruction it had recommended the establishment of a monitoring system to provide information about the performance of farmers before and after receiving financial assistance. The fact that such a monitoring system had not been established made it difficult for the Commission to assess the effectiveness of RAS.⁵²
- The Commission was generally negative in its assessment of the effectiveness of RAS. It concluded that, although RAS had assisted a large number of individual farmers, it had not generally improved the efficiency of Australian agriculture or the operation of capital markets available to farmers in Australia. It also concluded that RAS was not an effective means of income redistribution or income support.⁵³
- The most that could be said for RAS was that its existence may have enabled governments to avoid industry pressure for potentially more costly and distortionary, ad hoc intervention in agriculture.⁵⁴
- Furthermore, the Commission's report highlighted the extremely high cost of administering RAS. In NSW and Victoria the cost of administration had exceeded the value of assistance. In NSW the cost of administration as a percentage of the value of assistance granted was 157.4%.⁵⁵

3.2.5 Following the 1984 report of the Industries Assistance Commission RAS was revised and a new version, RAS '85, commenced operations on 1 July 1985. The overriding objective of RAS '85 was to assist structural adjustment in the farming industry and to ease adjustment pressures, by targeting for assistance those farmers with the capacity to achieve and maintain commercial viability.

⁵¹ Industries Assistance Commission, *Rural Adjustment*, Australian Government Publishing Service, Canberra, 1984, pp.126-127

⁵² *ibid.*, p.66

⁵³ *ibid.*, pp.67-69

⁵⁴ *ibid.*, p.46

⁵⁵ *ibid.*, p.55

Assistance was provided by way of loans and interest subsidies. RAS was then reviewed again in 1987, by Coopers & Lybrand W D Scott.

- 3.2.6 RAS '88 came into operation on 1 January 1989. It sought to improve the efficiency of Australian farming to enhance its international competitiveness and potential to contribute to the national economy. Part A was changed to include assistance for changing farm programs, the adoption of new technology the acquisition of improved skills and professional advice. Debt reconstruction assistance was included in 1991-92 and 1992-93 for farmers experiencing financial difficulties due to the rural downturn. Assistance for drought relief was included under Part B and the amount available for re-establishment grants under Part C was increased. RAS '88 sought to give the State RAS authorities financial and managerial responsibility for the administration of the scheme. The States were given a pool of money under Part A to be allocated as they determined. However, a management information system was to be established to enable the Commonwealth to monitor the effectiveness of RAS, on the basis of information provided by the States. The Department of Primary Industries and Energy has commented as follows on RAS '88.

The RAS was not aimed, at this period, at keeping farmers on the land, or propping up farm enterprises that were not viable in the long term. However, there remained, partly as a legacy from earlier versions of the scheme, a perception that RAS was basically an assistance mechanism to provide interest subsidies to fill a temporary shortfall in cash flow.⁵⁶

3.3 RAS '92

- 3.3.1 The current version of the Rural Adjustment Scheme, RAS '92, came into operation on 1 January 1993. The Commonwealth *Rural Adjustment Act 1992* sets out the objectives of RAS '92.

1. *The objectives of [RAS '92] are:*

- (a) *to foster the development of a more profitable farm sector that is able to operate competitively in a deregulated financial and market environment; and*
- (b) *to improve the competitiveness of the farm sector in a sustainable manner.*

2. *In order to achieve these objectives, [RAS '92] is intended:*

- (a) *to promote a better financial, technical and management performance from the farm sector; and*

- (b) *to provide support to farmers who have prospects of sustainable long-term profitability with a view to improving the productivity of their farm units; and*
- (c) *to provide that support in a way that ensures that the farmers who are supported become financially independent of that support within reasonable period; and*
- (d) *to provide that support through:*
 - (i) *grants for the purposes of subsidies for interest payable on, and associated costs of, loans, whether the loans are provided by a State or by another person; and*
 - (ii) *grants for the purposes of farm training, planning, appraisal, support services and rural adjustment research; and*
- (e) *to support farmers who do not have prospects of sustainable long term profitability to leave the farm sector.⁵⁷*

3.3.2 In introducing the Rural Adjustment Bill into the Commonwealth Parliament, the then Minister for Primary Industries and Energy sought to place RAS '92 in the wider context of the Government's rural policy.

The revised scheme is a cornerstone of the Government's overall rural policy approach for achieving a more sustainable, productive and profitable farm sector. The Government's vision is a farm sector which is able to thrive in a highly variable economic and natural resource environment, without relying on government assistance for survival and growth.⁵⁸

Mr Crean said that successive amendments to RAS '88 had changed the emphasis of that scheme from structural adjustment to assistance. He said the new scheme would restore a strong structural adjustment focus to RAS.

3.3.3 In addition to setting out the objectives of RAS '92 the *Rural Adjustment Act 1992* provides for the establishment of the Rural Adjustment Scheme Advisory Council (RASAC). The role and membership of RASAC are discussed in some detail in section 14.2 below. Briefly, RASAC provides the Commonwealth Minister for Primary Industries and Energy with advice in relation to RAS. Specifically, RASAC is to advise the Minister on the

⁵⁷ *Rural Adjustment Act 1992*, section 3

⁵⁸ *Hansard*, House of Representatives, 3 November 1992, p.2412

strategic direction, funding and budget of RAS. As discussed in section 14.2 the Minister also seeks the advice of RASAC on requests from the States for exceptional circumstances assistance.⁵⁹

3.3.4 In late 1993 the NSW Parliament passed the *Rural Adjustment Scheme Agreement Act 1993*. This legislation, which provided for the NSW Parliament to ratify the provisions of RAS '92, received bipartisan support. The full text of the RAS '92 Commonwealth - State agreement was included a schedule to the Act. Clause 5 of the agreement sets out the strategies adopted under RAS '92.

- (1) *The strategies to be adopted to facilitate sustainable long-term profitability of the farm sector by improving farm productivity and helping the sector to become more self-reliant include:*
 - (a) *the acquisition of improved skill levels;*
 - (b) *the adoption of sustainable farming systems;*
 - (c) *the adoption of technological developments;*
 - (d) *obtaining access to information on technological developments and their application, training opportunities and appropriate farm programs;*
 - (e) *increasing farm size or capital intensity;*
 - (f) *farm program changes;*
 - (g) *debt restructuring; and*
 - (h) *capital restructuring.*
- (2) *The strategies to be adopted to overcome difficulties due to exceptional circumstances where farmers have long-term prospects of profitability, are to facilitate one or more of the following:*
 - (a) *the provision of carry-on finance;*
 - (b) *debt restructuring;*
 - (c) *improvements in productivity.*
- (3) *the strategies to be adopted to encourage farmers to make an orderly exit from the farm sector if the farmers are without prospects in the farm sector shall be to:*

⁵⁹

Rural Adjustment Act 1992, section 8

- (a) *assist farmers to realise assets in an orderly manner; and*
- (b) *assist farmers to re-establish post-farming.*⁶⁰

3.3.5 The next level of detail in relation to the contents of RAS '92 is provided in policy guidelines which are issued by the Commonwealth Minister for Primary Industries and Energy, who administers the Act. These guidelines are issued each time there is a change in the detail of assistance which is available. They cover such things as the amount of assistance which can be granted, the cost sharing arrangements, and the eligibility criteria which apply.

3.3.6 By way of example the *Policy Guidelines applying to interest subsidies and Loans for Enhancing Farm Productivity* under RAS '92 includes details on the purpose of support, the application of support, review of support and assessment criteria. The section on assessment criteria sets out the factors which State RAS authorities must consider when determining applications. These include:

- (i) *the past and expected future profitability of the farming enterprise as measured by its ability to meet financial commitments relating to:*
 - (A) *costs of the operation of the farm enterprise;*
 - (B) *living costs of the farm family;*
 - (C) *investment in sustainable farming systems;*
 - (D) *allowance for depreciation of capital and future capital requirements;*
 - (E) *servicing and repayment of debt of the farm enterprise; and*
 - (F) *the long-term economic trends which impact on the farm enterprise;*
- (ii) *the provision of financial support for the farming enterprise by commercial lenders;*
- (iii) *the demonstrated technical, financial and business management performance of the applicant (the applicant may be eligible to acquire improved performance through the provision of a grant to undertake training and obtain professional advice); and*

⁶⁰

Rural Adjustment Scheme Agreement Act 1993, Schedule 1

- (iv) *the extent to which the RAS support is likely to contribute to, or facilitate productivity increases for the farming enterprise through:*
- (A) *a reduction in average farm operating costs; or*
- (B) *a sustainable increase in the value of the farm enterprise's production which leads to increased profitability.*⁶¹

3.3.7 Paragraph 2.6.3 above, contains information on the amount expended by the NSW Rural Assistance Authority during 1993-94 on each form of assistance available under RAS '92.

3.4 Senate Committee report

3.4.1 As noted in paragraph 1.6.1 above, the Senate Rural and Regional Affairs and Transport References Committee conducted a comprehensive review of the Rural Adjustment Scheme during 1994. The report of the Senate Committee addresses a number of issues about RAS '92 that were raised with this Committee during this inquiry. Some of the key findings of the Senate Committee are summarised below.

- It was difficult to make definitive judgments about the effectiveness of RAS due to the Department of Primary Industries and Energy's failure to establish a fully operational management information system or performance indicators. The Senate Committee concluded that it was imperative for the Department to develop a management information system and performance indicators immediately.
- The Bureau of Agricultural and Resource Economics (ABARE) advised that RAS '92 recipients were more financially sound and more profitable than recipients of assistance under former schemes.
- There is considerable confusion in the rural community about the focus and objectives of RAS.
- The Department of Primary Industries and Energy should reconsider whether interest subsidies are an effective adjustment measure.
- RAS in the future should focus on farm productivity, profitability and sustainability with a principal component being skills enhancement,

⁶¹ Minister for Primary Industries and Energy, *Policy Guidelines Applying to Interest Subsidies and Loans for Enhancing Farm Productivity*, 25 April 1993; See also Minister for Primary Industries and Energy, *Policy Guidelines Applying to Interest Subsidies for Farmers in New South Wales affected by Drought under the Exceptional Circumstances provisions of the Rural Adjustment Scheme for the period 1 July 1994 to 31 December 1994*, 29 August 1994

professional advice and financial management, as well as the re-establishment grant.

- The need for rural adjustment measures should diminish over time as other mechanisms such as an attractive income equalisation deposit scheme and taxation reform are introduced.
- Exceptional Circumstances assistance should be removed from RAS and established under a separate Commonwealth - State agreement.⁶²

3.4.2 Other findings and recommendations of the Senate Committee relating to the administration of RAS by State rural assistance authorities are discussed at relevant points throughout this report. The major findings and recommendations of the Senate Committee are reproduced in appendix four.

3.5 Evidence received in relation to RAS

3.5.1 Although this inquiry focussed on the Rural Assistance Authority's delivery of assistance and administration of RAS, the Committee inevitably received some evidence in relation to the contents of the Rural Adjustment Scheme itself. Two issues that were raised with the Committee on a number of occasions were the frequent changes to RAS and the use of interest subsidies as an adjustment measure. The evidence on these two issues is summarised below.

3.5.2 The frequent changes to RAS were discussed by Richard Stayner, Senior Project Director from the Rural Development Centre at the University of New England at a public hearing on 21 November 1994.

MR STAYNER: Rural assistance authorities around Australia are required to administer programs, most of which are initiated by the Commonwealth Government. Over the years there has been a changing mix of adjustment policies and programs which it falls to those authorities to administer. The changeability of this mix and the responses of the Commonwealth Government to different levels of electoral and political pressure, for example, makes it difficult for an organisation to design itself in order to deliver those programs efficiently and effectively.

There is a changing mix of Commonwealth programs - someone comes up with another good idea... there has been a fundamental review of RAS which accepts the notion that there should be a fundamental recasting of the whole rationale for rural adjustment towards productivity improvement and away from carry on finance. A year later comes the political pressure for exceptional circumstances and so

⁶²

Senate Committee, *Rural Adjustment*, pp.18-19, 40, 42, 52, 60, 63.

the organisation at the State level finds itself administering this changing mix of programs -

COMMITTEE: Constantly changing?

MR STAYNER: Yes, that is right?

COMMITTEE: How do you think the farmer feels about that? How does he keep up? How does he know from day to day what is available, what scheme is current?

MR STAYNER: A very fair question and it raises the point that a part of market failure may well be farmers' access to information....

As well there are varying levels of funding over time, as the Commonwealth Government responds to greater or lesser perceived levels of pressure, another \$20 million or \$30 million gets dumped into RAS. That, I guess, if you have got a State Authority that is responding to that, they will respond by applying guidelines with different levels of stringency to meet the thresholds of viability or whatever over time. Again that confuses the market out there, if you like, the applicants.⁶³

3.5.3 The Chief Executive of the Authority, Graham Maslen, also spoke about this issue when he appeared before the Committee on 20 December 1994.

Since 1992 there have been two major schemes under the exceptional circumstances provision, namely the wool scheme, which everybody knows about and the 65% criteria, and drought. We have had three drought schemes: the pilot drought scheme, which came in late 1992; the special drought scheme, which came in and finished in December 1993; and a new special drought scheme, which came into operation from 1 July, or shortly thereafter. For drought specifically, under those schemes, we have had five different policy guidelines. I would just like to stress that. The changes have been fairly difficult in how we have had to manage.

There will be another change in emphasis. We are trying to get a proper focus and awareness on what we are trying to deliver. If there is another change we have to go back to the drawing board. We have been confronted with this time and time again - there is constant change, an overlapping of schemes: RAS '88, farmers suffering financial difficulties, RAS '92 which has a productivity enhancement focus in the middle of the drought, exceptional circumstances, etc. No wonder there is confusion.⁶⁴

⁶³ Evidence, Richard Stayner, 21 November 1994, p.33

⁶⁴ Evidence, Graham Maslen, 20 December 1994, pp.9, 18

- 3.5.4 The Committee received considerable evidence that was critical of the use of **interest subsidies** as an adjustment measure. At the Committee's public hearing in Dubbo on 4 November 1994 evidence was received from Michael Kennedy on behalf of Public Accountants and Chartered Accountants in Dubbo. Mr Kennedy was extremely critical of the use of interest subsidies as an adjustment measure.

[T]he present interest subsidy scheme based on additional borrowing to enhance productivity has been a failure and should be ceased as it is an ineffective aid to the rural industry. It is a fallacy that farmers need to borrow additional funds to increase productivity.... It is apparent that the assistance is based on interest subsidies which in turn makes it obvious that the system is based on debt, not on production or productivity.... each accountant in the group can give examples of clients who, because of debt levels alone, have received assistance in the past, yet those very clients could not demonstrate good production capabilities and long-term ability to repay debt.... there are many productive producers who can rightly claim that they have received no assistance because they have no borrowings.⁶⁵

- 3.5.5 On 20 December 1994 the Committee asked the Chief Executive for his views on the effectiveness of interest subsidies as an adjustment measure. He repeated the criticism the Committee had heard throughout the State, that interest subsidies go straight to the bank. Moreover he said that in his view interest subsidies do not really fit into the new focus of RAS '92 on structural adjustment.⁶⁶

- 3.5.6 The Senate Committee discussed the role of interest subsidies. Evidence was quoted from ABARE which was critical of the use of interest subsidies and suggested that interest subsidies could distort the provision of assistance to those farmers with high levels of debt. The Senate Committee also drew attention to the NSW Government's submission to its inquiry which argued that "the absence of significant market failure in capital markets makes it difficult to justify this form of assistance", that is interest subsidies.⁶⁷

- 3.5.7 On the other hand, the Senate Committee also quoted evidence from the Department of Primary Industries and Energy to the effect that interest subsidies provided a mechanism whereby farmers could access a larger pool of funds than would otherwise be available by way of direct grants. Interest subsidies also allowed governments to work with the commercial banking industry and not in competition with it.⁶⁸ It should also be pointed out that the

⁶⁵ *Evidence*, Michael Kennedy, 4 November 1994, pp.14, 16, 19

⁶⁶ *Evidence*, Graham Maslen, 20 December 1994, pp.19,20

⁶⁷ Senate Committee, *Rural Adjustment*, pp.38-39

⁶⁸ Senate Committee, *Rural Adjustment*, p.39

role of interest subsidies was considered in some detail during the 1988 review of NSW rural agencies. In 1988 it was concluded that interest subsidies would be a simple and inexpensive form of assistance to administer and would not interfere with the normal banker / client relationship.⁶⁹

3.6 Termination of RAS '92 and its impact on the Authority

- 3.6.1 The Commonwealth - State agreement which establishes RAS '92 specifies that it is to terminate on 31 December 2000. However, the agreement also specifies that there is to be a review of the scheme completed by 30 June 1996 and that following that review the Commonwealth and the States could agree to terminate the scheme on 31 December 1996.⁷⁰
- 3.6.2 In view of the importance of RAS to the Authority's workload, and the likely increase in the significance of RAS '92 over the next few years, the Committee felt it was necessary to explore what the Authority's role might be, if any, after the termination of RAS '92. The Minister for Agriculture, Ian Causley MP met with Committee members to discuss the Committee's inquiry on 22 November 1994. At that meeting Mr Causley said that it was his understanding that State and Commonwealth Agriculture ministers had agreed that RAS schemes would be phased out by 1997-98, as the Commonwealth introduced other assistance measures based on taxation reform and changes to Income Equalisation Deposits
- 3.6.3 The Committee pursued the question of the future role of the Rural Assistance Authority after the termination of RAS with the Chief Executive of the Authority, Graham Maslen, and the Chief Manager Lending, Steve Griffith, when they appeared before the Committee on 20 December 1994. Mr Griffith said that because RAS is a significant component of the Authority's work, the termination of the scheme would have an impact on the size and staffing of the Authority. However, he pointed out that the Authority's role also involves the administration of State schemes and the management of a loan portfolio, which included some loans that go out to the year 2010. Mr Maslen said that there had been talk of the Rural Reconstruction Board being abolished in 1969. The crisis in Australian agriculture in the early 1970's had put a stop to that.

We have encountered disaster after disaster. I believe that we will always need an authority to deliver assistance in some form to primary producers. Even if the assistance provided is in a completely

⁶⁹ NSW Treasury, *Review of NSW Rural Agencies*, p.43

⁷⁰ *Rural Adjustment Scheme Agreement Act 1993*, Schedule 1, clause 25

different form, there must be an agency to which farmers can refer and from whom they can get appropriate advice and assistance.⁷¹

⁷¹ *Evidence*, Graham Maslen, 20 December 1994, pp.18-19

3.7 Findings and Recommendations

3.7.1 The Rural Adjustment Scheme (RAS), one of the key schemes administered by the Rural Assistance Authority, is subject to continual changes. The Committee has received evidence that this complicates the work of the Authority and causes confusion in the farming community about the nature of the assistance which is available.

3.7.2 The current version of the Rural Adjustment Scheme, RAS '92, charts a new direction in rural assistance. RAS '92 targets for assistance those farmers who have long term prospects of viability. It focuses on productivity enhancements, skills enhancement, training and assisting those farmers who need to leave the industry to do so with dignity. The Rural Adjustment Scheme Agreement Act 1993, which provided for the NSW Parliament's ratification of RAS '92, received bipartisan support when it passed through the NSW Parliament.

3.7.3 The Senate Rural and Regional Affairs and Transport References Committee tabled a report on Rural Adjustment, Rural Debt and Rural Reconstruction in December 1994. Like the Senate Committee, the NSW Public Accounts Committee has heard considerable criticism of the use of interest subsidies as an adjustment measure. The Senate Committee recommended that the Commonwealth Department of Primary Industries and Energy reassess the effectiveness of interest subsidies. The Senate Committee recommended that future assistance measures should focus on skills enhancement, professional advice and financial management, as well as the re-establishment grant. The Public Accounts Committee agrees with these recommendations.

3.7.4 *The Committee recommends that future assistance measures focus on skills enhancement, professional advice and financial management, as well as the re-establishment grant. Productivity enhancement should also continue to be a major focus of future assistance, through the means of interest subsidies or other appropriate mechanisms.*

3.7.5 RAS '92 will be the subject of a comprehensive review in 1996 and has a sunset clause of 31 December 2000. However, in view of the other assistance measures administered by the Rural Assistance Authority and the likelihood of other ongoing assistance measures, there will continue to be a role for the Authority after the year 2000. In any case the Authority has a key role in the adjustment process over the next six years through its administration of RAS '92. The recommendations in this report concerning the delivery of assistance by the Rural Assistance Authority are designed to ensure that RAS '92 is most effectively delivered to farmers in NSW over the next five years. Some of these recommendations are also applicable to the Authority's administration of other assistance measures.

CHAPTER FOUR

THE APPLICATION AND ASSESSMENT PROCESSES

4.1 Description of the application process

- 4.1.1 This chapter provides very brief descriptions of the process by which farmers may apply to the Authority for rural assistance, the Authority's means of assessing applications and the Authority's system for the consideration of appeals against decisions declining assistance.
- 4.1.2 Farmers may apply to the Authority for assistance by completing written application forms. There are different applications forms for each type of assistance under the principal schemes administered by the Authority. Most of the forms are about ten pages in length. The forms require both written information on the reasons for applying for assistance and the purposes for which it will be used, and financial information. The financial information required includes budget details, year in / year out estimates after the assistance has been provided, and details of assets and liabilities. In addition to the information required in the application form, applicants are also required to lodge their taxation returns for the past three years.
- 4.1.3 A farmer may complete the application on his / her own. Alternatively, assistance may be sought from a number of sources. A rural counsellor or a farmer's bank manager will provide assistance in the completion of an application form free of charge. An accountant, a rural consultant, or other professional adviser may also provide assistance with the completion of an application form at a cost to the farmer. The cost will depend upon the amount of work involved and the extent to which the adviser is prepared to bare some of the cost. The Authority provides professional advisory grants under the provisions of RAS to farmers to meet the cost of the preparation of applications by professional advisers.

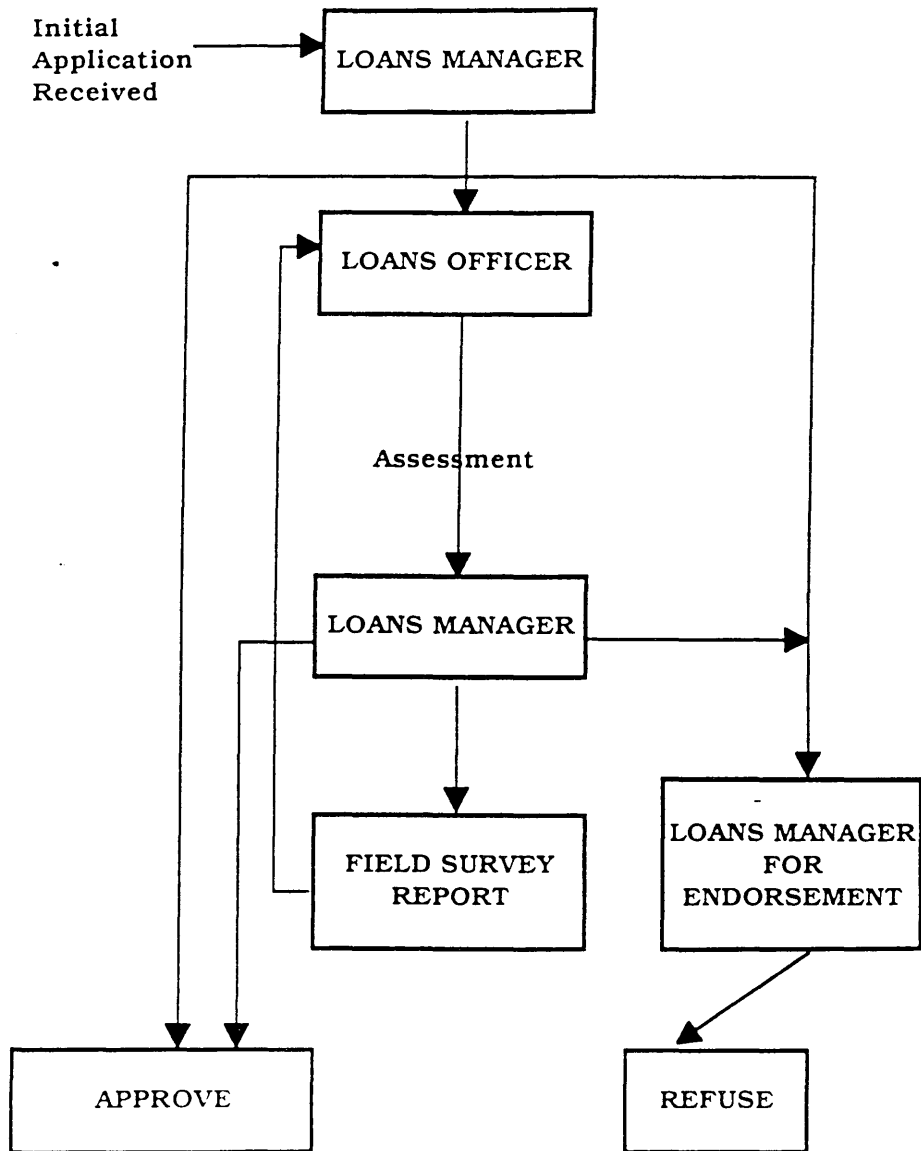
4.2 The Authority's assessment of applications

- 4.2.1 As soon as an application is received by the Authority it is registered by one of a small team of data entry staff. If the applicant is an existing client the applicant's file is retrieved. The application goes to the relevant loans manager who then allocates it to a loans officer. Loans officers are allocated on an alphabetical basis, so that each loans officer considers applications from applicants with surnames within a specified alphabetical range. For example,

one officer handles applicants with surnames beginning with from A to Bee, while another deals with applicants with surnames beginning with from Bef to Bro, and so on.

- 4.2.2 The loans officer reviews the application and uses the financial information provided to calculate the applicant's assets to liabilities (equity to debt) ratio, and income to expenses ratio. In some cases the loans officer relies upon the information in the application form to make a recommendation as to whether or not assistance should be granted. In other cases the loans officer may make contact with the applicant, rural counsellor, bank manager, or other professional adviser to seek further details. The loans officer may seek the bank manager's opinion of the applicant's future prospects. The loans officer may recommend that an on farm inspection be conducted. The loans officer has to form a judgment as to whether or not the applicant fits within the eligibility criteria and complies with other guidelines for the relevant assistance scheme.
- 4.2.3 A loans manager may approve assistance up to the value of \$20,000 for normal RAS and \$30,000 for Exceptional Circumstances Drought assistance under RAS. Applications for assistance above these levels go to the Chief Manager Lending for determination.
- 4.2.4 The Authority's assessment process is summarised in figure 4.1 on the following page.

FIGURE 4.1 -
THE AUTHORITY'S ASSESSMENT PROCESS⁷²



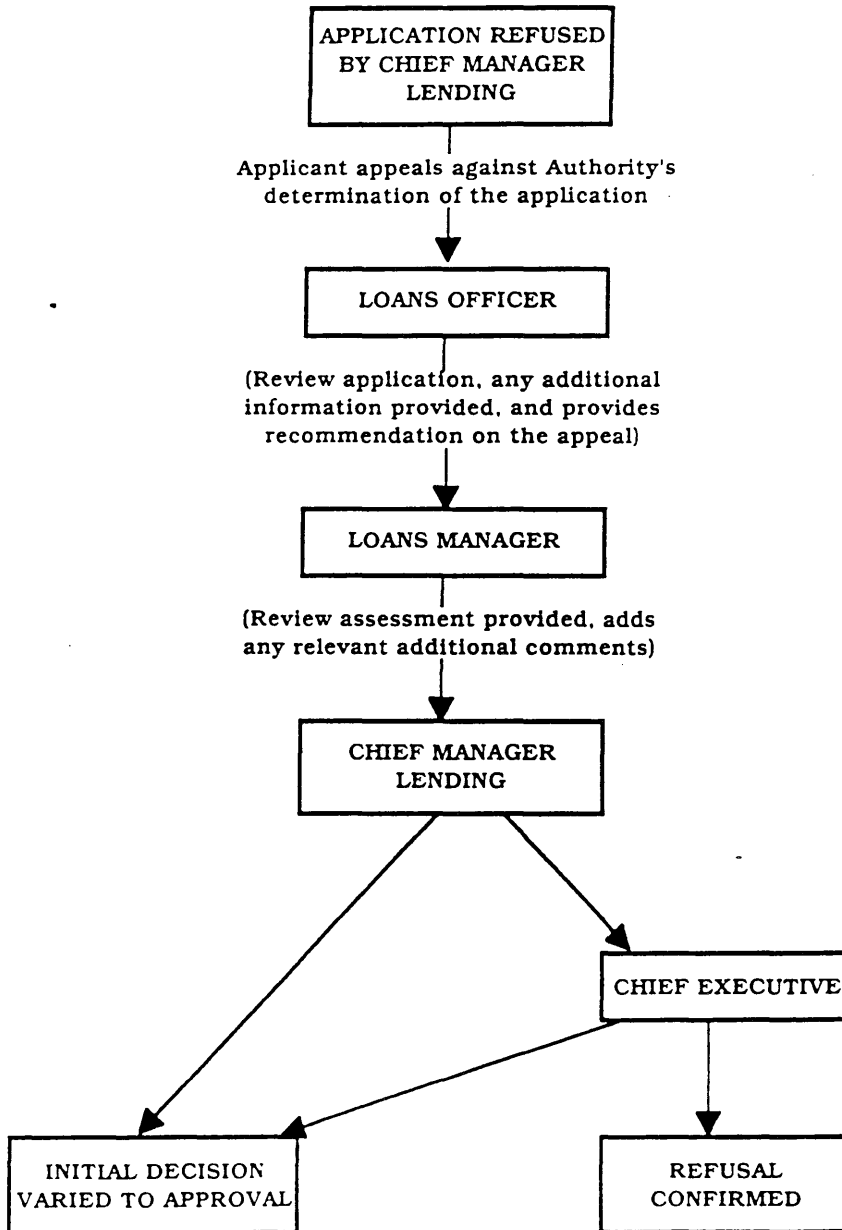
⁷²

Reproduced from Rural Assistance Authority, *Submission*, Attachment A

4.3 The Authority's appeals process

- 4.3.1 An appeal against a refusal to grant assistance is initially considered by the same loans officer and loans manager who considered the original application for assistance. The loans officer will review the application, and any additional information provided with the appeal, and make a recommendation on the appeal. The loans manager will review this information and perhaps provide additional comments. A decision to vary a refusal, that is to grant an appeal, can be made by either the Chief Manager Lending or the Chief Executive. A decision to confirm a refusal can only be made by the Chief Executive.
- 4.3.2 The Authority's appeals process is summarised in figure 4.2 on the following page.

FIGURE 4.2 -
THE AUTHORITY'S APPEALS PROCESS⁷³



⁷³

Reproduced from *ibid.*, Attachment B

CHAPTER FIVE

APPROVAL RATES

5.1 Statistical Data on RAS approval rates

- 5.1.1 As noted in section 1.1 above, the differences in approval rates of applications for assistance under RAS between the NSW Rural Assistance Authority and rural assistance authorities in other states was one of the key issues raised in the debate in the Legislative Assembly on the reference of this inquiry to the Public Accounts Committee. The Committee therefore sought to obtain the most up to date statistical data possible on the states approval rates for RAS.
- 5.1.2 In December 1994 the Rural Adjustment Scheme Advisory Council (RASAC) published statistics on the approval rates for RAS during the 1993-94 year.⁷⁴ These figures are not only the most up to date published, they are also the most relevant. 1993-94 was the first full year in which RAS '92 operated. These statistics are reproduced in figure 5.1.
- 5.1.3 The statistics for the 1993-94 year show the NSW approval rate for normal RAS and exceptional circumstances applications as 44.3%, compared with the national average of 62.1%.

The NSW approval rate exceeded the national average for some forms of assistance:

- NSW approved 95.7% of applications for professional advisory grants, compared with the national average of 86.1%; and
- NSW also approved 68.8% of applications for the re-establishment grant, compared with the national average of 67.5%.

On the other hand the NSW approval rate was well below the national average for some forms of assistance:

- NSW approved only 27.1% of applications for productivity enhancement interest subsidies, compared with the national average of 51.6%;
- NSW approved 56.1% of applications for training grants, compared with the national average of 77.7%;

⁷⁴

Rural Adjustment Scheme Advisory Council, *Annual Report 1993-94*, Australian Government Publishing Service, Canberra, pp.47-50

- NSW approved 47.0% of applications for exceptional circumstances wool assistance, compared with the national average of 55.4%; and
- NSW approved 29.7% of applications for exceptional circumstances drought assistance, compared with Queensland (the only other State where this form of assistance was available) which approved 60.2% of applications.

FIGURE 5.1 - RAS APPROVAL RATES 1993-94⁷⁵

Rural Adjustment Scheme

Statistics 1993-94

Table 1 Summary of RAS applications 1993-94

	Normal RAS	Exceptional Circumstances	Total
Received	8,898	7,724	16,622
Approved	6,299	5,583	11,882
Declined	2,813	4,429	7,242
Approval Rate	69.1%	55.8%	62.1%

Table 2 Normal RAS and exceptional circumstances applications 1993-94 by State

	NSW	VIC	QLD	SA	WA	TAS	NT	TOTAL
Applications								
Received	5,753	1,659	5,184	1,289	2,366	280	91	16,622
Approved	2,629	1,328	3,346	2,357	1,901	228	93	11,882
Declined	3,309	478	1,938	1,055	429	32	1	7,242
Approval Rate	44.3%	73.5%	63.3%	69.1%	81.6%	87.7%	98.9%	62.1%
Amount Approved (\$'000)	27,559	9,842	28,268	21,504	13,551	2,179	709	103,612

Note: Applications received will not equal total approved plus total declined in every case due to some States including approvals of pending applications from 1992-93 and some States having pending applications at 30 June 1994.

Table 3 Normal RAS applications 1993-94 by RAS elements

	NSW	VIC	QLD	SA	WA	TAS	NT	TOTAL
<i>Farm Productivity Interest Subsidies</i>								
Applications								
Received	1,162	250	1,134	476	202	91	20	3,335
Approved	331	234	716	211	105	85	25	1,707
Declined	890	17	418	174	98	6	1	1,604
Approval Rate	27.1%	93.2%	63.1%	54.8%	51.7%	93.4%	96.2%	51.6%
Amount Approved (\$'000)	3,500	2,613	6,477	1,932	2,834	1,049	631	19,036
<i>Grants for Training</i>								
Applications								
Received	1,298	240	516	0	1,315	0	67	3,436
Approved	749	195	405	0	1,251	0	67	2,667
Declined	585	32	111	0	37	0	0	765
Approval Rate	56.1%	85.9%	78.5%		97.1%		100.0%	77.7%
Amount Approved (\$'000)	1,360	129	135		223		33	1,880
<i>Grants for Professional Advice</i>								
Applications								
Received	281	246	28	223	557	100	0	1,435
Approved	270	215	21	520	405	82	0	1,513
Declined	12	20	7	59	143	4	0	245
Approval Rate	95.7%	91.5%	75.0%	89.8%	73.9%	95.3%		86.1%
Amount Approved (\$'000)	250	233	20	1,040	1,313	97		2,953
<i>Re-establishment Grant</i>								
Applications								
Received	272	105	80	180	22	13	4	676
Approved	172	86	41	78	19	6	1	403
Declined	78	7	39	53	16	1	0	194
Approval Rate	68.8%	92.5%	51.3%	59.5%	54.3%	85.7%	100.0%	67.5%
Amount Approved (\$'000)	7,215	3,710	1,810	3,144	723	261	45	16,908
<i>Land Trading</i>								
Applications								
Received	0	0	0	0	16	0	0	16
Approved	0	0	0	0	9	0	0	9
Declined	0	0	0	0	5	0	0	5
Approval Rate					64.3%			64.3%
Amount Approved (\$'000)					279			279
TOTAL NORMAL RAS 1992								
Applications								
Received	3,013	841	1,758	879	2,112	204	91	8,898
Approved	1,522	730	1,183	809	1,789	173	93	6,299
Declined	1,565	76	575	286	299	11	1	2,813
Approval Rate	49.3%	90.6%	67.3%	73.9%	85.7%	94.0%	98.9%	69.1%
Amount Approved (\$'000)	12,325	6,685	8,442	6,116	5,372	1,407	709	41,056

Table 4 Exceptional circumstances applications 1993-94

	NSW	VIC	QLD	SA	WA	TAS	NT	TOTAL
<i>Heavy Rain in Southern Australia</i>								
Applications								
Received	556	71	N/A	88	N/A	N/A	N/A	715
Approved	138	118	N/A	1,271	N/A	N/A	N/A	1,527
Declined	500	117	N/A	636	N/A	N/A	N/A	1,253
Approval Rate	21.6%	50.2%		66.6%				54.9%
Amount Approved (\$'000)	1,030	620		11,541				13,191
<i>Drought Assistance in New South Wales and Queensland</i>								
Applications								
Received	408	N/A	3,064	N/A	N/A	N/A	N/A	3,472
Approved	121	N/A	1,906	N/A	N/A	N/A	N/A	2,027
Declined	287	N/A	1,258	N/A	N/A	N/A	N/A	1,545
Approval Rate	29.7%		60.2%					56.7%
Amount Approved (\$'000)	1,864		16,813					18,677
<i>Wool Assistance</i>								
Applications								
Received	1,776	747	362	322	254	76	N/A	3,537
Approved	848	480	257	277	112	55	N/A	2,029
Declined	957	285	105	133	130	21	N/A	1,631
Approval Rate	47.0%	62.7%	71.0%	67.6%	46.3%	72.4%		55.4%
Amount Approved (\$'000)	12,340	2,537	3,013	3,847	8,179	772		30,688
<i>Total Exceptional Circumstances</i>								
Applications								
Received	2,740	818	3,426	410	254	76	N/A	7,724
Approved	1,107	598	2,163	1,548	112	55	N/A	5,583
Declined	1,744	402	1,363	769	130	21	N/A	4,429
Approval Rate	38.8%	59.8%	61.3%	66.8%	46.3%	72.4%		55.8%
Amount Approved (\$'000)	15,234	3,157	19,826	15,388	8,179	772		62,556

5.1.4 At a meeting with senior officers of the Department of Primary Industries and Energy on 28 November 1994, the Committee was provided with some preliminary statistics covering the period 1 July - 31 October 1994. These figures are reproduced in figure 5.2. It needs to be emphasised that these figures are preliminary and have not been subject to the same confirmation process as those published by RASAC for 1993-94. However, these figures do seem to reveal some interesting trends in the approval rates for NSW during the first four months of the 1994-95 year. During the period 1 July - 31 October 1994:

- the NSW approval rate for normal RAS was 68.39%, compared with the national average of 76.12% [the NSW approval rate rose from 49.3% during 1993-94];
- the NSW approval rate for farm productivity interest subsidies was 54.9%, compared with the national average of 64.71% [the NSW approval rate rose from 27.1% during 1993-94];
- the NSW approval rate for exceptional circumstances drought assistance was 66.51%, compared to the Queensland approval rate of 77.52% [the NSW approval rate rose from 29.7% in 1993-94]; and
- the NSW approval rate for re-establishment grants was 53.45%, compared to the national average of 66.47% [the NSW approval rate fell from 68.8% in 1993-94].

5.1.5 There appear to have been a number of fluctuations in the approval rates for NSW and other states during the first few months of the 1994-95 year, compared with 1993-94. The overall figures for some forms of assistance, including farm productivity interest subsidies, exceptional circumstances drought, and the total for normal RAS, appear to be large enough to draw some general conclusions. It could reasonably be concluded that the NSW approval rate for each of those three categories had risen significantly during the first few months of 1994-95. It could also reasonably be concluded that the difference between the NSW approval rate and the national average, which had been quite large in each of these categories during 1993-94, had been significantly reduced during the first few months of 1994-95.

FIGURE 5.2 - RAS APPROVAL RATES (PRELIMINARY)

1 JULY - 31 OCTOBER 1994⁷⁶

RURAL ADJUSTMENT SCHEME STATISTICS

1 JULY 1994 - 31 OCTOBER 1994 (preliminary)

Normal RAS

	Number of applications (net)			App. Rate
	Received	Approved	Declined	
New South Wales	643	463	214	68.39%
Victoria (1)	253	248	34	87.94%
Queensland (1)	318	352	116	75.21%
South Australia (2)	N/A	173	127	57.67%
Western Australia	357	448	55	89.07%
Tasmania	59	80	7	91.95%
Northern Territory	12	5	2	71.43%
National (1)	1,642	1,769	555	76.12%

COMPRISING OF: RAS '92

Interest Subsidies

	Number of applications (net)			App. Rate
	Received	Approved	Declined	
New South Wales	261	140	115	54.90%
Victoria (1)	96	94	9	91.26%
Queensland (1)	179	203	74	73.29%
South Australia (2)	N/A	87	93	48.33%
Western Australia	10	37	21	63.79%
Tasmania	17	19	5	79.17%
Northern Territory	11	3	1	75.00%
National (1)	574	583	318	64.71%

Grants for Training

	Number of applications (net)			App. Rate
	Received	Approved	Declined	
New South Wales	253	204	61	76.98%
Victoria (1)	73	70	14	83.33%
Queensland (1)	118	125	27	82.24%
South Australia (2)	N/A	0	0	
Western Australia	301	325	6	98.19%
Tasmania	37	54	2	96.43%
Northern Territory	0	0	0	
National (1)	782	778	110	87.61%

Grants for Professional Advice

	Number of applications (net)			App. Rate
	Received	Approved	Declined	
New South Wales	96	88	11	88.89%
Victoria (1)	70	61	6	91.04%
Queensland (1)	8	12	0	100.00%
South Australia (2)	N/A	51	27	65.38%
Western Australia	46	81	25	76.42%
Tasmania				
Northern Territory				
National (1)	220	293	69	80.94%

⁷⁶

These figures were provided to the Committee by senior officers of the Department of Primary Industries and Energy on 28 November 1994

Re-establishment Grants

	Number of applications (net)			App. Rate
	Received	Approved	Declined	
New South Wales	33	31	27	53.45%
Victoria (1)	14	23	5	82.14%
Queensland (1)	13	12	15	44.44%
South Australia (2)	N/A	35	7	83.33%
Western Australia	0	3	2	60.00%
Tasmania	5	7	0	100.00%
Northern Territory	1	2	1	66.67%
National (1)	66	113	57	66.47%

Land Trading

	Number of applications (net)			App. Rate
	Received	Approved	Declined	
New South Wales				
Victoria (1)				
Queensland (1)				
South Australia (2)				
Western Australia	0	2	1	66.67%
Tasmania				
Northern Territory				
National (1)	0	2	1	66.67%

Exceptional Circumstances

Drought

	Number of applications (net)			App. rate
	Received	Approved	Declined	
New South Wales	414	143	72	66.51%
Queensland (1)	299	269	78	77.52%
National (1)	713	412	150	73.31%

Wool

	Number of applications (net)			App. Rate
	Received	Approved	Declined	
New South Wales	30	91	139	39.57%
Victoria (1)	29	60	50	54.55%
Queensland (1)		2	0	100.00%
South Australia (2)	N/A	28	23	54.90%
Western Australia	3	20	49	28.99%
Tasmania				
National (1)	62	201	261	43.51%

(1) The figure for applications received for Qld and Vic reflects the number of applications processed. The RAS MIS only captures decisions processed. The figures for applications received for the remaining States are the actual numbers of applications received in the period.

(2) SA have a new system which doesn't record the number of applications received.

- 5.1.5 The Rural Assistance Authority publishes information in its annual reports on reasons for the refusal of applications. Declined applications are classified by the scheme involved and the reason for the refusal. The statistics for 1993-94 are reproduced in figure 5.3. The most common reason for refusal in 1993-94 was that the applicant was not in need of assistance or had adequate resources available. Other common reasons for refusal include: that applicants had no prospects of returning to viability; that applicants did not meet the requirements for the scheme; that other assistance was granted; and that in the case of applications for productivity enhancement interest subsidies there were no productivity enhancements proposed.

FIGURE 5.3 - APPLICATIONS FOR ASSISTANCE:
REASONS FOR REFUSAL 1993-94⁷⁷

EXPLANATION OF REFUSAL	TYPE OF ASSISTANCE APPLIED FOR								TOTAL NUMBERS
	SPECIAL SCHEME	NATURAL DISASTER RELIEF	PILOT DROUGHT	RURAL ADJUSTMENT SCHEME 1992				RAIN DAMAGE	
				OTHER	RE- ESTABLISH	SPECIAL DROUGHT	WOOL		
Not a bona fide farmer	9	4		22	10	5	7	3	60
Not in need or has adequate resources available already to finance	9	11	53	709	8	162	300	362	1614
Normal Commercial Sources of Finance available		1		2		1	1	1	6
Refusal/inability of financial bodies to participate in providing assistance			2	7		2	3	1	15
Circumstances within applicants control				1			2		3
Not in working occupation	5	1		3	2				11
No prospect of a return to commercial viability	6	3	17	183		46	152	48	455
Property has limited productive capacity				6		1	1	1	9
Does not meet scheme requirements	20	6	5	248	27	21	398	17	742
Debt level too high	1		3	3			2		9
Poor Productivity				1					1
Incomplete application		1	1	7		3		2	14
Other assistance granted	5	1	18	104	6	39	77	55	305
No productivity enhancements				158			1		159
Applicant not leaving industry						13			13
Application made after adjustment from industry						6			6
Unacceptable or inadequate security	3	5							8
Level of assistance needed is beyond existing policy guidelines				3	1		4	1	9
Inability to service	3	8		6		1	1		19
Not of moderate means	20								20
Ineligible purpose/amount	10	3		18	6	1	12	1	51
Losses not attributed to natural disaster		1							1
Application out of time		3		1	2	5		8	19
TOTAL NUMBER	91	48	99	1482	81	287	961	500	3549

5.2 Factors to be considered in interpreting statistical data

5.2.1 Caution must be exercised in comparing NSW's approval rates for RAS with those of other states. There are three factors which make it difficult to make meaningful comparisons.

- Firstly, NSW adopts a different registration process and records statistics about applications in a different way to other states.
- Secondly, unlike some other states, NSW does not have a network of regional offices or other filtering system.
- Thirdly, the characteristics or profile of farming in NSW have an effect upon NSW farmers' eligibility for assistance under RAS.

5.2.2 The registration system used in NSW allows a single application to registered more than once. The Authority described its registration process in its submission.

All applications received ... are registered in the first instance, strictly in accordance with the request for assistance sought, e.g. if a farmer seeks Drought Assistance it is registered as an application for Drought.

The Authority uses a flexible approach in assessing applications and should the assistance originally applied for be considered inappropriate another form of assistance appropriate to the circumstances may be approved. Due to the current Management Information System in place a duplication of registration occurs, eg a refusal for the assistance originally applied for and an approval for the assistance finally approved. In light of the above a distortion in application receivals / decisions instantly occurs. This information is then transmitted through to the Commonwealth MIS System which is monitored by them.⁷⁸

This does not happen in other states. Where an applicant is granted assistance under another provision to the one applied for, the application is only registered once, as an approval. This factor alone makes it difficult to realistically compare NSW's approval rate with those of other states, although the extent to which this distorts the NSW figures is unclear. The statistics contained in figure 5.3 show that of 3549 applications for assistance refused by the Authority in 1993-94 only 305 were refused because another form of assistance was granted.⁷⁹

⁷⁸ Rural Assistance Authority, *Submission*, p.13

⁷⁹ Rural Assistance Authority, *Annual Report 1993-94*, p.44

- 5.2.3 Unlike other state's rural assistance authorities, the NSW Rural Assistance Authority does not have either a regional office network or a filtering system for RAS applications. The Rural Finance Corporation (RFC) of Victoria has five regional offices. Farmers are able to seek advice from staff in these offices on their eligibility for assistance. Furthermore, applications for assistance are initially considered by regional office staff. Final decisions on applications are made at the head office in Melbourne and it is only when an application reaches the head office that it is registered. The Rural Adjustment and Finance Corporation (RAFCOR) of Western Australia has adopted a new pilot program for the administration of RAS. Under this pilot program, which is discussed in some detail in Chapter Eleven below, farmers will initially be sent an easy check questionnaire. Having completed this self assessment process only those farmers who come to the view that they are likely to be eligible for assistance will submit a formal application.
- 5.2.4 It has been suggested that the profile of farming in NSW may mean that NSW farmers are generally less likely than farmers in some other states to be eligible for assistance under RAS. NSW farms are generally smaller than those in some other states and NSW farmers may have greater levels of off-farm income than farmers in other states. The proportion of income which a farmer earns from farming compared from off farm income is a key eligibility criterion to be considered in relation to RAS.

5.3 State Compliance Review

- 5.3.1 In September and October 1993 internal auditors from the Department of Primary Industries and Energy conducted a review of the administration by State rural assistance authorities of exceptional circumstances assistance under RAS. The report of this review was released to the States in July 1994. A number of findings of this review are discussed in section 5.4 below, in the context of the inconsistent application of the Commonwealth Government's guidelines for RAS. At this point, however, attention is drawn to the review's findings that NSW had very high decline rates for applications for exceptional circumstances assistance.

The application of the guidelines results in very high decline rates: 58% for Wool; 67% for Heavy Rain; 63% for Drought. These rates are at least in part the result of an administrative aberration, but also reflect management decisions that might be seen to be against the spirit of the Exceptional Circumstances provisions.⁸⁰

- 5.3.2 The Authority made a number of points in response. Firstly, the NSW Government did not support the introduction of one of the schemes,

⁸⁰ Department of Primary Industries and Energy, *Rural Adjustment Scheme Exceptional Circumstances provisions: State Compliance Review*. Internal Audit Report 1994/17, July 1994, Attachment D, p.9

Exceptional Circumstances Heavy Rain, and was concerned about the eligibility criteria for another, Exceptional Circumstances Wool. The Commonwealth included a requirement that for farmer to be eligible for Exceptional Circumstances Wool assistance they must have received 65% of their income from wool or sheep over the previous three years. The Committee understands that the NSW Rural Assistance Authority applied this requirement in a less flexible way than some other states, including South Australia.

- 5.3.3 Secondly, the Authority drew attention to the amount expended on these schemes. Despite the high refusal rates, the Authority provided larger amounts of assistance to successful applicants than other states. In relation to the Exceptional Circumstances Wool scheme the Authority expended \$11.4 million, which was 74% of the total allocated to NSW by the Commonwealth Government. Only South Australia was able to expend a larger proportion of the funding provided by the Commonwealth Government.⁸¹
- 5.3.4 When the Authority's Chief Executive and Chief Manager Lending appeared before the Committee on 20 December 1994 they expanded on the Authority's response to the findings of the State Compliance Review.

MR MASLEN: This State's Commonwealth allocation for the wool scheme was \$15.4 million. Victoria's allocation was also roughly \$15.4 million. Notwithstanding the Authority's high refusal rate, we got \$11.4 million out the door; Victoria got \$2.5 million out the door. Under the previous pilot drought scheme, notwithstanding our refusal rates, the total allocation of \$7 million went out the door to the benefit of farmers. Under the special drought scheme the total Commonwealth allocation and the State's contribution went out the door to farmers.... [Y]ou cannot look at refusal rates in isolation, you need to look at what has happened to the money. It is no good getting an allocation if do not spend it.... If the guidelines were more flexible or if they had been reduced, who is to say how much money we may have got out the door....

MR GRIFFITH: We were given an opportunity to comment on the draft report of the audit committee prior to its release. We stated that we believed that the comment in the report was incorrect, and provided reasons for that belief. We verbally approached the committee with an offer that they should make us aware of any particular case they had reviewed that they believed fitted the circumstances, but they have made us aware of no such cases.⁸²

- 5.3.5 The Authority also made a general submission in relation to the fact that, despite its approval rates, it had expended a high proportion of the

⁸¹ Rural Assistance Authority, *Submission*, pp.14-15

⁸² *Evidence*, Graham Maslen and Steve Griffiths, 20 December 1994, pp.24-25

Commonwealth funding for exceptional circumstances assistance. The Authority submitted that, if it was shown to have been stricter than other states, NSW should receive a larger share of total Commonwealth funding for rural assistance.

If it is considered that this State has been more stringent in the assessment process than other States, notwithstanding the fact that all Exceptional Circumstances allocations have been fully extended by this State with the exception of Wool Exceptional Circumstances, the share of the global allocation to this State in relative or absolute terms should increase.⁸³

5.4 Application of Commonwealth Guidelines: inconsistencies between the states

- 5.4.1 The States Compliance Review referred to in paragraph 5.3.1 above was concerned not only with the States' approval rates for exceptional circumstances assistance. The review also examined the States' application of the Commonwealth Government's guidelines for exceptional circumstances under RAS. The review found that the guidelines had been interpreted and implemented in different ways by the States and called for the issuing of more prescriptive guidelines.

As a general conclusion in relation to the Exceptional Circumstances guidelines: they are open and they have been interpreted and implemented in different ways in each State. If the Commonwealth considers that the various approaches are undermining the intent of the Exceptional Circumstances provisions, then the Commonwealth should address the issues by, at the very least, issuing more prescriptive guidelines.... the audit team is of the opinion that the guidelines should be more detailed and prescriptive in order that more consistent and equitable outcomes are achieved....

It is evident however that the Guidelines are open to wide interpretation and implementation - with subsequent impact on both the schemes' objectives and the ratios of contribution. It is imperative that these matters be given focus now in order that any future guidelines are instrumental in delivering the Commonwealth's desired outcomes.⁸⁴

- 5.4.2 The differences in the States' interpretation and application of the Commonwealth's RAS guidelines was dealt with in some detail by the Senate Committee in its report on *Rural Adjustment*. The Senate Committee

⁸³ Rural Assistance Authority, *Submission*, p.13

⁸⁴ Department of Primary Industries and Energy, *States Compliance Review*, pp.ii-iii

highlighted a number of specific RAS guidelines which had been the subject of controversy and had been applied in different ways by the States. These included: eligible training under the provisions for training grants; the interpretation of guidelines relating to off farm income; and requirements for farmers to demonstrate profitability in two out of five years prior to an application for exceptional circumstances drought assistance. The Senate Committee quoted evidence from the Department of Primary Industries and Energy indicating that there was a need for RAS to be somewhat flexible and to provide room for State RAS authorities to take into account industry, environmental and climatic differences between the States. The Senate Committee also noted that the Department of Primary Industries and Energy had established a Commonwealth-State working party to examine the interpretation of RAS guidelines.⁸⁵

- 5.4.3 The Senate Committee concluded that there was a need for greater consistency in the application of the Commonwealth's guidelines for RAS. The Senate Committee called for the guidelines to be more prescriptive.

[T]he Committee considers that it is essential that the Commonwealth Government promote a more consistent and uniform approach to the implementation of rural adjustment measures. To achieve this objective, the Committee is of the view that guidelines should be more prescriptive in order to avoid ambiguities and anomalies in interpretation and results. This in turn will mean that potential recipients of RAS will have a clearer understanding of their eligibility for and entitlements to RAS programs.⁸⁶

- 5.4.4 The Committee sought information from the Department of Primary Industries and Energy about the *Commonwealth-State Working Party on the Consistent Application of RAS Guidelines*. This working party was established after a meeting of Commonwealth RAS officers on 20 May 1994. It involves representatives of each of the State RAS authorities and the Department of Primary Industries and Energy. The working party is expected to report to the Commonwealth Minister for Primary Industries and Energy in February or March 1995. The report will then be presented to State Agriculture Ministers later in 1995. The working party has identified a large number issues to be resolved. These include:

- viability test - long term profitability;
- level of off farm income allowed;
- level of off farm asset and reserves;
- contribution of a significant proportion of labour to the farm enterprise;

⁸⁵ Senate Committee, *Rural Adjustment*, pp.21-31

⁸⁶ *ibid.*, p.31

- re-establishment grants and farm exit;
- treatment of intra family units;
- grants and loans for the acquisition of farm management skills and professional advice;
- payments by the States;
- application forms;
- periodicity of review;
- review and appeals mechanisms; and
- statistical reporting.

5.5 Findings and Recommendations

5.5.1 There are clear differences in approval rates between NSW and other states. During 1993 - 94 NSW approved 44.3% of applications for assistance under RAS in comparison with the national average of 62.1%. The differences between the national average and the NSW approval rates for particular forms of assistance including productivity enhancement grants and drought assistance are even more marked. However, preliminary figures provided to the Committee suggest that during the first four months of the 1994-95 reporting year there was a rise in NSW approval rates and a decline in the gap between NSW approval rates and the national average.

5.5.2 Caution must be exercised in making comparisons between the approval rates for RAS in NSW and other states. There are a number of reasons for this. Firstly, the Rural Assistance Authority adopts a procedure whereby a duplication of registration of a single application can occur. Secondly, the Authority does not have a regional network or other filtering system. Thirdly, the size of farms and off farm income has a bearing on the eligibility of farmers for assistance under RAS.

5.5.3 *The Committee recommends that the Rural Assistance Authority change the way in which it compiles statistics so as to bring it into line with those in other States, so that valid comparisons can be drawn between its approval rates and those of the other States.*

5.5.4 There are clear differences and inconsistencies between the states in their application of the Commonwealth guidelines for RAS. The Commonwealth Government has convened a working party including representatives of rural assistance authorities to develop a more consistent approach to the guidelines for RAS. The Senate Committee recommended that the guidelines for RAS should be more prescriptive.

CHAPTER SIX

INCONSISTENCIES

6.1 Evidence about inconsistencies

6.1.1 The most serious complaint that the Committee received during its public meetings in country towns throughout the State concerned internal inconsistencies in the Rural Assistance Authority's decision making. As outlined in Chapter Four above, the Authority's assessment staff are allocated on an alphabetical basis. The Committee was repeatedly told that different assessment staff interpreted guidelines in different ways and there were therefore inconsistencies in the ways in which they dealt with applications, with some assessment staff less likely to approve applications than others.

6.1.2 Perhaps the strongest evidence in this regard was provided by Michael Kennedy, representing the public accountants and chartered accountants of Dubbo, on 4 November 1994.

We believe the guidelines on eligibility are vague, difficult to interpret and open to subjective interpretation by Rural Assistance Authority officers when assessing applications. We know of numerous examples of obvious inconsistent treatment of applications for similar clients, some clients lodging forms at different times and clients lodging applications through different consultants, each time receiving a different result. We also know of numerous examples of personal representations by clients in Sydney being more successful after applications had been refused in writing....

We have prepared many applications for clients we believed were eligible and met the public criteria under the RAS scheme who were denied assistance when those for whom we had given little chance in fact obtained assistance, to our surprise.⁸⁷

6.1.3 Mr Kennedy was questioned by the Committee about his comments about inconsistencies in the Authority's decision making.

COMMITTEE: [A]re there inconsistencies in the way people are treated?

MR KENNEDY: Yes, we definitely believe that.

⁸⁷ Evidence, Michael Kennedy, Dubbo, 4 November 1994, pp.16-17

COMMITTEE: Are there serious inconsistencies, are they frequent?

MR KENNEDY: I think there are at least six accountants present in the audience. To get six accountants together at a meeting like this at this time of the year is a very difficult task. It indicates to me how concerned those accountants are about those inconsistencies.

COMMITTEE: Can you give some details of them?

MR KENNEDY: I do not want to talk about particular instances, but the one that gives us difficulty is that you can apply at a certain time and be refused, and within six months you can apply and be assessed by a different officer and it is successful. The other one that gives us great difficulty is where a person can go to the Authority, having been refused on at least two occasions, and the application can be accepted.

COMMITTEE: Does that happen frequently?

MR KENNEDY: It has happened at least six times in our practice in the last 12 months.

COMMITTEE: Do you think that might happen in other practices as well?

MR KENNEDY: I am certain it happens.⁸⁸

6.1.4 At the same hearing in Dubbo on 4 November 1994 the Committee received evidence from three rural counsellors representing the rural counselling network in NSW. The three rural counsellors also raised concerns about inconsistencies in the Authority's decision making.

MR WHITE: I have experienced some considerable inconsistency, but, remember, we are dealing with 20 - odd people down there, who all have different views....

I would have to say that different people in the Authority seem to have different ways of assessing applications, although a number of people come to me and say, "Joe Blow down the road got it and he is the same as me". I have talked to Joe Blow and he is different. Despite what is seen on the surface, when you talk to people and look at their individual cases, people really are different on a case - by - case basis.

COMMITTEE: Does that, in your mind, explain all the inconsistencies you have observed?

MR WHITE: No. As I said, I think different people in the Authority do assess applications differently.⁸⁹

- 6.1.5 The Committee continued to receive further evidence about inconsistencies in the Authority's decision making at its hearings in Sydney. Tony Parker, an accountant from Yass, referred to "the luck of the draw" as to an applicant's surname.

MR PARKER: [I]n some cases it was the luck of the draw as to whether your surname started with S or W. If you had the name L.R.B. & Co. you might have got it under L, or you might have got it under B depending upon whether you took the surname or whether you took the initial. That had a bearing in terms of the initial officer that dealt with the application.

COMMITTEE: What sort of bearing?

MR PARKER: Well, in that particular case it was the unsuccessful applicant. He was the most difficult officer we dealt with - I could name him but probably prefer not to - and once he formed a judgment, nothing but nothing was going to sway him.⁹⁰

6.2 Statistical Data on Approval Rates for each Assessment Officer

- 6.2.1 In order to determine whether or not there was any objective basis for the concerns which had been raised about inconsistencies in the Authority's decision making, the Committee requested that the Authority provide statistical information on the number of applications approved or declined by each of the Authority's assessment staff. The Committee limited this information to applications for RAS '92 and exceptional circumstances applications between 1 July 1993 and 30 June 1994. The Authority responded to this request at short notice and provided this information on 19 December 1994, the day before the Chief Executive appeared to give evidence before the Committee. The Authority broke down the applications by surname, alphabetically, providing overall numbers of applicants with surnames beginning with each letter, the number approved and the number declined. This information is reproduced in table 6.1.
- 6.2.2 The Committee also requested that the Authority provide a profile of the debt to equity and debt to income ratios for the applications which had been approved, again broken down by surnames, alphabetically. This information was requested so that the Committee would be able to ensure that there were

⁸⁹ *Evidence, Gary White, Dubbo, 4 November 1994, pp.5,9*

⁹⁰ *Evidence, Tony Parker, 21 November 1994, p.17*

no significant differences in the profile of applicants which would be the cause of apparent inconsistencies. This information is reproduced in figures 6.2 and 6.3.

- 6.2.3 The statistical information provided by the Authority showed that the Authority's average approval rate for RAS '92 and exceptional circumstances applications in 1993-94 was 35.57%. Ignoring the surnames from alphabetical groups which had very small numbers of applicants (eg Z, U, Q), most alphabetical groups had an approval rate within 5% of the average. However, there was certainly some variation between different alphabetical groups. The Committee noted that the approval rate for applicants whose surnames began with C was 42.86% compared with an approval rate of 28.46% for applicants whose surnames began with K. It would appear from these figures that an applicant with a surname beginning with C would have a 50% better chance of having an application approved than an applicant with a surname beginning with K.

FIGURE 6.1 -

**THE AUTHORITY'S APPROVAL RATES
BY ALPHABETICAL CLASSIFICATION⁹¹**

RAS 92 AND EXCEPTIONAL CIRCUMSTANCES
NUMBER OF APPLICATIONS 1/7/93 - 30/6/94

SURNAME ALPHABETICAL	NUMBER PROCESSED	APPROVED NUMBER	APPROVED %	DECLINED NUMBER	DECLINED %
A	87	31	35.63	56	64.37
B	405	151	37.28	254	62.72
C	378	162	42.86	216	57.14
D	184	77	41.85	107	58.15
TOTAL	1054	421	39.94	633	60.06
E	68	24	35.29	44	64.71
F	132	39	29.55	93	70.45
G	203	84	41.38	119	58.62
H	253	104	41.11	149	58.89
I	25	8	32.00	17	68.00
J	81	28	34.57	53	65.43
K	130	37	28.46	93	71.54
TOTAL	892	324	36.32	568	63.68
L	172	56	32.56	116	67.44
M	465	137	29.46	328	70.54
N	95	28	29.47	67	70.53
O	93	31	33.33	62	66.67
P	203	71	34.98	132	65.02
Q	4	1	25.00	3	75.00
TOTAL	1032	324	31.40	708	68.60
R	215	71	33.02	144	66.98
S	327	107	32.72	220	67.28
T	180	71	39.44	109	60.56
U	9	2	22.22	7	77.78
V	36	10	27.78	26	72.22
W	324	119	36.73	205	63.27
X	0				
Y	17	6	35.29	11	64.71
Z	10	2	20.00	8	80.00
TOTAL	1118	388	34.70	730	65.30
TOTAL	4096	1457	35.57	2639	64.43

⁹¹ Reproduced from *Evidence*, Graham Maslen, 20 December 1994, exhibit

FIGURE 6.2 -

**DEBT TO EQUITY RATIOS FOR SUCCESSFUL APPLICANTS
BY ALPHABETICAL CLASSIFICATION⁹²**

RAS 92 AND EXCEPTIONAL CIRCUMSTANCES
APPROVALS 1/7/93 - 30/6/94
DEBT TO EQUITY RATIOS

SURNAME ALPHABETICAL	NUMBER APPROVED	AVERAGE	MINIMUM	MAXIMUM
A	31	0.80	0.13	6.98
B	151	0.39	(17.50)	3.73
C	162	0.53	(1.57)	2.75
D	77	0.65	0.03	7.80
TOTAL AVERAGE	421	0.52		
E	24	0.60	0.07	1.56
F	39	0.54	0.14	2.94
G	84	0.56	0.05	5.40
H	104	0.08	(38.61)	4.37
I	8	0.65	0.08	1.20
J	28	0.62	0.05	2.52
K	37	0.52	0.09	3.78
TOTAL AVERAGE	324	0.41		
L	56	0.41	0.06	1.68
M	137	0.34	(6.61)	2.30
N	28	0.50	(1.21)	2.25
O	31	0.65	0.00	3.00
P	71	0.59	0.00	4.08
Q	1	0.42	0.42	0.42
TOTAL AVERAGE	324	0.45		
R	71	0.54	0.03	5.40
S	107	0.43	(6.37)	4.28
T	71	0.44	0.02	1.42
U	2	0.61	0.50	0.71
V	10	(0.55)	(9.73)	1.22
W	119	0.58	(1.00)	7.60
X	0			
Y	6	0.44	0.32	0.57
Z	2	0.29	0.12	0.45
TOTAL AVERAGE	388	0.47		

⁹²

ibid.

FIGURE 6.3 -

**DEBT TO INCOME RATIOS FOR SUCCESSFUL APPLICANTS
BY ALPHABETICAL CLASSIFICATION⁹³**

RAS 92 AND EXCEPTIONAL CIRCUMSTANCES
APPROVALS 1/7/93 - 30/6/94
DEBT TO INCOME RATIOS

SURNAME ALPHABETICAL	NUMBER APPROVED	AVERAGE	MINIMUM	MAXIMUM
A	31	2.32	0.92	9.38
B	151	2.30	0.18	36.07
C	162	2.20	0.00	8.11
D	77	2.08	0.24	5.02
TOTAL				
AVERAGE	421	2.22		
E	24	2.49	0.52	5.55
F	39	2.30	0.61	4.35
G	84	2.00	0.43	9.57
H	104	2.18	0.47	8.40
I	8	2.53	1.17	5.39
J	28	2.33	0.33	5.09
K	37	2.27	0.70	5.62
TOTAL				
AVERAGE	324	2.20		
L	56	2.23	0.70	7.72
M	137	2.66	0.47	11.06
N	28	2.56	0.89	6.24
O	31	2.54	0.00	7.63
P	71	2.23	0.00	5.13
Q	1	2.65	2.65	2.65
TOTAL				
AVERAGE	324	2.48		
R	71	2.10	0.14	5.65
S	107	2.14	0.33	9.10
T	71	2.09	0.27	4.47
U	2	1.85	1.50	2.20
V	10	2.54	0.57	7.38
W	119	2.25	0.32	6.45
X				
Y	6	2.15	1.40	3.39
Z	2	1.36	1.33	1.38
TOTAL				
AVERAGE	388	2.16		

⁹³

ibid.

- 6.2.4 The Committee put a number of questions about these statistics to the Authority's Chief Executive and Chief Manager Lending when they appeared before the Committee on 20 December. The Chief Executive indicated that the statistics needed to be treated with some caution. He said that assessment staff were regularly rotated so that they dealt with surnames beginning with different letters. He also emphasised that, whilst assessment officers made the initial recommendation about applications, it was the responsibility of loans managers to make final decisions about applications, and the statistics showed broad consistency between the approval rates of each loans manager. The Chief Manager Lending suggested that geographic clusters of particular surnames in some areas of the State may also go some way towards explaining the variations in approval rates.

MR MASLEN: Officers are not superglued to the chair, if I can use that expression. They will not always be dealing with A. Because of demand in the organisation, officers are rotated.... Managers also change. We look at the procedures in place. Whilst statistics show an application was approved for a person with a surname commencing with A, we have four loans managers sections covering A - D; E - K, L - Q and R - Z.

Before a loans officer makes a recommendation, if he is dealing with a farmer starting with C, he will analyse the application and make a recommendation. It then goes to the loans manager. If the loans officer has recommended refusal, the loans manager will analyse the information and he can do one of two things: he can agree with the refusal and, if he agrees with the refusal or the reasons put forward and makes a decision to refuse the application, that decision must be endorsed by another loans manager. It takes two loans managers of fairly senior status to sign off on the refusal process. The loans manager can, if he does not agree with the recommendation for refusal, approve the application....

MR GRIFFITHS: They are gross aggregate figures for all schemes of assistance The approval rate for exceptional circumstances is somewhat higher than for productivity enhancement and, of recent times, has been even higher. It does not totally explain that away, but you tend to get geographical clusters of a particular surname so that in some areas of the State you may have more Cochrans, for example, than somewhere else. It does not totally explain it, I would agree, but that is one possible explanation.⁹⁴

- 6.2.5 The Committee also asked the Chief Executive for a response to the concerns which had been raised about the Authority's refusal of applications being reversed after applicants personally visited the Authority's office in Sydney. The Chief Executive said that, although he would see any farmer who wanted

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Evidence, Graham Maslen and Steve Griffiths, 20 December 1994, pp.25-26

to see him and allow the farmer to put his or her case, that did not mean that all applicants who visited the Authority's office would have their application approved.

COMMITTEE: The Committee has been told that almost all applicants who come to Sydney to speak to senior staff about their applications are successful. What is your comment on that? If that is the case, would this not be inequitable and unfair to those applicants who do not have the resources to come to Sydney or do not know that to do so will be of benefit to them?

MR MASLEN: I categorically deny that statement. I have an open door policy approach. Any farmer has the opportunity to ring me direct to have an interview with me. The approach I have taken is that we are seen as open, flexible and accessible. However, I would deny that accusation that any farmer who has the opportunity of having a personal interview with any member of my staff has a greater chance of success. I take the view that when a farmer comes to Sydney, I would give him every opportunity to put his case. However, that does not mean to say that the decision would be changed automatically. The farmer would need to present new and additional information that would warrant a reversal of a previous decision.⁹⁵

6.3 Safeguards to ensure greater consistency

- 6.3.1 On 20 December 1994 the Committee received evidence from the members of the Authority Board. The Board Chairman, Fran Rowe, indicated that she saw the problem of inconsistency as a key issue for the Board to address. She had raised this as an issue at the first Board meeting after she became Chairman on 1 July 1994. Ms Rowe said that she "had heard from the grassroots" that consistency was a problem. [Ms Rowe is a rural counsellor and a member of the Rural Adjustment Scheme Advisory Council in addition to her role on the Authority Board.] Ms Rowe said that in dealing with the broad issue of consistency the Board would need to address day to day issues such as the interpretation of guidelines, training and qualifications of staff, and appeals.⁹⁶
- 6.3.2 There would appear to be a number of possible safeguards which could be put in place to address the problem of inconsistency in the Authority's decision making. The difficulty of the Commonwealth guidelines for RAS being subject to different interpretation and ambiguity is discussed in chapter five. This problem should be addressed through the work of the *Commonwealth - State Working Party on the Consistent Application of RAS Guidelines* discussed in paragraph 5.4.4 above.

⁹⁵ *ibid.*, p.28

⁹⁶ *Evidence*, Fran Rowe, 20 December 1994, p.49

- 6.3.3 The provision of reasons to unsuccessful applicants ensures that the Authority is accountable for decisions to decline the provision of assistance. The provision of an effective appeals mechanism enables unsuccessful applicants to have their applications reviewed. Both these mechanisms should contribute to greater consistency in the Authority's decision making. They are discussed in chapter seven below.
- 6.3.4 The fact that inconsistencies in the Authority's decision making appear to be, at least in part, the result of the differences between individual assessment officers means that the qualifications and training of assessment staff has a key role to play in addressing this issue. The provision of a detailed manual for assessment staff is a relatively simple step that could make a significant contribution to greater consistency. The qualifications and training of the Authority's assessment staff are discussed in Chapter Eight below.

6.4 Findings and Recommendations

6.4.1 Evidence was received from rural counsellors, accountants and farmers about inconsistency in the Rural Assistance Authority's decision making about applications for assistance. This evidence appeared to be confirmed by statistics provided to the Committee by the Authority, which showed differences of up to 50% in the approval rates for different assessment staff. The Committee was surprised that the sort of data that it requested from the Authority to assess the concerns about inconsistencies had not previously been sought by, or provided to, the Authority Board. The Committee is of the view that the Authority Board was remiss in not examining the issue of consistency until July 1994.

6.4.2 *The Committee recommends that the Authority Board address the issue of inconsistency in decision making as a matter of priority. The Authority Board should be given regular reports including statistical data on the approval rates for each of the Authority's assessment staff. A number of possible safeguards to ensure greater consistency in the Authority's decision making should be considered by the Authority Board. These include the consistent application of Commonwealth criteria, the provision of reasons to unsuccessful applicants, the Authority's appeals system, and the qualifications and training of assessment staff.*

CHAPTER SEVEN

REASONS AND APPEALS

7.1 Provision of reasons to unsuccessful applicants

- 7.1.1 During its public meetings in country towns the Committee met with a number of farmers whose applications for assistance had been declined by the Authority. One of the complaints raised by unsuccessful applicants was that they did not receive sufficient reasons from the Authority for its decisions. For some time the Authority had sent standard letters to unsuccessful applicants which contained very little detail. The Authority was now providing some more detail to unsuccessful applicants and Authority staff were prepared to provide detailed reasons to unsuccessful applicants or their advisers over the phone. However, these reasons were still not always spelt out in writing.
- 7.1.2 When the Committee took evidence in Dubbo on 4 November 1994 representatives of the rural counselling network were asked about this issue. They made the point that a refusal from the Authority was sometimes taken "very hard" by farmers and that they were therefore sometimes reluctant to telephone the Authority to seek further information.

MR BASHFORD: The reply is usually quite general. It might be, for instance, that the farm is considered to be non-viable. A limited amount of detail may be given for the family being regarded as not in need, but the detail about why that decision was arrived at is not always forthcoming in the letter - but it is no trouble to get that answered. I must say I am quite impressed by the way the people at the other end, the loans officers, can rattle out the information. They use the technology well.

MR WHITE: I agree with Bruce. It seems to me that what comes out on the form is very broad brush, and I also agree that it is relatively easy to get the information about why the decision was handed down. Negative responses from the Rural Assistance Authority hit individual clients very hard and they are sometimes reluctant to go back and obtain any more information. I think it would be good if there was a bit more detail in the response.⁹⁷

- 7.1.3 The Committee also raised this issue with a rural consultant, David Neve, when he gave evidence on 14 November 1994. Mr Neve said that although

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Evidence, Bruce Bashford and Garry White, Dubbo, 4 November 1994, p.6

there was an element of standardised letters coming from the Authority, he had received more detailed letters in relation to some clients.

COMMITTEE: When your client's application is refused, do you think your client gets sufficient information to justify the refusal?

MR NEVE: There is certainly an element of standardised letters coming back. The letter that came back to my largest client was ... not a standard letter. It was very succinct but it had the five areas they felt we were out on, which was great because we were able to go straight back to that. But normally, on the whole, it comes out in a standard form.

COMMITTEE: Do you consider the standard format to be suitable, acceptable, adequate?

MR NEVE: No, I do not think so. There could be standard paragraphs but with a block in the middle with the statement "Following discussions with your bank this is what we have arrived at", or whatever. You could make that personal note. Again, you have to connect that back to volume and the number of people coming through the system.⁹⁸

7.1.4 The Committee pursued this issue with the Chief Executive of the Authority on 20 December 1994. Mr Maslen said that the Authority sought to provide specific reasons in each letter to an unsuccessful applicant. However, he acknowledged that this did not happen in every case.

COMMITTEE: Are reasons given to unsuccessful applicants as a matter of course or is there a standard form letter of rejection of an application?

MR MASLEN: Under the wool scheme, if you are ineligible because you do not meet the criteria of that 65%, you would probably get a one-paragraph letter saying that you did not meet the purpose of that particular scheme. We have issued instructions on a number of occasions that every refusal letter should have not only a standard phrase or the particular reasons for refusal in terms of legislation or guidelines, but also should highlight the areas on which we have based our decision, whether he had off-farm investments, cash in the bank, did not meet the on-farm income capital test. He may have been a real estate agent and a farmer: the majority of income was received from off-farm, the minority on-farm. The reasons should always be explained to the farmer.

We have tried to use user-friendly responses. Unfortunately, on some occasions because of pressures of work, because of volume - 50 applications a day coming into the office - sometimes memories have to be jogged that we have a customer and a guarantee of service to uphold and we have to be seen to be providing that service to our clients.⁹⁹

7.2 Confusion about the Authority's current appeals system

- 7.2.1 The Authority's current appeals system is described in section 4.3 above. This involves initial re-assessment by the original assessment officer, followed by reconsideration by the original loans manager. Decisions to vary a refusal can be made by either the Chief Manager Lending or the Chief Executive. Decisions to confirm a refusal can only be made by the Chief Executive. The Committee received evidence that this appeal mechanism is not well understood by the Authority's clients. This could be attributed to the fact that the Authority does not inform unsuccessful applicants of its appeals system. It could also be attributed to the fact that letters reconfirming a refusal after an applicant has appealed are signed by the same person that signs the original refusal letter.

MR PARKER: [I]t looks very bad when the letter coming back to the grazier is signed by the original loans officers and does not answer the grounds of the appeal but more or less states the original decision they made. And the grazier is entitled to think I have been knocked on the head twice by the same guy. It may have been totally above board internally but the perception is certainly not out there in the public arena and you know why the public are cynical about the RAA...

COMMITTEE: So you are saying that the internal review system needs to be overhauled?

MR PARKER: Yes. It may be right but it is not perceived to be right externally.¹⁰⁰

- 7.2.2 Despite the fact that decisions upon appeals are ultimately made by different officers (and more senior officers) than those who made the original decision on an application, the Committee received evidence critical of the involvement of the original assessment officer and loans manager in the initial re-assessment of appeals.

⁹⁹ Evidence, Graham Maslen, 20 December 1994, p.29

¹⁰⁰ Evidence, Tony Parker, 21 November 1994, p.20

Producer clients regularly complain that the appeals procedure is flawed, in that the appeal is reviewed by the same people as made the decision in the first place - even if they are in the same office and acting under the same guidelines.¹⁰¹

7.3 Recent Developments

7.3.1 When members of the Authority Board appeared before the Committee on 20 December 1994 they indicated that they had been taking an interest in the Authority's appeals mechanisms for some months. They said that, as a first step, they had required the Authority to establish a register of appeals. This monitoring system would enable the Board to get an idea of the number of appeals being dealt with, the percentage of appeals which were successful, the reasons why appeals were successful etc. Once the Board had a clearer picture of what was happening with appeals they would be in a position to consider whether there was a more appropriate mechanism for dealing with appeals.¹⁰² It is surprising that the sort of information required by the Board to be included in the appeals register was not previously available either to the Board or the Authority's senior management.

7.3.2 When the Chief Executive of the Authority gave evidence to the Committee on 20 December 1994 he said that he felt the current appeals mechanism was working well. However, he acknowledged that there was a need for the Authority's clients to be better informed about the appeals system and said that he was developing a brochure, which would explain the appeals process to applicants.

The Authority does not advise its clients that they have a right of appeal when refusal letters are issued. However, whilst farmers have a right of appeal, they are only made aware of the appeal process by way of seminars, through rural counsellors, bankers, accountants, media etc.

I do, however, see some merit in ensuring that there is greater awareness within the rural community that there is an appeals process available to them and I have taken the liberty of consulting with the other States for the sole purpose of preparing a brochure for distribution which clearly sets out the appeal process and how farmers may avail themselves of this process. Members of the Board will be asked for input and comment on this process when a draft brochure has been prepared.¹⁰³

¹⁰¹ Evidence, Michael Kennedy, Dubbo, 4 November 1994, p.17

¹⁰² Evidence, Fran Rowe, 20 December 1994, p.49

¹⁰³ Evidence, Graham Maslen, 20 December 1994, p.30

7.4 Alternative Appeals Mechanisms

- 7.4.1 Some of those who were critical of the Authority's existing appeals mechanism suggested that the Authority needed a more formalised, independent appeals system. It was submitted that, perhaps after an internal review within the Authority, there should be a right of appeal to an independent tribunal or panel. Reference was made to the independent review tribunals that operate in respect of the Tax Office and the Department of Social Security. It was suggested that there could be a member of the Authority on the tribunal or panel, or at least present to assist the tribunal or panel. However, the final decision would be made by the tribunal or panel which would have a majority of non-Authority members.¹⁰⁴
- 7.4.2 The Committee was able to gather some information on alternative appeals mechanisms from other States' rural assistance authorities. The Rural Finance Corporation (RFC) of Victoria has a formal appeals process. This involves all appeals being considered by the Corporation's credit committee. (The Corporation also operates as a bank and for that reason has a credit committee which meets regularly.) Correspondence in response to appeals is signed by the General Manager (Operations) while correspondence about initial applications is signed by the Manager Lending (RAS).
- 7.4.3 The Rural Adjustment and Finance Corporation (RAFCOR) of Western Australia also has a formal appeals process. Two more senior officers who were not involved in the original decision consider the appeal. If these two officers agree that the appeal should be granted then that is the end of the matter. If the two officers disagree, or they agree that it should be declined, the final decision must be made by a member of the RAFCOR Board. (Until December 1993 all appeals had gone before the RAFCOR Board. Under the new system Board members are only involved in a small number of appeals.)
- 7.4.4 The Rural Finance and Development (RFD) division of the South Australian Department of Primary Industries also has a formal appeals mechanism. Appeals are considered by a tribunal consisting of three people: the General Manager of the division; the President of the South Australian Farmers Federation; and a former State Lending Manager from Westpac.
- 7.4.5 When the Chief Executive of the Authority appeared before the Committee on 20 December 1994 he expressed firm views on the possibility of the Authority Board becoming involved in the consideration of appeals. Mr Maslen noted that the Board of the former Rural Reconstruction Board had considered all applications and appeals, which involved the Board meeting every fortnight, for two days at a time. The redesignation of the Authority Board as a policy board, not responsible for making decisions on individual applications or

¹⁰⁴ See for example *Evidence*, Michael Kennedy, Dubbo, 4 November 1994, pp.22, 24 and *Evidence*, Michael Egan, Dubbo, 4 November 1994, p.28

appeals, was a specific recommendation of the Review of NSW Rural Agencies conducted in 1988.¹⁰⁵ Mr Maslen argued that the Authority Board should not become involved in the appeals process as this "would result in a cumbersome and time consuming process".¹⁰⁶

7.5 Findings and Recommendations

7.5.1 The Authority is now providing more detailed written advice to unsuccessful applicants, including some reasons for its decisions. Authority staff are providing detailed reasons to unsuccessful applicants and their advisers over the phone. However, the Committee considers that there is still room for improvement in this area - all unsuccessful applicants should receive detailed reasons for the Authority's decisions in writing.

7.5.2 *The Committee recommends that the Authority provide unsuccessful applicants with comprehensive written reasons for its decisions.*

7.5.3 The Authority has developed an internal system for the consideration of appeals. This system is not well publicised. The Authority Board has recently requested the establishment of an appeals register. However, the Committee's view is that there must be further improvement in this area. Rural assistance authorities in other States have developed more formal appeals systems which appear to be working well.

7.5.4 *The Committee recommends that the Authority establish a more formal appeals mechanism. Unsuccessful applicants should be advised of this appeals mechanism when they are advised of the reasons for the Authority's decisions. The Authority Board should determine the nature of the new appeals mechanism after a review of the mechanisms which operate in other States.*

¹⁰⁵ NSW Treasury, *Review of NSW Rural Agencies*, pp.9, 40-41

¹⁰⁶ *Evidence*, Graham Maslen, 20 December 1994, pp.29-31

CHAPTER EIGHT

BACKGROUND AND TRAINING OF ASSESSMENT STAFF

8.1 Concerns raised in evidence

- 8.1.1 One of the issues of concern raised with the Committee during the public meetings held in country towns throughout the State was the background and qualifications of the Authority's assessment staff. The Committee was told that some of the Authority's assessment staff did not have sufficient background in, or understanding of, agriculture and were therefore not able to make informed judgments about applications for some forms of rural assistance. These concerns were repeated by a farmer who gave evidence at a hearing in Sydney on 21 November 1994.

MRS WARE: We were a little bit concerned perhaps some of these staff are not all that well qualified and in particular with various agricultural industries and we would like to think that this could be rectified as obviously that is a major concern, particularly for farmers sending in their applications....

COMMITTEE: Could I just ask you what makes you think they are not properly qualified or not qualified as well as you would like them to be?

MRS WARE: Mr Chairman, when we submitted our application we rang the person in charge of ours several times and it did become apparent that they were not all that well versed with what we were presenting to them. I think you could say that in a fairly general way - other people could have said that as well.¹⁰⁷

- 8.1.2 Related to the concern about the lack of a farming background of most staff was a concern that too many of the Authority's staff might have a banking background and that this led to a "banking mentality" in the Authority.

[W]e consider that some of the Authority's staff are not suitably qualified and experience in rural matters, and many appear to be ex-bank loans officers. Indeed the Authority calls them loans officers.

¹⁰⁷ Evidence, Sally Ware, 21 November 1994, p.5

We believe there is a definite banking mentality in the assessing of applications and in dealing with producers and accountants.¹⁰⁸

8.2 Establishment of the Authority and the appointment of State Bank staff

- 8.2.1 As outlined in section 2.1 above, prior to the establishment of the Rural Assistance Authority in 1989, rural assistance in NSW was administered by the Rural Assistance Board and the Rural Industries Agency of the State Bank. The staff of the Rural Assistance Board were seconded from the State Bank. When the Rural Assistance Authority was established on 1 July 1990 staff were again seconded from the State Bank. Permanent staff were appointed to the Authority from 8 January 1990. Relevant State Bank staff were given the right to directly transfer to the Authority or to accept a redundancy package. The overwhelming majority of the Authority's initial staff were former State Bank employees.

At the time of the establishment of the Authority the basic staff equivalent was 50 and the Chief Executive was not given the time or the instruction to set his own staff structure; he had to run with what he had. When outside staff were appointed in 1990, the number of qualified loans officers to select from was very limited, the market was very depressed in the sense of getting personnel.¹⁰⁹

8.3 Profile of the Authority's current staff

- 8.3.1 A few days before the Committee's hearing on 20 December 1994 the Chief Executive of the Authority was asked to prepare a profile of the Authority's assessment staff. Mr Maslen tabled this information at the hearing on 20 December. This information is reproduced in figure 8.1 on the following pages. No individual officers are identified, except for the Chief Executive and the Chief Manager Lending.

¹⁰⁸ Evidence, Michael Kennedy, 4 November 1994, p.17

¹⁰⁹ Evidence, Graham Maslen, 20 December 1994, p.8

LOAN ASSESSING STAFF PROFILE

Staff Member	Position	Male/ Female	Age	Temporary/ Permanent	Loan Assessing Experience No of Years		Qualifications	Previous Employer
					Auth	External		
1	Manager Loans	M	30	Permanent	.5	6	B.Ag. Sc. (Sydney)	N'aT Aust. Bank
2	Loans Officer	F	35	Permanent	5	6		Rural Bank State Bank of NSW
3	Loans Officer	M	58	Permanent	3.5	6	-	Merchant Bank Stock Broker Retail Bank
4	Loans Officer	M	45	Permanent	5	17	-	CBA
5	Loans Officer	F	22	Temporary	2 weeks		B/Sc (UNE)	KPMG Peat Marwick
6	Loans Officer	M	49	Permanent	5	10	-	State Bank of NSW
7	Negotiation/ Loans Officer	M	40	Permanent	4.5	10	Accounting Cert.	State Bank
8	Loans Officer	F	48	Permanent	5		Book-keeping	Dept. of Housing
9	Manager Loans	M	50	Permanent	5	20	Bank Accountant Bank Manager	State Bank of NSW
10	Loans Officer	M	53	Permanent	4	27	Bank Manager	State Bank of NSW

PROFILE OF THE AUTHORITY'S ASSESSMENT STAFF¹¹⁰

FIGURE 8.1 -

LOAN ASSESSING STAFF PROFILE

11	Loans Officer	M	45	Temporary	1 Week.	15	BA (Hons) Graduate Diploma in Management AAIB	State Bank of NSW BNP C'wealth Bank
13	Loans Officer	M	43	Permanent	3	10	Various internal Banking/CU Course to Branch Accountant Currently studying Farm Office Management Course TOCAL 1 Yr	Americal Express 1.5Yrs Gilbarco Employees CU 2Yrs ANZ Bank
14	Loans Officer	M	41	Permanent	5	15	Train the Trainer UTS Bank Accountant Course Advanced Loans Officer Course - Loans Officer Course - Officer in Charge Bank Agencies 2 Years.	State Bank of NSW
15	Loans Officer	M	42	Permanent	16 Mths	18		State Bank of NSW
16	Loans Officer	M	24	Permanent	3		HSC B. Bus (Ag Comm)	Assisting family on farm at appropriate times.
17	Loans Officer	M	56	Permanent	5	35	School Certificate	State Bank of NSW

LOAN ASSESSING STAFF PROFILE

18	Loans Officer	M	31	Permanent	4.5	6.5	Institute of Financial Services - Cert. of Attainment	Farrow Corp C'cial Lending Officer
19	Loans Officer	M	23	Temporary	2 Months		Bachelor Rural Sc. (UNE) Graduate Diploma Business Studies	Tatiara Meat Co. Mildara Blass Ltd
20	Loans Officer	M	44	Permanent	2.5	28.5	Marcus Oldham Farm Financial M'ment For Bankers Public Sector M'ment Course	C.B.A.
21	Loans Officer	M	43	Permanent	4.5		Degree in Economics (UN)	Dept of Housing
22	Loans Manager	M	52	Permanent	5	25	Mber. of National Institute of Accountants	State Bank of NSW
23	Loans Officer	M	23	Temporary	2Weeks		Bachelor of Applied Sc. Systems Agriculture	Hamilton Partnership
24	Loans Officer	M	58	Permanent	5	25	Bank Accountant	State Bank of NSW

LOAN ASSESSING STAFF PROFILE

25	Manager Loans	F	27	Permanent	5	22	Short courses only 27 Years in rural lending	Rural/State Bank
26	Loans Officer	M	54	Permanent	5	25	Short courses only 30 Years in rural lending	Rural/State Bank
27	Loans Officer	M	42	Permanent	5	3	Short courses only	Dept. of Housing
28	Loans Officer	M	42	Permanent	5	14	Accountancy Certificate	State Bank
29	Loans Officer	F	32	Permanent	3	5	75% completed ass. Dip. Acctg.	CBA
30	Loans Officer	M		Permanent	5	23	School Certificate Accounting Cert TAFE	Rural/State Bank
31	Loans Officer	F	30	Permanent	9 months		School Certificate	Dept of Housing
32	Loans Officer	M	22	Permanent	3		-	State Bank

LOAN ASSESSING STAFF PROFILE

Staff Member	Position	Male/ Female	Age	Temporary/ Permanent	Loan Assessing Experience No of Years		Qualifications	Previous Employer	
					Auth	External			
EXECUTIVE									
Graham Maslen	33	Chief Executive	M	50	Chief Exec. Service	5	20	F CPA AAIB (Snr)	NSW Rural Assistance Board
Stephen Griffith	34	Chief Manager Lending	M	40	Senior Exec. Service	5	2	B Ag Ec (Hons) UNE Master of Public Policy	NSW Agriculture

- 8.3.2 The profile provided by Mr Maslen shows that of the Authority's 32 assessment staff (including loans managers), all but 8 have a background in banking. Of these 8 who do not have a banking background, four come from the Department of Housing. Nine of the 32 assessment staff have tertiary qualifications, three of them in agricultural science or a similar discipline.
- 8.3.3 This can be contrasted with the staffing profile of rural assistance authorities in other States. The Rural Finance Corporation (RFC) of Victoria employs field staff in each of its regional offices. These field staff conduct on farm inspections and assess applications for assistance. They all come from a farming background and have tertiary qualifications in agricultural science, commerce or valuation. The regional managers, who have a similar background and considerable experience, also undertake on farm inspections and assess applications for assistance. Field staff are often new graduates and may stay with the RFC for a few years. Before being appointed to a regional office they have a stint of about six months in the RFC head office in Melbourne.
- 8.3.4 The Rural Finance and Development (RFD) division of the Department of Primary Industries in South Australia also employs assessors who have tertiary qualifications (in agricultural science or accounting) and a farming background. Most are in their 30's or 40's.
- 8.3.5 The Chief Executive of the Authority provided a number of comments on the Authority's staffing profile on 20 December 1994. He noted that the Authority's staffing profile had changed dramatically since 1989 with an increasing number of staff having a rural background. At the same time, though, he said he saw no problem with having former State Bank staff as assessment officers.

[W]e are a fairly unique organisation in the sense of being an inner sector budget department which provides financial assistance, and the type of assistance that we provide. We could be aligned to the Department of Housing. Not too many organisations within the public sector provide loan assistance. I see no problem in having ex-bank staff, including the State Bank, as assessing officers, due to their background. I am also of the opinion that assessing staff should have a rural background.

If you were to look at the staff profile of 1989 compared to 1994, you would be able to see that the assessing area has changed dramatically. There is now an increasing number of staff with or from rural backgrounds. However, this position cannot be changed dramatically due to permanency of employment within the public sector because we have to look at equal employment opportunities and the question of discrimination. Recently we established a performance appraisal system. That has now been in place for 12 months and it

*may be a way of monitoring whether we are carrying deadwood but it is early days. I do not think we are.*¹¹¹

8.4 Remuneration and promotional opportunities

- 8.4.1 The Review of NSW Rural Agencies conducted in 1988 drew attention to problems caused by the employment or secondment of the staff of the former Rural Reconstruction Board from the State Bank. It was noted that State Bank staff did not see appointment to the Rural Reconstruction Board or Rural Industries Agency as a positive career step. These agencies were not viewed as part of the mainstream activities of the State Bank and the prospects of moving from one of these agencies into a higher management position within the bank were limited. The review noted that the standardised grading and remuneration system used by the State Bank made it difficult for the management of these agencies to reward high achieving staff with remuneration or promotions. The review called for a detailed review of the staff grading, development and remuneration policies and practices of the agencies.¹¹²
- 8.4.2 The Authority's 1994 Annual Report reveals that the Authority's assessment officers are grade 4/5 on the clerical / administrative scale. The annual salary range for grade 4/5 staff is \$32,341 - \$37,071. The Authority's loans managers are grade 8/9 on the clerical / administrative scale. The salary scale for grade 8/9 staff is \$43,814 - \$47,863.¹¹³
- 8.4.3 The Chief Executive of the Authority was asked about the remuneration of, and promotional opportunities for, assessment staff when he appeared before the Committee on 20 December 1994.

COMMITTEE: I refer to your loan officers and staff generally. Do you feel that the pay scales and remuneration reflect the type of work you are expected to do?

MR MASLEN: I refer to the loans officers. A job re-evaluation was done while they were still with the State Bank. Some officers directly transferred to the Authority. People with 30 years experience in dealing with rural loans were classified under the Hay system as being equivalent to trainee loan officers. Some ill feeling was brought across when we conducted job re-evaluation within the Authority. The Department of Industrial Relations did the initial job evaluation and salary setting for the positions. The loans officers who came across basically had their parity preserved, which they lost earlier. They

¹¹¹ Evidence, Graham Maslen, 20 December 1994, p.31

¹¹² NSW Treasury, Review of NSW Rural Agencies, p.56

¹¹³ Rural Assistance Authority, 1994 Annual Report, p.26

also had continuing benefits of being a State Bank employee. They did not lose any of their financial benefits as a whole. Salaries for loan processing staff are not too bad. However, we have a fairly flat organisation and we need to look at the structure if we are going to go down a different path to make sure that we have got the right people in the right places in addition to the loan assessing staff to make sure that everything that is fed in enables us to achieve the right decision.

COMMITTEE: Is any allowance made for seniority or a greater level of experience amongst staff in the way in which they handle work? Is work allocated to certain staff on the basis of their particular expertise or seniority?

MR MASLEN: Yes. We have a CES and an SES and then there is a major drop down to the loans managers level. Because of work pressure on us, we have to allocate tasks to other officers of loans management status or even below. Loans officers do not just do loans assessing. If time permits they are given special projects to do. I asked a loans manager who was recently appointed to assess and evaluate a proposal ... into structural adjustment in the western division and to come up with some findings. We try to have job rotation and multiskilling....

MR GRIFFITHS: I would like to add a couple of things. A specific section has been established to monitor delinquent loans and arrears recovery work. The two staff currently in that section are very experienced loan officers, each with over 30 years experience. I believe that is important, particularly when you are dealing with what is a fairly sensitive issue. We have also allocated the work so that the relatively new staff who do not know the operations as well work with the form of assistance which is most clearly defined - the exceptional circumstances criteria. They are working on that. Within the structure of the four assessing areas, the four next most senior staff have been allocated to one of those areas. They support the manager in making more complex decisions when the manager is acting they can fit into that position far more simply. There is not a large effect on the overall operation of the Authority.¹¹⁴

8.5 Staff Training

- 8.5.1 When the Chief Executive of the Authority appeared before the Committee on 20 December 1994 two specific issues were raised in relation to staff training. The first of these was the nature of the written guidelines to which assessment staff had access. Mr Maslen said that although staff receive written

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Evidence, Graham Maslen and Steve Griffiths, 20 December 1994, pp.33-34

instructions there is no procedures manual currently in place for assessment staff.

COMMITTEE: Do you have a procedures manual or a set of guidelines for your loans officers?

MR MASLEN: Yes and no. Basically what we work from is the policy guidelines framework, and then instructions are issued by the Chief Manager Lending on how those guidelines are to be applied. We virtually have a build-up of a manual to say, in light of changes in guidelines and procedures, how they are to be adopted and so forth.

COMMITTEE: Is it a manual?

MR MASLEN: Not as such.

COMMITTEE: What is it, just a collection of papers or guidelines?

MR GRIFFITHS: It is a series of instructions to staff on how the various schemes are to be interpreted and on particular issues of interpretation on broader issues such as how we are to uniformly assess off-farm income. For example, with the wool scheme there was a specific instruction on how the 65% income from wool and sheep dedicated to wool production was to be interpreted. That is provided to every individual loans officer.

MR MASLEN: If we had one scheme with one specific set of criteria, a manual would be wonderful. But there are the constant changes that I mentioned earlier in my evidence. We looked at the drought policy guidelines, of which there are five, three issued since July and two issued since the end of December 1992. There are constant changes all the time.

COMMITTEE: What happens when a new change comes about and you are notified of the change? What do you do to alert your staff about the changes?

MR MASLEN: We sometimes alert them before the changes occur to let them know the changes are coming. If I can use the Farm Debt Mediation Bill as an example, that is something new and was given to the Authority with no input at all. We have just been nominated as the administering authority. We have had to look at the implications of that and the procedures. We have had to document the procedures and have them looked at by the Board to see whether or not they are happy with the procedures and how they have interpreted the bill. They will be documented in steps A, B, C and D, with flow charts and what have you to show what procedures had to be followed in relation to the issue of certain certificates at certain times etc.

COMMITTEE: So then that written information is given to members of the staff.

MR MASLEN: Yes.

COMMITTEE: Is there any formal training session for them?

MR MASLEN: Yes, we train the trainers, and formal training sessions take place.¹¹⁵

- 8.5.2 The second issue in relation to staff training which the Committee pursued with the Chief Executive was the exposure of assessment staff to rural conditions and farming. Mr Maslen noted the recent development of exchange programs with rural counsellors and visits to country areas by Authority staff.

COMMITTEE: How often do your loans officers and loans managers go into country areas?

MR MASLEN: ... We do give them exposure. They have been on road tours to disseminate information and discuss it with others - it might be with the Department of Agriculture and other agencies. There is a lot of networking and a lot of feedback there. We also try to reverse roles. We have rural counsellors come into our office to learn the ways of what we do. Also, our officers have spent time with rural counsellors as well, and we are looking at certain exchange programs to enhance these skills.

MR GRIFFITHS: I shall just add a couple of things. The Board meets fairly regularly in country locations, and part of the activity that is always associated with that is an informal information sessions for accountants and solicitors. Members of the staff also tend to get to the country fairly regularly to address specific requests for seminars or information days. On an annual basis, we also take a number of less experienced staff, particularly in rural matters, away for three to four days. We take them to a number of farms in a specific location, and they can get hands-on experience of farming matters.¹¹⁶

8.6 Future Needs

- 8.6.1 When they appeared before the Committee on 20 December 1994, the Committee asked both the Chief Executive and the Chief Manager Lending about the future staffing needs of the Authority. The first point made by Mr Maslen was that, as RAS '92 became a more important part of the Authority's

¹¹⁵ *Evidence*, Graham Maslen and Steve Griffiths, 20 December 1994, pp.35-36

¹¹⁶ *ibid.*, p.39

work, there would be an increasing need for the Authority to employ staff with rural backgrounds or rural training.

*With the move to the RAS '92 productivity enhancement scheme the need for rural trained personnel has increased. One has to recognise that approximately 90% of our funding is still being directed to farmers suffering financial difficulties, under RAS '88 or exceptional circumstances. When the drought does end and there is an increased demand for productivity enhancement measures the Authority Board will be asked to consider other aspects that will raise the Authority's profile. In doing that the need for more expertise within the Authority will need to be addressed.*¹¹⁷

- 8.6.2 The second point made by Mr Maslen was his desire to see the Authority's structure changed so as to provide some internal promotional opportunities for staff and to be able to provide more recognition for the experience of staff.

*The administration of the organisation is fairly flat at the moment. I would like to be able to see that the organisation is probably a little bit bigger, not too much bigger, but with a few gaps filled in with special expertise, and also able to give staff within the organisation promotional opportunities. At the moment in some areas they are fairly restricted, although they say that if you are in the public service, you are not restricted to one department. But because of the special expertise, especially loans officers, their area of transportability and promotional ability within other government departments is fairly limited.... I think to some extent it is a pity you cannot pay for experience because for some officers who have given good service for 40 years to be stuck on a salary with nowhere to go is very unfortunate. I would like to be able to see that there are incentives because if incentives are available, efficiency and effectiveness must be improved.*¹¹⁸

- 8.6.3 Mr Griffiths identified a number of areas in which he saw room for the Authority to improve its skill levels. These included communication with the media, policy development, Treasury money management, and computer programming and maintenance.

I noted four areas where I believe the skill levels in the Authority could be improved, recognising of course it is relatively small at present. Those areas involve, not in any order of importance, someone who is an expert in communication methods and techniques and possible can utilise contacts in existing media outlets; understanding computer programming, software and interpretation. If I had choice, I would rather have my own in house experts in data

¹¹⁷ *ibid.*, p.31

¹¹⁸ *ibid.*, p.45

*processing and interpretation. If we were starting again, that is the major area. I think there is a shortage of policy skills within the existing staff, and there is also a shortage of what I call Treasury money management skills. I agree that in some areas salaries are perhaps acting as some impediment to maintaining quality staff. However, we have to be a little careful of that because at manager level we have been able to attract someone from one of the commercial banks who has turned out to be an outstanding applicant - the reverse situation. That is anecdotal evidence that salaries are reasonably competitive in at least one structure level of the organisation.*¹¹⁹

8.7 Findings and Recommendations

8.7.1 When the Rural Assistance Authority was established in 1989 it inherited most of its staff from the State Bank of NSW. The overwhelming majority of the Authority's assessment staff have a background in banking. This is no doubt appropriate for the administration of old versions of RAS and State schemes which involve the provision of loans. Indeed the Authority's assessment staff are titled loans officers. However, this may not be appropriate for the administration of RAS '92.

8.7.2 The Authority has recently employed a number of assessment staff from a non-banking background. These include staff from a farming background and with qualifications in agricultural science.

8.7.3 *The Committee recommends that the Authority seek to recruit further assessment staff from a farming background and ideally with tertiary qualifications in areas such as agricultural science. It is important that the Authority use these staff in the administration of RAS '92, particularly with regard to applications for productivity enhancement grants. The Authority Board should consider approaching the Commonwealth Government for any necessary financial support to implement these measures*

8.7.4 The Authority currently has a very flat structure. There is a large gap between the Chief Executive and Chief Manager Lending, and the rest of the Authority's staff, particularly those involved in the assessment process. This means that there is a lack of promotional opportunities for experienced assessment staff. It also means that the Chief Executive and Chief Manager Landing shoulder the entire management responsibility for the administration of the assessment process..

8.7.5 *The Committee recommends that the Board take note of the Authority's flat structure and give consideration to appointing staff at an intermediate level, as part of the management team, with defined authority which will enable them to take over some of the administrative responsibilities of the Chief Executive and Chief Manager Lending. However, this must not create another level through which applications have to be processed thereby slowing up the assessment process.*

8.7.6 *The Committee recommends that the Authority consider a new title for its assessment staff (eg. assessment officers) particularly for those who are considering applications for assistance under the provisions of RAS '92.*

8.7.7 The Authority does not have a formal procedures manual for its assessment staff. A practical manual including information on the interpretation of eligibility criteria and the assessment of viability would undoubtedly contribute to greater consistency between assessment staff.

8.7.8 *The Committee recommends that the Authority Board prepare and introduce a procedures manual for assessment staff by 30 June 1995, and that staff receive training in its use as soon as possible.*

CHAPTER NINE

REGIONAL PRESENCE

9.1 Background

- 9.1.1 As discussed in section 2.2 above, the *Review of NSW Rural Agencies* conducted in 1988 recommended that the new Rural Assistance Authority should have a central head office and four or five regional offices. However, the review also recommended that the possible role of the commercial banks as agents for the new Authority should be further explored. If the banks were able to act as agents for the Authority the need for regional offices would be obviated.
- 9.1.2 The *Working Party on the NSW Rural Agencies Review* developed a possible agency role for the commercial banks. This included: accepting applications forms on behalf of the Authority; providing information for the Authority's assessment of applications; collections on behalf of the Authority; and the execution of legal documents on behalf of the Authority. In view of this agency role, the Working Party concluded that it would not be necessary for the Authority to establish regional offices. The Working Party also noted that the State Bank had agreed that its valuers would be available to conduct on-farm inspections for the Authority on a contract basis. Again, this would obviate the need for the Authority to have its own regional offices, with trained valuers.¹²⁰

9.2 Regional Offices

- 9.2.1 During the public meetings held in country towns throughout the State the Committee heard a number of calls for the Rural Assistance Authority to increase its rural presence. One of the means suggested for the Authority to do this was the establishment of a network of regional offices.
- 9.2.2 The Authority put its views on the need for a regional office network in its submission to the inquiry. The Authority argued that its close working relationship with the rural counselling network obviated the need for regional offices.

In NSW an extensive rural counselling network has been established.... The Authority has an excellent working relationship with the Rural Counselling Service as the majority of applications for

¹²⁰

Working Party Report on the NSW Rural Agencies Review, pp.7-8, 15

*assistance are received through this service. The Authority does not have any regional offices, however, it is considered that the Rural Counselling Network which is now quite extensive, and with the Authority's close working relationship with it, obviates the need for regional offices.*¹²¹

- 9.2.3 When the Authority's Chief Executive appeared before the Committee on 20 December 1994 he elaborated on this issue. Mr Maslen added that the Authority had developed a de facto regional network by which farmers could obtain expert assistance. Financial assistance was available through the commercial banking network. Technical advice was available through the Department of Agriculture, the Department of Conservation and Land Management, the Department of Water Resources, the Soil Conservation Service and others.¹²² Some doubt was cast upon this, however, when senior officers of the Department of Agriculture appeared before the Committee. They indicated that, while the Department of Agriculture had the expertise to provide analyses of farmers for the Authority, there was some doubt as to whether such work would fall within the core business of the Department of Agriculture.¹²³
- 9.2.4 The Committee considered the question of regional offices in some detail during visits by Committee members and staff to the Rural Finance Corporation (RFC) of Victoria. The Committee's Senior Project Officer spent a day in one of the RFC's regional offices in Shepparton. The RFC has six regional offices, each with a staff of about five, including a regional manager, field officers and support staff. It costs approximately \$350,000 to run each regional office for a year. Regional offices are a farmer's first point of contact with the RFC. On-farm inspections are conducted by the regional field staff. Regional managers then submit applications to head office in Melbourne with a detailed assessment of the application. In reviewing the operations of the RFC's regional offices the Committee was conscious of the dual role of the RFC as both a rural assistance authority and a bank. It was apparent that the most detailed analysis of farmers occurred where the RFC was acting a rural lender. After careful investigation and deliberating, the Committee formed the view that it would be difficult for the RFC to justify its regional offices for its rural assistance work alone.

9.3 On-farm inspections

- 9.3.1 Another issue raised repeatedly with the Committee during the public meetings in country towns was the question of the Authority conducting on-farm

¹²¹ Rural Assistance Authority, *Submission*, p.43

¹²² *Evidence*, Graham Maslen, 20 December 1994, pp.31-32

¹²³ *Evidence*, Jim Booth and Bryson Roberts, 21 November 1994, pp.5-6

inspections as part of the process of assessment of applications for rural assistance. The Committee heard evidence confirming the support for on-farm inspections at its public hearing in Dubbo on 4 November 1994. Rural counsellors said that their clients would feel more comfortable with the level of personal contact involved in a farm visit by someone representing the Authority.

COMMITTEE: [D]o you think it might be helpful if someone on a local level had an on-farm inspection to meet the farmer and see how he operates?

MR BASHFORD: I believe it would help.... If we were to say we would like to have a field visit or something like that.

MR WHITE: I think a lot of my clients would agree with that. They would feel much happier, if that is the word - more comfortable - if somebody came out and saw their operation.¹²⁴

- 9.3.2 Professor Warren Musgrave and Richard Stayner, of the Rural Development Centre at the University of New England, put the case for on-farm inspections in their submission to the Committee. (Mr Stayner's observations were based upon his experience in conducting research for the Authority into the financial performance of RAS recipients in the West Wyalong area.) They suggested that many of the judgments made by the Authority required greater familiarity with farmers' operations than could be gleaned from written applications. Although on-farm inspections would add to the Authority's administrative costs they said that a small increase in the administrative costs of the Authority should be balanced against the possible improvement in the delivery of rural assistance.

There are numerous and difficult problems of valuation and estimation involved in establishing the financial condition and prospects of a farm business.... It would therefore seem to require greater familiarity with the details of the farmer's situation than can be gained from desk-based assessment of written applications, supplemented by telephone inquiries. The Authority no longer uses farm visits (previously done by State bank rural valuers) in reaching their assessments. While such data sources necessarily introduce some subjectivity, this can be controlled to some extent, and might be no greater than that required by desk-based assessment. It would seem that some of the essential elements in understanding the actual situation of the applicant might only be obtained from first-hand knowledge. While the Authority is understandably mindful of the need to keep administrative costs to a minimum, it might be that a slightly

¹²⁴

Evidence, Bruce Bashford and Garry White, Dubbo, 4 November 1994, p.8

*higher investment in assessment costs would be repaid in more accurate identification of successful applicants.*¹²⁵

- 9.3.3 The Committee further pursued the issue of on-farm inspections at its public hearing in Dubbo. The Committee heard evidence supportive of the role played by State Bank valuers prior to the establishment of the Rural Assistance Authority. The Committee questioned a State Bank valuer about the work involved in an on-farm inspection.

COMMITTEE: Field officers were mentioned earlier or some form of rural presence from the Rural Assistance Authority. Would you like to expand on that?

*MR KENNEDY: We well remember in this area senior valuation officers of the State Bank fulfilling an active role in the scheme some years ago in this very capacity. I stress senior, experienced valuers who have on-property experience, indeed, who often have years of knowledge of those clients because of being involved in assisting them in past years. That is the type of on-property assessing we consider should be reintroduced.... The beauty of that system was that that officer was based in centres such as Dubbo, Wagga Wagga, Tamworth and Armidale, covered a defined area, knew the area backwards, knew the economic conditions, the rural conditions, the seasonal conditions, knew the economic size of properties and had valuation knowledge.*¹²⁶

COMMITTEE: I believe you stated earlier that you are a senior valuer with the State Bank. You made a remark earlier that there might be an advantage for the Rural Assistance Authority to have a field officer available in various areas. Do you see advantages in that?

*MR TULLY: We used to do basically 95% or 100% of their field work, but with the introduction of subsidy as against lending, and because they were paying an interest subsidy that was non-repayable, that is a grant, the need for the valuation function was not of the same importance as when they were giving physical dollars that had to be met against equity. Obviously, in all situations and particularly dealing with farmers - and that is one of the things with my job as a whole - you get a tremendous advantage by seeing the position on the farm. With farmers, when you are out there and relating to them on the property, it is a huge advantage.*¹²⁷

¹²⁵ Professor Warren Musgrave and Richard Stayner, *Submission*, pp.2-3

¹²⁶ *Evidence*, Michael Kennedy, Dubbo, 4 November 1994, pp.24-25

¹²⁷ *Evidence*, Allan Tully, Dubbo, 4 November 1994, p.28

- 9.3.4 When the *Working Party on the NSW Rural Agencies Review* estimated the budget of the proposed Rural Assistance Authority it allowed \$1 million for contract valuations or on-farm inspections to be conducted by State Bank valuers on a contract basis.¹²⁸ During the 1993-94 financial year the Authority spent just one tenth of this amount on on-farm inspections. This enabled 100 on-farm inspections to be carried out at a cost of approximately \$1,200 each.¹²⁹
- 9.3.5 The Committee pursued this issue with the Chief Executive of the Authority when he appeared before the Committee on 20 December 1994. Mr Maslen argued that on-farm inspections were not justified in relation to applications for exceptional circumstances. However, he acknowledged that there could be a case for conducting on-farm inspections in relation to applications for productivity enhancement grants in order to monitor the productivity enhancement measures undertaken.

In view of the term of assistance for exceptional circumstances, it is considered that a field inspection is not vital as to whether assistance is provided. In light of the number of applications received for exceptional circumstances assistance, the logistics and cost for carrying out field inspections would be both time consuming and expensive. It needs to be recognised that the major reason for restructuring the Rural Agencies was to cut costs and improve the efficiency. That is where one of the major savings had been achieved. We relied heavily on the banking system to provide data on a farmer's profile to assist us in making decisions.

Productivity enhancement, however, is a different issue due to the length of the period of the subsidy and the need to monitor the productivity enhancement measures to be undertaken. There would need to be some consideration as to whether there is a need for an inspection to be carried out on every productivity enhancement application, dependent on the nature of the works to be carried out. It could be argued that from the bankers' viewpoint, if they were providing the loan to carry out the productivity enhancement measures, that they should be seen as the ones who would be best to monitor whether the funds had been used for the purposes applied for, whether the works productivity measures had been undertaken and whether the outcomes expected from those productivity enhancement measures had been achieved.¹³⁰

- 9.3.6 The Committee also noted that the Senate Committee briefly considered the issue of on-farm inspections in its report on *Rural Adjustment*. The Senate

¹²⁸ *Working Party Report on NSW Rural Agencies Review*, p.22

¹²⁹ *Memorandum from Graham Maslen*, 12 January 1994

¹³⁰ *Evidence*, Graham Maslen, 20 December 1994, p.33

Committee concluded that "on-farm inspections are preferable when RAS authorities are assessing applications, notwithstanding costs associated with this practice".¹³¹

9.4 Allocation of assessment staff

- 9.4.1 As discussed in sections 4.2 and 6.2 above, the Authority's assessment staff are currently allocated on an alphabetical basis, with one assessment officer dealing with applicants whose surnames begin with A - Bee, another Bef - Bro etc. This may be contrasted with the allocation of assessment staff in other State rural assistance authorities. As discussed in paragraph 9.2.4 above, assessment staff in the RFC in Victoria operate out of regional offices. Although the Rural Adjustment and Finance Corporation (RAFCOR) of Western Australia does not have regional offices, its assessment staff based in Perth are titled regional officers and they each have responsibility for considering applications for assistance from particular regions of the State. The Rural Finance and Development (RFD) division of the South Australian Department of Primary Industries has also up to very recently allocated its assessment staff on a regional basis.
- 9.4.2 This issue was raised with the Committee in a detailed submission from a rural consultant from Albury, David Neve. Mr Neve had experience in dealing with not only the NSW Authority but also the RFC in Victoria and RAFCOR in Western Australia, and he drew upon this experience in recommending that the NSW Rural Assistance Authority should allocate its assessment staff on a regional basis. He argued that this would not only improve the Authority's decision making but would also improve the Authority's communication and management.

My present understanding of the Authority is that it is treated on an alphabetical basis which, I believe, makes the whole process of assessment rather difficult. It means that, from one day to the next, you can go from one end of the State to the other.

The recommendation is that staff in the Sydney office be given a region. From my knowledge they now run as a management and team system and they would be responsible for a particular area of the State, be it the Riverina, for example. These managers would coordinate the staff and also be responsible for public awareness and marketing in that region....

I believe the regionalisation issue clarifies a lot of the communication problems that exist at the moment. I can have applications throughout the Riverina and I will speak to one assessor one day and I will speak to another one the next day. That makes it difficult for continuity with

¹³¹

Senate Committee, *Rural Adjustment*, p.78

the Authority. The building up of a relationship where they know who they are and they know how you work just does not happen. Therefore, by having regional contacts the staff will become aware of local issues rather than become experts in the whole State. For example, I do not go to Gunnedah and consult; I do not go to the back of Bourke and consult; I consult in the Riverina and in the north-west or north-east of Victoria....

Another problem I have come across is consistency, but again I believe this has been attributable to the alphabetical situation.... Consistency becomes awkward if I have to do one in Gunnedah tomorrow and one in Deniliquin the next day.... We are really focussing on local awareness, on the local level to bridge that gap between the farmer and the government authority....

The other aspect, of course, is the RAA managers coming into those regions, physically visiting the region on a regular basis and therefore being able to pick up inconsistencies. For example, if they have a client or a banker who is creating some problems and there are some inconsistencies coming through applications, they can set up a meeting, talk to that person and nip it in the bud.¹³²

9.5 Findings and Recommendations

9.5.1 A regional network was considered prior to the establishment of the Authority but it was not proceeded with on the understanding that the Authority would use State Bank valuers to conduct on-farm inspections and that the commercial banks would act as agents for the Authority. This has not eventuated as envisaged. No doubt the decision not to establish regional offices and to rarely conduct on-farm inspections has yielded considerable administrative savings for the Authority. However, these efficiency savings need to be considered against the effective delivery of rural assistance, particularly in view of the new emphasis of RAS '92 on productivity enhancements.

9.5.2 Some evidence was received supportive of the establishment of regional offices. It was argued that a regional network would make the Authority more accessible to farmers. The Committee reviewed the regional office network of the Rural Finance Corporation of Victoria. The Committee was not convinced that the cost of establishing a regional network in NSW would provide sufficient benefits to justify the cost.

¹³²

Evidence, David Neve, 14 November, pp.12-13

9.5.3 Evidence was received supportive of the reintroduction of on-farm inspections. The Senate Committee found that on-farm inspections are preferable where RAS authorities are considering applications. The Chief Executive of the Authority indicated that he would support the reintroduction of on-farm inspections for applications for productivity enhancement grants under RAS '92.

9.5.4 *The Committee recommends that the Authority Board consider the reintroduction of on-farm inspections for applications for productivity enhancement grants under RAS '92. The Committee acknowledges that such on-farm inspections will not be necessary in every case. The Authority Board should consider who should conduct such on-farm inspections - valuers, accredited rural consultants or some other group of accredited contractors. While the reintroduction of on-farm inspections will increase the Authority's administrative costs, the Committee believes that this measure will improve the delivery of rural assistance, particularly RAS '92, to NSW farmers. The NSW Government should approach the Commonwealth Government seeking an increase in the Authority's funding for administration to cover the cost of reintroducing on-farm inspections.*

9.5.5 Evidence was received critical of the Authority's allocation of assessment staff on an alphabetical basis. Other State rural assistance authorities allocate assessment staff on a regional basis. This enables assessment staff to develop a familiarity with the farming industries and particular conditions in an area.

9.5.6 *The Committee recommends that the Authority allocate its assessment staff on a regional basis rather than an alphabetical basis. The Committee is conscious of the dangers of familiarity clouding objective decision making and therefore recommends that assessment staff be periodically rotated between regions. The Committee considers the range of two to five years to be appropriate for assessment staff to be responsible for a particular region.*

CHAPTER TEN

PUBLICITY AND INFORMATION

10.1 Farmers' understanding of RAS

- 10.1.1 During the public meetings conducted in country towns throughout the State it became apparent to the Committee that there was a lack of understanding in the farming community about the rural assistance measures available. This was particularly evident in respect of RAS '92. This theme was raised with the Committee by a number of witnesses during the inquiry.

*From our experience farmers are not aware of the services of the Authority.... Awareness out there in the bush about what the Authority can do is just not strong enough.*¹³³

- 10.1.2 The Committee heard evidence of a lack of understanding amongst farmers of the objectives and focus of RAS. Bruce Bashford, a rural counsellor, told the Committee that farmers were confused about RAS '92.

COMMITTEE: Do you believe that generally speaking people engaged in rural activities understand what is available to them through the Rural Assistance Authority?

MR BASHFORD: Talking about people at large, that is not the case. A great deal of my work - and I suspect other people - is actually explaining what is there and interpreting it to the use of a particular case.

COMMITTEE: Would you feel then that some extra effort should be put in somewhere to make people in the country, people on farms, more aware of what is available to them?

MR BASHFORD: It is my view that is really quite essential.... I am concerned about the recent developments over the last few years as to the push towards self-sufficiency and the ability to handle drought and other difficult circumstances is to be left to the individual farm enterprise. I run across virtually no farmer who knows that, never mind understands it, and that really does need to be emphasised. I do not dispute the logic of that, but it is not well known. If farm businesses and farmers do not understand what is in

¹³³

Evidence, David Neve, 14 November 1994, pp.13, 19

*front of them the productivity enhancement provisions are going backward.*¹³⁴

- 10.1.3 When the Chief Executive of the Authority appeared before the Committee on 20 December 1994 he was asked about this issue. Mr Maslen agreed that there was some degree of confusion in the country about the nature of RAS. He was then specifically asked to outline the Authority's promotional activities.

COMMITTEE: Mr Maslen, what is your view of the understanding of farmers of RAS '92 and the objectives of that scheme? Do you think farmers understand exactly what it is all about?

MR MASLEN: I think it is a very clouded scheme in the sense that it has been operational for only a short period of time and has been clouded by the continuing RAS '88 scheme and the exceptional circumstances provisions. We have tried to promote it fairly widely. However, notwithstanding our promotions to try to make it more transparent, I think there would be an extent of confusion about where RAS '92 productivity enhancement measures lie.

COMMITTEE: How do you go about publicising that and getting information out to farmers?

MR MASLEN: We provide information bulletins almost immediately the policy guidelines arrive. The bulletins are almost nearly verbatim the Commonwealth guidelines. We circulate them through the banking system, accountants, solicitors, rural counsellors, and the Department of Agriculture. I think the Board noted at the last meeting that promotional activities and printing were at a fairly increased level. We not only issue information brochures, we have also been on various rain tours which have been recently arranged. There has been a lot of activity of Authority staff in the bush of late.

*MR GRIFFITHS: Particularly when a new scheme is introduced there is usually a fair degree of inquiry and interest from the media. In particular, there have been two or three programs of live talkback radio on the ABC which have been well received. Clearly, there is a limit to those programs, but they have gone over well, according to feedback.*¹³⁵

- 10.1.4 The Senate addressed this issue in its report on *Rural Adjustment*. The Senate Committee found that there was considerable confusion in the farming community about the objectives and focus of RAS. The Senate Committee found that this confusion was so widespread that RAS should be revamped and the new assistance scheme given a new name. It was noted

¹³⁴ Evidence, Bruce Bashford, Dubbo, 4 November 1994, p.2

¹³⁵ Evidence, Graham Maslen and Steve Griffiths, 20 December 1994, pp.34-35

that, under the Commonwealth - State RAS agreement, the States were responsible for the promotion and delivery of RAS. However, it was also noted that the Commonwealth Department of Primary Industries and Energy had acknowledged that there was a need for both the Commonwealth and the States to improve the promotion of RAS.¹³⁶

10.2 Communication with farmers' representatives

- 10.2.1 A very specific concern was raised with the Committee at its public hearing in Dubbo on 4 November 1994. Representatives of the public accountants and chartered accountants in Dubbo asserted that they did not have access to the same level of information from the Authority as rural counsellors and were therefore not in as good a position to advise their clients in relation to rural assistance.

We believe in the past the Authority has not sufficiently briefed accountants as to the aims of assistance measures and the criteria to be met, or what is required on the forms. We seek the same counsel as rural counsellors receive.

Accountants contend that the rural counsellors as a group are informed in great detail as to the criteria applied in the Authority's assessment decisions. As a group of country accountants at the coalface, we have the professional standards and ethical responsibilities to have the confidence of clients, yet our counsel and support has not been enlisted in any way. I personally attended a rural assistance briefing of consultants where derogatory comments were made about public accountants. I find that offensive and disappointing.¹³⁷

- 10.2.2 When the Chief Executive of the Authority appeared before the Committee on 20 December 1994 he was asked for his response to these concerns. Mr Maslen said rural counsellors were not in receipt of more detailed information than accountants. He suggested that accountants may be somewhat jealous of rural counsellors.

COMMITTEE: We have heard that some accountants and other professional people claim that they do not have access to the same training or information from the Authority as rural counsellors. Do you think that is a fair comment? Do you put as much time in getting information to accountants and other professionals as you do to rural counsellors?

¹³⁶ Senate Committee, *Rural Adjustment*, pp.ix, 71-73

¹³⁷ *Evidence*, Michael Kennedy, Dubbo, 4 November 1994, pp.18-19

MR MASLEN: They are on the mailing list, but sometimes they say they miss out. I have addressed seminars, as has Stephen, at the Institute of Chartered Accountants annually, and given presentations there. There seems to be concern that accountants are missing out a bit. We had two recent Board meetings at Armidale at which that matter was raised. I said, "I am glad you have raised that with me." I said that I was only too happy to make a presentation if they could get a group of local accountants together in the town....

COMMITTEE: Is there any information, training or access that rural counsellors have that other accountants would not have?

MR MASLEN: No, I think that both forms can get access if they really want it. I think that there is a little bit of jealousy - I am speaking as an accountant myself - in the accountancy profession that they are missing out on access to RAS funding for services already provided, such as the payment of outstanding accountant bills for preparing pre-existing taxation returns. Under the training grant provisions, we do not pay for pre-existing services. We say to accountants, "If you want to participate under that program, if you have got an ongoing service which has been there for a few years, like preparing taxation returns, you have to provide an additional benefit to the farmer by doing cash flows or whatever to participate under the training grants program."¹³⁸

- 10.2.3 The Committee received evidence concerning the fees charged or foregone by accountants for the preparation of applications for assistance from the Authority. Whilst rural counsellors and bank managers assist farmers to prepare applications free of charge, accountants will sometimes charge farmers their usual professional fees. The average fee was estimated at \$400. In many cases accountants are writing off large amounts and foregoing considerable income for the preparation of applications.

10.3 Transparency of procedures

- 10.3.1 The Senate Committee in its report on *Rural Adjustment* briefly discussed the transparency of the procedures followed by State rural assistance authorities. It was noted that the authorities have developed their own detailed guidelines on eligibility for assistance under RAS. The Senate Committee recommended that these procedural guidelines and policies should be made publicly available.¹³⁹

¹³⁸ Evidence, Graham Maslen, 4 November 1994, pp.39-40

¹³⁹ Senate Committee, *Rural Adjustment*, p.73

10.3.2 The Committee received evidence that the Authority's guidelines for assessing viability and eligibility for RAS assistance are generally not made public. An accountant who gave evidence to the Committee tabled a document which is used by the Authority's assessment staff to determine an applicant's eligibility for assistance under RAS. He said this document was not widely available and included different categories or headings to those on the application forms.¹⁴⁰

10.3.3 The Committee pursued this issue with the Authority's Chief Executive and Chief Manager Lending when they appeared before the Committee on 20 December 1994. Mr Maslen was reluctant to see specific guidelines used by the Authority made public, in case applicants used these as a template and tailored their applications to fall within the Authority's guidelines. On further questioning, however, it was acknowledged that the provision of broad assessment guidelines could be helpful, allowing farmers to undertake a degree of self assessment and thereby discouraging what are going to be clearly unsuccessful applications.

COMMITTEE: The Senate Committee felt that a manual or guidelines ... should be made public. What do you think?

MR MASLEN: My view is that if you are looking at guidelines, if you make a template available to the public on how everything is done, we treat each case on its individual merits. If you put a template out there, it could be open to manipulation.... farmers may tend to put information in which will make sure that they get through the filtering system and they will finally get assistance....

COMMITTEE: But if the information is correct?

MR MASLEN: Then there is no problem....

COMMITTEE: I am just wondering how, if there are certain requirements and the farmer meets those requirements, it would hurt at all if he knew what they were. I do not see that it would hurt at all if he had a clear understanding of what was required. He either qualifies or does not, and you assess him according to those certain guidelines?

MR MASLEN: Put it this way, we have an information bulletin. If we had a more procedural thing which says A, B, C, and D, that could possibly be seen as an improvement....

MR GRIFFITHS: I think we need to draw a distinction between what we mean as guidelines and requirements, and specific individual assessment criteria. In terms of guidelines and

requirements, I greatly believe that any broad assessment criteria that are to be utilised should be published. I just do not believe that it is defensible not to.... [A]gain I have no problems with publicising a broad criteria - if one likes, some criteria that allow a degree of self-assessment to be made - for the farmer to clarify whether he believes in his own mind that it is worthwhile going to the time and cost of preparing a formal application. That could for example include some guidelines on some of the key ratios....¹⁴¹

10.4 Accessibility

- 10.4.1 The Committee received evidence which indicated that the Authority was generally accessible to both applicants and their professional advisers. As noted in section 7.1 above, the Authority's assessment staff are accessible and have shown themselves prepared to provide detailed advice about the reasons why applications are declined. As noted in section 7.2 above, the Authority's Chief Executive has adopted an open door policy and applicants and their advisers have telephone access to Mr Maslen and other senior staff of the Authority.
- 10.4.2 The Committee noted that the Authority has recently established a 008, toll free telephone number for farmers and other potential applicants. This enables farmers to contact the Authority free of charge and receive advice from Authority staff in relation to their applications or rural assistance generally. The Committee understands that statistics are not yet available on the use that has been made of the service.

10.5 Findings and Recommendations

10.5.1 Evidence was received that there was widespread misunderstanding in the farming community about the objectives and focus of RAS. This is due in part to the frequent changes to the scheme. However, the Committee is of the view that not enough has been done to publicise and promote the scheme. The Senate Committee found that both the Commonwealth Government and State RAS authorities must improve the promotion of RAS.

10.5.2 *The Committee recommends that the Authority continue to expand its publicity and promotion of RAS.*

10.5.3 During the course of this inquiry the Committee met with a number of rural counsellors. The Committee was impressed by the professionalism of rural counsellors and wishes to record its support for their role. The Committee also met with other professionals who assist farmers complete applications for rural assistance. Some of these professionals were concerned that they did not have access to the same degree of training or information from the Authority as rural counsellors.

10.5.4 *The Committee recommends that the Authority develop mechanisms to improve the training and information provided to accountants and other professionals in relation to RAS.*

10.5.5 The Committee was surprised to find that the Authority does not yet have a formal procedure manual for its assessment staff and has recommended that the Authority prepare such a manual as a priority. The Senate Committee recommended that State RAS authorities make publicly available the procedural guidelines and policies used to assess eligibility for RAS.

10.5.6 *The Committee recommends that the Authority make publicly available a version of its procedure manual and a document setting out any other guidelines used to assess eligibility for RAS.*

10.5.7 Evidence was received that the Authority is generally accessible and has become more "user friendly" in recent years.

10.5.8 *The Committee commends the Authority's accessibility to farmers and recommends that the Authority continually seek to improve its accessibility to its clients. The Committee commends the recent establishment of a 008 number and recommends the continuation and promotion of this service.*

CHAPTER ELEVEN

SPECIFIC ISSUES CONCERNING THE DELIVERY OF ASSISTANCE UNDER RAS '92

11.1 Focus on outcomes

- 11.1.1 The Rural Adjustment Scheme (RAS) and RAS '92 specifically are discussed in detail in sections 3.2 and 3.3 above. As noted in section 3.3 the objectives of RAS '92 involve improving the performance and competitiveness of Australian agriculture through facilitating structural adjustment. This is to be achieved through a number of quite tangible steps such as productivity enhancement and skills acquisition. This a development on previous versions of RAS which were primarily concerned with the provision of assistance in the form of carry-on finance and debt restructuring.
- 11.1.2 Concurrent with the focus of RAS '92 on the achievement of specific tangible outcomes has been an increased emphasis on monitoring the performance of RAS and the effectiveness of the assistance which is provided. This issue was addressed by the Senate Committee in its report on *Rural Adjustment*. The Committee noted that successive reviews of RAS had recommended the development of a Management Information System which would enable the Commonwealth Government to monitor the effectiveness of RAS nationally. The Senate Committee referred to recommendations which had been made in review reports in 1988 and 1992 concerning the evaluation and monitoring of RAS. In fact, as long ago as 1976 the Industries Assistance Commission had drawn attention to the need for the development of a system to monitor the performance of farmers before and after the receipt of rural assistance.¹⁴²
- 11.1.3 The Senate Committee was very critical of the failure of the Commonwealth Department of Primary Industries and Energy to establish either an operational Management Information System or performance indicators for RAS. The Senate Committee found that "given the lack of detailed information on the performance and effectiveness of the scheme " it was "difficult to assess and determine whether taxpayers' money is being directed towards effective adjustment measures".¹⁴³ The Senate Committee recommended that these issues

¹⁴² Industries Assistance Commission, *Rural Adjustment*, p.66

¹⁴³ Senate Committee, *Rural Adjustment*, p.ix

be addressed as a high priority by the Department of Primary Industries and Energy.

The Committee considers it imperative that the Department of Primary Industries and Energy develop performance indicators for the rural adjustment scheme and recommends that this matter be addressed urgently.

The Committee considers that effective program management demands an ability to monitor performance. The failure of the Department of Primary Industries and Energy to develop a management information system is a serious deficiency in the administration of the rural adjustment scheme that must be addressed immediately.

The Committee recommends that the Department of Primary Industries and Energy accord the highest priority to the development of a fully operational management information system.

The Committee is also of the view that the Department of Primary Industries and Energy must gain a better appreciation of, and monitor more closely, the effectiveness of programs at the grassroots level. The Committee recommends that the Commonwealth Government ensures that the Department has sufficient personnel and financial resources to undertake proper monitoring and evaluation of rural adjustment programs.¹⁴⁴

- 11.1.4 The Senate Committee noted evidence from the Department of Primary Industries and Energy that recognised the necessity of extensive follow-up, at the local level, of recipients of rural assistance in order for the effectiveness of RAS to be properly evaluated.¹⁴⁵
- 11.1.5 Whilst recognising that the evaluation of the effectiveness of RAS is primarily the responsibility of the Commonwealth Government, the NSW Public Accounts Committee is convinced that the Rural Assistance Authority has a key role to play in monitoring the performance of recipients of RAS assistance in NSW. The need for the Authority to be engaged in the follow up of successful applicants was put to the Committee most succinctly by Professor Warren Musgrave and Richard Stayner, from the Rural Development Centre at the University of New England, in their written submission. They suggested that this would involve a culture change for the Authority from a "case-driven" organisation focussed on processing applications to a "mission-driven" organisation concerned with the outcomes of rural assistance.

[T]here should be more attention given to follow-up assessment which tracks the subsequent financial performance of both successful and

¹⁴⁴ ibid., pp.60, 63

¹⁴⁵ ibid., pp.59-60

unsuccessful applicants so that the overall effectiveness of assistance programs might be better evaluated.

As a 'case-driven' organisation, the Authority focuses on the processing of individual applications, and applies the traditional (and necessary) concepts of accountability based on the stewardship of public funds.... [T]he effective delivery of RAS funds and the proper evaluation of the program overall requires RAS authorities to become more 'mission-driven' and to pay more attention to the continual evaluation of aggregate outcomes. This might require a fundamental change in the culture of some RAS authorities. There might be some value in the Committee seeking information on the approaches and procedures adopted by RAS authorities in other States, for example in Western Australia and Tasmania.¹⁴⁶

11.2 Western Australian pilot program

- 11.2.1 As outlined in paragraph 1.3.5 above, Terry Rumble MP and the Committee's Senior Project Officer visited the Rural Adjustment and Finance Corporation (RAFCOR) of Western Australia in early December 1994. They received a briefing on RAFCOR's procedures for the administration of RAS. At the time of the visit RAFCOR was in the process of finalising a new pilot program for the administration of RAS. Mr Rumble and the Committee's Senior Project Officer were impressed by this pilot program and upon their return provided the Committee with a detailed briefing.
- 11.2.2 RAFCOR's new pilot program is designed to facilitate achievement of the objectives of RAS '92 and focuses upon the achievement of tangible outcomes, including productivity enhancements and skills acquisition. The first step in the application process is an easy check questionnaire which is filled in by the farmer. This is based on the self assessment procedure which operates in relation to taxation returns. The questionnaire includes 15 questions, covering issues such as labour time devoted to farming, farming history and non essential assets. Farmers are shown how to calculate their equity to assets and debt to income ratios. Broad bands are identified as representing the target group of farmers eligible to receive RAS assistance. Having completed the questionnaire farmers are able to gain an appreciation of their financial position and come to a realistic view of whether or not they are likely to be eligible for RAS assistance. RAFCOR provides a flat \$80 grant to enable a farmer who has completed the questionnaire to have it checked over by an accredited consultant. The eligibility questionnaire is reproduced in full in appendix Five. RAFCOR publishes a summary of the key requirements for eligibility for RAS assistance, including the ratio bands used to identify the target group of farmers. This summary is also reproduced in Appendix Five, along with a summary of the application process.

¹⁴⁶ Professor Warren Musgrave and Richard Stayner, *Submission*, p.5

- 11.2.3 If, after completing the eligibility questionnaire, the farmer is of the view that he or she is likely to qualify for assistance, he or she may then engage an accredited rural consultant to prepare a farm business plan. This identifies in detail the measures which are to be undertaken as a result of RAS assistance. RAFCOR proposes to offer farmers a grant of up to \$2,000 to enable farmers to have this work carried out by an accredited consultant. RAFCOR also proposes to introduce a program of post support reviews which will entail on-farm inspections to review in detail the effect of the improvements which have been undertaken.
- 11.2.4 The accredited consultants used by RAFCOR in its pilot program are in private practice as agricultural consultants. They have tertiary qualifications, generally in agricultural science, and are members of a professional association. There is quite a large number of these consultants in Western Australia and about 50 or 60 have expressed an interest in doing RAFCOR work. A consultant requires an agricultural background in order to provide detailed advice about productivity improvements. Therefore, RAFCOR is not using accountants for this work, unless they also have a farming background or qualifications in agricultural science etc. RAFCOR's extensive use of consultants has encouraged some staff of the Western Australian Department of Agriculture to go into private practice.
- 11.2.5 A possible criticism of the RAFCOR pilot program was that the extensive use of rural consultants could most benefit the rural consulting community and lead to potential conflicts of interest for these rural consultants. RAFCOR addressed this issue through the establishment of an accreditation process in consultation with the Australian Association of Agricultural Consultants. David Neve, a rural consultant from Albury, spoke about this issue when he appeared before the Committee. He emphasised that rural consultants are members of a professional body and are covered by a code of ethics and accreditation programs.

I would like to highlight the obvious question of conflict, about using consultants as assessors. I think it is worthy of comment. I believe that conflict will occur, whether you use a banker or a consultant. I guess government is probably the most independent, up to a point. But it comes back to getting good value for the dollar and getting the farmer advice that will make him viable and self-sufficient in the long run. From my experience that has not been a problem in terms of conflict. Talking to some of the consultants in South Australia, a number of them do a lot of work under their farm assessment scheme and they are getting a lot of dollars from it. It is inevitable that you will be creating an industry-type environment if that were followed through. The professionals, if they are members of professional bodies, are covered by codes of ethics and accreditation programs. their performance has been monitored. That is enough on that subject for now.¹⁴⁷

¹⁴⁷ Evidence, David Neve, 14 November 1994, p.16

- 11.2.6 When the Chief Executive of the Authority appeared before the Committee on 20 December 1994 the Committee sought his views on RAFCOR's pilot program. Mr Maslen was not aware of the detail of RAFCOR's new pilot program. However, both Mr Maslen and other members of the Authority Board referred to the high cost of administration of RAS in Western Australia and cautioned against adopting a process which would lead to a blow out in the Authority's administrative costs. According to figures provided in the Authority's submission, the cost of administration of RAS in NSW in 1992-93 was 6.8 cents for every dollar of assistance provided, against 46.9 cents for every dollar expended in Western Australia.¹⁴⁸ In response RAFCOR has indicated that its administrative costs were reduced by \$400,000 in 1993/94. It expects further savings in administrative costs to be achieved as the pilot program is introduced. The grants to enable farmers to engage consultants to prepare farm business plans and review their eligibility questionnaire's will be funded from RAS.

11.3 Measures to ease the trauma for farmers leaving the industry

- 11.3.1 The Committee has been conscious throughout this inquiry of the immense personal trauma involved in the process of rural adjustment. The Committee has been aware of the difficulty of farmers who have seen farming as a way of life and whose families have worked the land for generations being unable to continue in the industry. At the same time the Committee has been conscious of the need to ensure against the provision of forms of rural assistance which merely prolong the adjustment process to the detriment of the farmers involved, keeping them hovering in poverty while they run down their assets and accumulate debt until they reach a point at which they have to leave their farms with nothing.
- 11.3.2 Under the provisions of RAS, farmers who leave the industry due to a lack of prospects for long term viability and who do so with less than \$45,000 of assets can qualify for a re-establishment grant of up to \$45,000. This grant is designed to assist such farmers to re-establish outside farming. Until recently the money was put towards the cost of buying a house in a country town. The Senate Committee, in its report on *Rural Adjustment*, noted that the object of the re-establishment grant is to act as an incentive for farmers without prospects in the industry to leave sooner rather than later and to do so with dignity. The Senate Committee noted criticism of the amount of the re-establishment grant as inadequate and concluded that it was not convinced that the objectives of the re-establishment grant were being achieved.¹⁴⁹
- 11.3.3 The Committee received evidence of steps which have been taken by other State's rural assistance authorities to ease the trauma for farmers leaving the

¹⁴⁸ See for example *Evidence*, Barry Buffier, 20 December 1994, p.50

¹⁴⁹ Senate Committee, *Rural Adjustment*, pp.42-44

industry and to make the re-establishment grants more effective. When Terry Rumble MP and the Committee's Senior Project Officer visited RAFCOR they were told that RAFCOR provides farmers who are leaving the industry with grants of up \$3,500 for career counselling and also makes provision for psychological counselling.

- 11.3.4 The Committee pursued this issue with the Chief Executive and other members of the Authority Board when they appeared before the Committee on 20 December 1994. There was general agreement that the lack of follow up of farmers who have received re-establishment grants and the lack of any retraining component in the grants were deficiencies in RAS. The Chairman of the Board noted that the Department of Primary Industries and Energy had recently advised that they would fund the provision of professional assistance for farmers who leave the industry. She also noted that career counselling could be available from the NSW Department of Industrial Relations, Employment, Training and Further Education.

MR BUFFIER: It seems that you can facilitate adjustment by improving the knowledge of people about what their opportunities are outside agriculture. Too many people do not have a good idea of what they can do outside of agriculture. The very qualities they need in farming - such as initiative, get-up-and-go, decision making and getting things done - are the very things that make them successful in small business once they decide to leave agriculture.

COMMITTEE: Is career counselling available?

MR MASLEN: There are some DEET programs available, but there have to be some modifications to them. We recognise the fact, as I said to the Senate standing committee, that there should be a program in place for those farmers to be trained prior to exit so that they can fit into the community better as a family unit. There is nothing in the program at the moment. They get their \$45,000 and become a statistic. Something should be done so that the family can leave with dignity. One of those areas is to properly fit them for their new role post-farming. There is life after farming.... There is no follow-up. They get a cheque for \$45,000 and that is it....

MS ROWE: There is a gap that I have always had a great concern about.... [T]he previous Board put a paper to the Federal Government in this regard. The rural counselling service has, because of demand, meant that it has responded to cash flows, financial analysis, bank negotiation etc. It has less and less time for that important role of listening and taking someone through the process of grieving. I was recently in Canberra with a number of rural counsellors. As a result of that meeting with the Commonwealth funds were made available to us as we identified that as a major problem. In some cases we do not have the skills when there are real psychological problems. In a lot of cases we do not have the time to listen.

The Department of Primary Industries and Energy indicated that if we wish to refer someone to professional help they will pick up the bill. That has been wonderful. Because there was a gap, I went looking to see what was there. Through the Department of industrial Relations there is a vocational guidance service with clinical psychologists there. They indicated to me that their priority had to be the unemployed, but they would perceive a farmer leaving the industry as unemployed. They would have no difficulty in assisting us if we referred our families there.¹⁵⁰

- 11.3.5 The Senate Committee considered the inclusion of a training component in re-establishment grants in its report on *Rural Adjustment*. The report quoted evidence from a number of rural counsellors in NSW, including suggestions that a retraining grant of \$5,000 should be made available with re-establishment grants and that exiting farmers should be automatically linked into a formal training program. The Senate Committee recommended that the Commonwealth Government include a specific retraining component in the re-establishment grant.¹⁵¹
- 11.3.6 When Terry Rumble MP and the Committee's Senior Project Officer visited the Rural Finance and Development (RFD) division of the South Australian Department of Primary Industries they were told about a new approach which the RFD was taking to re-establishment on the west coast of South Australia. Ten farmers who had left the industry, and had received a re-establishment grant, had been allowed to stay in their homes, keep up to 100 acres of land and run a few hundred sheep. They had also been allowed to continue to work in farming, provided it was for someone else and not for themselves. This approach was based on advice from the South Australian Crown Solicitor that the definition of farming under the RAS guidelines involved a farmer working their own land, for their own profit. Therefore the RFD was able to pursue this flexible and compassionate approach without breaching the Commonwealth Government's guidelines for RAS.
- 11.3.7 This approach to re-establishment was recommended to the Committee in a submission from John Sykes, a rural consultant from Albury. Mr Sykes pointed out that farmers who were able to retain a small area of land enabling them to maintain an interest in farming were better able to cope with life after exiting the industry.

[F]armers leaving the land occasionally find themselves ineligible for assistance because they retain a small area eg. 40 - 100 ha which is inadequate for a living but maintains their interest in farming plus a small source of income. While I recognise that there may be problems setting limits on this, farmers who can resettle in town and maintain a small area of land while having another job may well feel better and adjust better to

¹⁵⁰ Evidence, Barry Buffier, Graham Maslen and Fran Rowe, 20 December 1994, pp.51-52

¹⁵¹ Senate Committee, *Rural Adjustment*, pp.43-44

*life in town because they are able to retain a small interest in their lifelong profession.*¹⁵²

- 11.3.8 The Committee pursued this issue with the Authority's Chief Executive and Chief Manager Lending when they appeared before the Committee on 20 December 1994. Mr Maslen and Mr Griffiths said that, whilst the Authority has on a small number of occasions provided re-establishment grants to farmers who have left the industry but stayed in their family homes, they had some reservations about this practice.

MR MASLEN: One of the requirements is that a farmer must adjust out of farming or leave farming. The question may be that the house may be in town, or on the outskirts of town, and he may be able, and the bank may allow him, to retain the house and the curtilage around the house to enable the process to take place because the property may be being acquired by the adjoining neighbour who does not need the additional house. However, in saying that, we would need to take the value of the house into consideration because if it is more than \$90,000 the farmer would not be entitled to receive a re-establishment grant.

MR GRIFFITHS: There have been some instances in which we have allowed the house and the minimum area to be retained by farmers and re-establishment assistance grants provided. I think that there are two particular instances. One is that we have to be satisfied that the area of land retained will not be farmed, and the maximum that we would allow under those circumstances would be the minimum permissible subdivision for that shire. While the Authority is not strongly in support of that, there are however some cases in which farmers may have lived in the house for lengthy periods of time - 40 or 50 years. It is accessible to the nearest town and it is clearly the best form of establishing them for the future, rather than forcing them to sell the house and buy a house in a town that they do not know. But what we wish to guard against is the development of a number of such instances in a community, because, I would argue, the prospects for structural adjustment in the future are impaired by that.

*MR MASLEN: I think that we had one instance in which the property was a family graveyard and went back five generations, and they felt that if they left there, there was some attachment to it.*¹⁵³

- 11.3.9 Despite the reservations expressed by the Chief Executive and Chief Manager Lending, one of the other members of the Authority board was enthusiastic about this approach.

COMMITTEE: In South Australia the rural assistance authority has recently allowed a number of farmers who have left farming to get a re-

¹⁵² John Sykes, *Submission*, p.6

¹⁵³ *Evidence*, Graham Maslen and Steve Griffiths, 20 December 1994, pp.23-24

establishment grant but to stay in their house and to retain a small area of land around the house. What do you think about that idea?

MR WHITE: I like it, with certain conditions. The house must be irrelevant to the future of the farm for that to be a good idea. A good example was referred to earlier today. A house was on the edge of town and the balance of the farm was going to be bought by a neighbour.... in general terms being able to separate the land from the house is very desirable. In the structural adjustment of the mid-western States of America that was widely done, including in the States of Okalahoma, Kansas and Texas.¹⁵⁴

11.4 Gap in RAS support

- 11.4.1 As noted in section 11.2 above, RAFCOR in Western Australia has established eligibility bands in the debt to equity and debt to income ratios of farmers who are targeted for assistance under RAS. RAFCOR suggest that the farmers targeted for productivity enhancement grants are those with equity of at least 50%. At the other end of the spectrum it is farmers with 0% equity who are eligible for re-establishment grants. There is thus a large gap in RAS assistance. Farmers who have less than 50% equity are not eligible for assistance because they generally do not have long term prospects of viability. These farmers cannot receive any assistance until they have run down their equity to 0%.
- 11.4.2 As outlined in section 7.1 above, it can be quite devastating for a farmer to receive advice from the Rural Assistance Authority that their application for assistance has been unsuccessful. This is particularly the case when the reason given for the Authority's decision is the farmer's lack of prospects of viability. There is currently no follow-up of unsuccessful applicants who are deemed to be unviable and no assistance is available to them unless they decide to exit farming and qualify for a re-establishment grant.
- 11.4.3 As stated in paragraph 11.3.1 above, the Committee is very conscious of the need to ensure that the rural assistance measures do not merely prolong the agony of adjustment and leave farmers hovering in poverty, running up further debts before finally leaving the industry. the Committee met farmers who, in retrospect, were angry that they had received rural assistance because it had encouraged them to hang on for too long. If they had been told that they had no prospects of long term viability earlier they could have left farming, bought a house in a country town and been quite comfortable. Now after years of struggle on the poverty line they would be lucky to leave with anything.
- 11.4.4 The Committee believes that there needs to be immediate follow up of farmers who are ineligible for RAS assistance because they are deemed to have no long term prospects of viability. The provision of professional advice which enabled

¹⁵⁴ *Evidence, John White, 20 December 1994, p.51*

these farmers to realistically assess their future would be the best possible assistance for this group. This would assist those farmers who need to leave the industry to do so at an early stage, while they are still able to do so with dignity.

11.5 Linkages with other services and community / regional focus

- 11.5.1 The Committee has noted announcements during the course of this inquiry about regionally targeted versions of assistance under RAS. The areas which have been nominated to date include the South West Mulga country of Queensland and, more recently, the Western Division of NSW. The Committee has also noted the recent announcement that RAS was to be better integrated with other programs such as Landcare. Both these developments received warm support from the Senate Committee in its report on *Rural Adjustment*.. The Senate Committee noted that the regional approach to RAS in South West Queensland was the result of community initiative and was an attempt to integrate RAS with a community based response to adjustment pressures.¹⁵⁵
- 11.5.2 This community based approach to rural adjustment pressures was highlighted by the Chairman of the Authority when she appeared before the Committee on 20 December 1994. Ms Rowe suggested that there may be circumstances in which farmers in particular localities could work through common adjustment issues as a group, and submitted that RAS training grants should be available to groups of farmers to enable this to take place.

*We could more effectively establish our linkages with our services. I mentioned the Department of Industrial Relations. If we could take advantage of the new direction of RAS with its regional focus and if we are able to give communities access to funds for training etc. we could get together groups of people who could work together through that process so that they could have group support. We could use our training and education facilities, build our linkages and establish strong networks with other programs.*¹⁵⁶

¹⁵⁵ Senate Committee, *Rural Adjustment*, pp.64-70

¹⁵⁶ *Evidence*, Fran Rowe, 20 December 1994, p.53

11.6 Findings and Recommendations

11.6.1 RAS '92 is more outcomes oriented than previous rural assistance measures. Consequently there is a greater need for evaluation of the effects of assistance provided under RAS '92 than other assistance measures. It is the Commonwealth Government's responsibility to develop performance indicators for RAS. However, the Authority has an important role to play in monitoring and evaluating the effectiveness of the assistance which it administers.

11.6.2 *The Committee recommends that the Authority Board consider the most appropriate mechanism for the follow up and monitoring of farmers who have received assistance under RAS, particularly productivity enhancements grants under RAS '92.*

11.6.3 The Committee has reviewed the new pilot program for the administration of RAS '92 developed by RAFCOR in Western Australia. The pilot program involves an easy check questionnaire, the preparation of farm business plans and the conduct of post support reviews. The Committee is of the view that this pilot program may represent the sort of system required to achieve the objectives of RAS '92. Of course this needs to be balanced against the possible administrative cost of such a system.

11.6.4 *The Committee recommends that the Authority Board carefully consider the possible application of RAFCOR's new pilot program as a model for the administration of RAS '92 in NSW.*

11.6.5 The Authority does not have any mechanism to filter out those applications which clearly fall outside the guidelines for RAS. The Committee has reviewed the new easy check questionnaire developed by RAFCOR and believes this approach is worthy of detailed consideration by the Authority. This enables farmers to quickly come to a realistic view as to their prospects for obtaining RAS assistance and helps to minimise the creation of unrealistic expectations.

11.6.6 *The Committee recommends that the Authority develop a filtering system along the lines of the easy check questionnaire developed by RAFCOR.*

11.6.7 Farmers who exit the industry in Western Australia and receive a re-establishment grant are also provided with up to \$3,500 for career counselling. RAFCOR also provides psychological counselling for exiting farmers. The Committee believes that greater attention needs to be paid to the psychological trauma involved in leaving farming and the provision of assistance to exiting farmers to develop alternative careers.

11.6.8 *The Committee recommends that the Authority Board consider the application of RAFCOR's provision for career counselling and psychological counselling as a model for the enhancement of the administration of the re-establishment grant in NSW.*

11.6.9 The Rural Finance and Development Division of the South Australian Department of Primary Industries has recently allowed a number of farmers who have exited the industry and received the re-establishment grant to remain in their family home, keep up to 100 acres and even run a few hundred sheep. The Rural Assistance Authority has facilitated some exiting farmers being able to remain in their homes in NSW. There are some circumstances in which this approach would be impracticable and caution must be exercised to ensure against the development of numerous small, unviable holdings. However, the Committee sees merit in the application of this approach where possible as a means of easing the psychological trauma for farmers leaving farming.

11.6.10 *The Committee recommends that the Authority allow farmers exiting the industry to remain in their family homes where ever this is practicable.*

11.6.11 The Commonwealth Government has recently announced a new regional approach to RAS. Adjustment issues can be common to farmers in a particular area or locality.

11.6.12 *The Committee recommends that the Authority give consideration to providing training grants to groups of farmers to enable them to address common adjustment pressures on a community basis.*

11.6.13 RAS '92 provides productivity enhancement grants to farmers with prospects of long term viability. At the other end of the spectrum farmers leaving the industry have to have assets of \$45,000 or less to receive a full re-establishment grant. There is a large group of farmers who are receiving no assistance under RAS '92. These are farmers who do not have prospects of long term viability but who are not yet leaving the industry. The Committee would like to see these farmers receiving professional advice so that they can realistically assess their future and, if necessary, decide to leave the industry while they can do so with dignity and with sufficient resources to be able to re-establish themselves.

11.6.14 *The Committee recommends that the Authority Board develop a referral system for the Authority to use. Under this system farmers who are declined assistance on the grounds that they are not viable would be immediately referred to a rural counsellor or other accredited professional for advice, funded by the Authority.*

CHAPTER TWELVE

ROLES OF THE AUTHORITY BOARD AND THE CHIEF EXECUTIVE

12.1 Distinction between policy and administration

- 12.1 As outlined in paragraph 2.1.4 above, the former Rural Reconstruction Board was intimately involved in all decision making concerning rural assistance. The Board comprised seven members. It met for two days every fortnight and considered each individual application for RAS. The 1988 *Review of NSW Rural Agencies* noted that rural assistance authorities in other States had delegated decision making to the Chief Executive of their organisation and pursued a role which involved policy making and monitoring. The Review report recommended that the new rural assistance authority in NSW should have a small policy Board which would meet no more than once a month and would not consider individual applications for assistance.

On balance, we favour the retention of a Board and we think there are advantages in having some external Board members representing the rural sector to ensure that the agencies do not become too distant from the communities they serve. We favour a small Board with one executive Board member and, say, three or four external members of whom at least, two should have farm management expertise.

In our opinion, the Board should be a policy making Board only and should not be required to approve or reject individual applications. That authority should be delegated to the Chief Executive of the organisation in accordance with policy and criteria established by the Board. As a policy Board, it should not meet more frequently than monthly and its meetings should not take more than a day.¹⁵⁷

- 12.1.2 Division three of the *Rural Assistance Act 1989* deals with the management of the Rural Assistance Authority. The provisions of division three are set out below. Section 10 provides the Board with the function of determining the policies of the Authority. Section 12 provides that the affairs of the Authority shall be managed and controlled by the Chief Executive in accordance with the policies of the Board.

9. (1) *There shall be a New South Wales Rural Assistance Authority Board.*

¹⁵⁷ NSW Treasury, *Review of NSW Rural Agencies*, p.41

- (2) *The Board shall consist of:*
 - (a) *the Chief Executive of the Authority; and*
 - (b) *4 part-time members appointed by the Minister.*
- (3) *Of the part-time members:*
 - (a) *2 shall be appointed to represent farmers; and*
 - (b) *2 shall have such qualifications in banking, farm management or an associated area as the minister considers necessary to enable the Board to carry out its functions.*
- (4) *Schedule 1 has effect with respect to the constitution and procedure of the board.*
- 10. (1) *The Board has the function of determining the policies of the Authority.*
 - (2) *In exercising that function, the Board shall, as far as practicable, ensure that the activities of the Authority are carried out properly and efficiently.*
- 11. (1) *The Governor may appoint a Chief Executive of the Authority.*
 - (2) *Schedule 2 has effect with respect to the Chief Executive.*
- 12. (1) *The affairs of the Authority shall be managed and controlled by the Chief Executive in accordance with the policies of the Board.*
 - (2) *Any act, matter or thing done in the name of, or on behalf of, the Authority by the Chief Executive shall be taken to have been done by the Authority.¹⁵⁸*

12.1.3 The distinction between policy and administration and the effect that this has on the Board's role was discussed at some length when the Chief Executive appeared before the Committee on 20 December 1994. Mr Maslen said the Board's role in policy making and monitoring the Authority's performance was fairly clear. He said the Board never made determinations on individual applicants and only ever considered individual applications in general terms in order to examine a policy issue of general application. It was noted that the Board considers a range of statistical reports from the Authority dealing with

such issues as administrative costs, approval rates, subsidies paid, and provision for doubtful debts. However, the Board receives little information which would enable it to actually monitor the effectiveness of the assistance provided by the Authority.

COMMITTEE: In a few words, how would you describe the role of the Authority's Board? What does the Board do?

MR MASLEN: That question might be better directed to the Chairman, but as a Board member, in terms of the legislation it is a policy making board and it monitors the performance of the actual Authority.

COMMITTEE: What sort of policy does it make, because the guidelines come out from Canberra?

MR MASLEN: There are three areas. Policies are already determined by the Commonwealth. The Farm Debt Mediation Bill is another thing that the Board did not have to make a policy decision on. It is not prescribed in the guidelines, but the Board may have to make a policy decision on the extent of assistance that can be provided on some occasions. Whilst it has been specified in exceptional circumstances provisions, it is not specified in RAS productivity enhancement provisions. For example, the level of subsidy that has been ongoing - it has increased from \$6,8000 to \$10,500 to \$20,000 a year - is one area in which the Board may be involved in policy.

COMMITTEE: What sorts of things do you discuss at a typical Board meeting?

MR MASLEN: I just happen to have a copy of an agenda with me. We look at financial management reports, and there are quite a number of reports that look at the financial accountability of the Authority. I happen to notice that the Public Accounts Committee inquiry was a matter on the agenda, which the Board discussed at length. The Farm Debt Mediation Bill, what are the implications and what procedures needed to be put in place. We have already had discussions with NSW Farmers, because one of the requirements is that we need to consult with NSW Farmers and the ABA. At the next Board meeting a paper will be presented as to whether the Board concurs with the procedural matters that need to be put in place to enable the Act to be efficiently administered, and that is another area we look at... [T]he position of individual farmers would not be discussed at Board level; only the relevant policy issue would be put to the Board...

COMMITTEE: You said that when the Board discusses a particular item that relates to an application, it does not have the details provided to it. Why is that?

MR MASLEN: The policy the Board is being asked to give a decision on may affect whether an application is confirmed as refused or a decision is

overturned and the application is approved. It is being asked to deliver a decision on a matter of policy, which would be taken out to -

COMMITTEE: To apply to everybody?

MR MASLEN: Yes, that is right, to apply to everybody. The Board does not look at individual cases. It is not its role as a policy Board to look at individual cases, only policy issues emanating that can have an impact on not just that one farmer, but a whole range of farmers.

COMMITTEE: Is it only the name they are not aware of? What other details is the Board not given?

MR MASLEN: It is not aware of the name or the location, just the policy issue. For example, is the person a farmer or a primary producer? What is the definition of a primary producer? The Board may be asked to give a policy decision on that aspect...

COMMITTEE: Are sections 10 and 12 of the Rural Assistance Act clear enough in setting out the respective roles of the Board and the Chief Executive, or is there some doubt about what the Chief Executive does and what the Board does?...

MR MASLEN: Looking at my previous term as Chief Executive and a Board member under the previous Board, the question to be asked is where is the cut-off point between management and the organisation? What is the distinction between who manages and who does not? How far does overlapping occur between Board and Chief Executive? There are two distinct roles. I have a dual role, I report through the Board who then reports to the Minister. I also have a direct role of reporting to the Minister as Chief Executive of the Authority. I do not see any difficulties with that arrangement.

COMMITTEE: How does the Board monitor how effectively the Authority performs its role?...

MR GRIFFITHS: A large number of reports are prepared and go to each individual Board meeting covering costs of administration on a monthly basis, actual against budget; application receipts; aggregate refusals and approvals, by industry and area; doubtful debt provision and the extent of arrears on the loan portfolio; recurrent balances outstanding under loans; and subsidy amounts paid. About nine or ten of those reports go to every Board meeting. They also have the opportunity, because of the circles they mix in, to have informal comments made about the performance of the Authority Board between Board meetings, and I can assure you it is brought into Board meetings....

COMMITTEE: Most of that monitoring is obviously statistical or financial. Does any monitoring relate to how effectively people are being helped,

whether individual farmers are getting out of debt or whether they are able to meet their obligations? What form of qualitative monitoring occurs?

MR MASLEN: The only monitoring that was done previously, because of the subsidy, was under the RAS '88 scheme. The only one indicator was a farmer getting anywhere. A farmer could get subsidy assistance for a maximum of seven years. If he only got assistance for three years we would look at: did things get better for him and he no longer needed it? Or, did things get too bad and he had to sell out? That was the only indicator, that I can think of, that we have been able to put in place to monitor. One of the other ways of monitoring performance is by seeing what the outcomes are: by monitoring the capacity of a farmer to continue to meet the repayments on a natural disaster relief loan because of flood or bushfire.

MR GRIFFITHS: The other instance of the Board being involved in monitoring efficiency was a specific request for a major cross-sectional study in one area of NSW assessing recipients versus non-recipients across a longitudinal study. It was conducted by independent external consultants. It covered approximately six to seven years in an area of NSW around West Wyalong, which was agreed to be suffering the most financial stress at that time. Upon receipt of that report, the Board considered it and it was forwarded to the Commonwealth Department of Primary Industries and Energy and the State Minister for consideration. In brief I think the report largely says that it is a very difficult area to assess and that external factors outside RAS tend to swamp the RAS factors.¹⁵⁹

- 12.1.4 The Committee received evidence from three of the part-time members of the Board *in-camera* on 20 December 1994. The Committee was interested to determine whether or not the part-time members of the Board shared the views of the Chief Executive about the Board's role and the distinction between policy and administration. The part time Board members confirmed that they do not seek to consider individual applications in order to make determinations about them but only to discuss matters of policy which may arise from them. It was pointed out that this distinction was not always clear and sometimes had to be worked through when an individual case was sort to be put before the Board. However, none of the part-time Board members indicated any desire to change the Board's role to become involved in making determinations about individual applications. The Board members said that they envisaged the current Board taking on an increasingly active role in determining the Authority's policy as well as ensuring the Authority's accountability. The Committee was told that an informal meeting was held in mid 1994 to discuss the respective roles of the board and Chief Executive. The Committee was also told that the level of information provided to the Board by the Authority had improved over time.

¹⁵⁹ Evidence, Graham Maslen and Steve Griffiths, 20 December 1994, pp.40-44

12.2 The current Board and its future direction

- 12.2.1 There were a number of changes to the membership of the Board of the Rural Assistance Authority in July 1994. Two new members were appointed: John White, a farmer and grazier, and former Chief Executive Officer of the NSW Farmers Association; and Barry Buffier, National Manager Agribusiness, Westpac, and formerly a senior officer of the NSW Department of Agriculture. Also in July 1994 Fran Rowe was appointed the new chairman of the Board. Fran Rowe is a farmer and rural counsellor. She was instrumental in the establishment of the rural counselling service. She is also a member of the Rural Adjustment Scheme Advisory Council.
- 12.2.2 Sadly, during 1994 the other part-time member of the Authority Board, Ian Steele Park became very ill. His condition deteriorated rapidly and he died in early January 1995.
- 12.2.3 The Committee was able, through its hearing on 20 December 1994, which involved Ms Rowe, Mr Buffier and Mr White, as well as the Chief Executive of the Authority, to gain an appreciation of the priorities and general direction of the new Authority Board. The overall impression was that, whilst the old Board (that is, the Board in place prior to July 1994) had seen raising the Authority's public profile and establishing the Authority's credibility with the farming sector as its highest priority, the new Board was keen to take a more active role in setting the Authority's policies. The new Board had identified a number of the same issues as those identified by the Committee during this inquiry as requiring particular attention. However, the Board had decided to await the outcome of this inquiry before determining the action it would take on these issues. Some of this evidence has been referred to in relevant chapters throughout the report. By way of summary, some of the issues identified by the new Board, or by individual Board members, as requiring the Authority's attention include:
- inconsistency;
 - appeals;
 - the guidelines and training provided to assessment staff;
 - the Authority's management information system;
 - the development of career counselling programs for farmers leaving the industry;
 - the development of better linkages between RAS and other programs; and
 - the provision of assistance to groups of farmers to enable them to address adjustment issues on a community basis.

A number of Board members emphasised the importance of the Authority continuing to deliver rural assistance efficiently and cautioned against the adoption of changes which would lead to a blow out in the cost of administration.¹⁶⁰

12.3 Management structure and delegation of responsibility

- 12.3.1 As noted in section 8.6 above, the Authority appears to have a very flat structure. There is a large gap between the Authority's Chief Executive and the Chief Manager Lending, and the Loans Managers. Although there are three staff at an intermediate level (the Liaison Officer, the Legal Officer and the Manager of Finance and Administration), each of these staff works in what may be described as peripheral areas, that is their positions are not concerned with the assessment of applications for assistance.
- 12.3.2 The Committee was concerned that, partly as a result of this management structure, the Chief Executive and Chief Manager Lending carry too much of the burden for the administration of the various assistance programs and are involved in a detail of decision making on individual applications which should be able to be handled at a lower level in the organisation. The Committee was concerned that there might not be adequate delegation from the Chief Executive and Chief Manager Lending to Loans Managers.
- 12.3.3 The Committee sought the views of the part time members of the Authority Board on these issues. Two of the part time Board members identified delegation as an issue which needed to be addressed. One of the part time Board members placed the need for more delegation of responsibility in the context of changing management styles and particularly the overall direction of rural assistance and the need for the Authority's senior management and Board to give greater attention to policy and the development of guidelines. This Board member indicated that the Board would expect to see some changes in this area over the next year or so.¹⁶¹

BOARD MEMBER: ... I think there is a need for all authorities, companies or groups to constantly change with changing objectives. There has been a change of objective in, and orientation by, both government and industry and probably in the community generally to move towards adjustment. That requires close attention to policy, to policy measurement and to setting of guidelines. If you are going to make an organisation change direction slightly and be consistent in that change, policy becomes

¹⁶⁰ Evidence, Fran Rowe, Barry Buffier, John White and Graham Maslen, 20 December 1994, pp.49-54

¹⁶¹ The part time member who gave this evidence before the Committee on 20 December 1994 has given the Committee permission to publish the following quote.

important. Guidelines and administration of that policy become important so the nature of the work of the Board is probably changing and I think the new Board by its nature is slightly different from the previous Board. This will require a change of the operating nature of senior staff of the Authority, I would guess. It is going to be necessary for some greater delegation and greater participation of other people.

COMMITTEE: Of other members of staff?

BOARD MEMBER: Yes.

COMMITTEE: [C]an you identify any weaknesses ... that could be improved?

BOARD MEMBER: Delegation is the most important one.

COMMITTEE: You are not the only person who has said that to the Committee.

BOARD MEMBER: Delegation is the most important. A good understanding of the relationship of the Chief Executive to the Board and to the Chairman of the Board.

COMMITTEE: Do you think that is well understood at this stage?

BOARD MEMBER: I think it is improving rapidly. It will need to because there needs to be a situation where both the collective wisdom of senior staff and of the Board is used. That is going to mean a two way communication.

COMMITTEE: At this stage are senior members of staff encouraged to take an active role in management and in decisions, or do you think they are not encouraged?

BOARD MEMBER: I think that situation is improving now because the Board is making that fairly clear, but there is still a way to go. A big organisation requires effective delegation. There is no way one person can administer a big outfit. You have to have a team of five or six people who all contribute and you have to have a relationship of trust between those people so that the Chief Executive is not fearful that they will do something he does not want them to do....

From what I have said, do not think that I am extremely critical of the Chief Executive, because I am not. I think he is a very strong personality and, therefore, a capable one.

COMMITTEE: He is very experienced and competent in what he does, but I agree that to manage an organisation of that size, structure and

complexity you need involvement of other people. One person just cannot do it.

BOARD MEMBER: *No, that is right.*

COMMITTEE: *Eventually it will catch up with them anyway and they will not be able to do it.*

BOARD MEMBER: *Yes, and the nature of management styles in the modern world is changing - always did, I suppose. It has changed in the last 10 years quite quickly and so it is not unreasonable or unusual for a Chief Executive to find that he needs to change his management style to meet the needs of 1995. I am not critical of him at all. I would be critical though if, after a year or two of this new direction of the Authority's board, we were not making good progress in that area.*

12.4 Findings and recommendations

12.4.1 Evidence was received during the course of the inquiry from members of the Authority Board. The Committee was pleased to note that the Board was enthusiastic to address a number of issues identified by the Committee during this inquiry. Indeed the Board had initiated work to resolve some of these issues before this inquiry commenced.

12.4.2 The respective roles of the Authority Board and the Chief Executive are identified in sections 10 and 12 of the Rural Assistance Act 1989. These sections should not preclude the Board from being closely involved in the detail of any of the issues addressed in this report.

12.4.3 *The Committee recommends that, if there is any doubt about the Board's role in addressing the issues identified in this report, the Rural Assistance Act should be amended to clarify the Board's role. The Authority Board should have a key role in the implementation of each of the recommendations contained in this report.*

12.4.4 During this inquiry it became apparent that the management of the Authority is highly centralised. This is not in accordance with modern management practices. Furthermore, it is evident that the Chief Executive and Chief Manager Lending have carried a large part of the burden of administering the detail of rural assistance in NSW. This burden should be shared with senior staff involved in the Authority's core business of assessing applications for assistance.

12.4.5 *The Committee recommends that the Authority Board review the Authority's management structure with a view to ensuring more delegation of responsibility to senior staff involved in the core business of assessing applications for rural assistance.*

CHAPTER THIRTEEN

FINANCIAL MANAGEMENT AND ACCOUNTABILITY

13.1 The Authority's Budget

- 13.1.1 As outlined in paragraph 1.1.2 above, one of the issues raised in the debate in the Legislative Assembly on 14 September 1994 on the referral of this inquiry to the Public Accounts Committee was the Authority's budget. Bob Martin MP drew attention to the decrease in the Authority's cash balance of \$39.411 million revealed in the 1993-94 budget papers.¹⁶² Mr Martin stated that "in other words half the money has been syphoned into consolidated revenue. That is creative accounting or hollow logging...."¹⁶³ Similar concerns were raised by Mr Martin and other members during the estimates committee on Agriculture and Fisheries and Mines on 18 October 1994.¹⁶⁴
- 13.1.2 The Committee sought information on this issue from the NSW Treasury. Bob Sendt, Acting Assistant Secretary, Budget Management, and Cathy Skow, Budget Officer, appeared before the Committee on 20 December 1994. Mr Sendt explained that the run down in the Authority's cash balance was the result of a decision of the Commonwealth Government, agreed to by all the States, that State rural assistance authorities would run down their accumulated cash reserves before further Commonwealth funding was made available on a monthly acquittals basis. He added that this was a one-off measure and that Commonwealth funding has increased again in the 1994-95 budget. Mr Sendt also made reference to the effect of the Commonwealth Government's eligibility criteria for RAS on the Authority's expenditure, which is discussed in detail in Chapter Five above.

COMMITTEE: During debate in the Legislative Assembly on the reference of this inquiry to the Public Accounts Committee, concern was expressed about a decrease in the cash balances of the Rural Assistance Authority as revealed in the 1993-94 budget papers. Could you explain what has happened with the Authority's cash balances?

MR SENDT: These changes were effective from 1 July 1993. The changes were driven by changes in Commonwealth funding procedures. Over

¹⁶² NSW Government, *Budget Estimates 1993-94, budget paper no.3*, p.73

¹⁶³ *Hansard*, Legislative Assembly, 14 September 1994, p.2950

¹⁶⁴ *Hansard*, Joint Estimates Committees, 18 October 1994, pp.4061-4088

previous years cash balances had built up in the Authority largely in respect of Commonwealth moneys which had been paid under the former 1988 Rural Adjustment Scheme. Under that scheme moneys were paid by the Commonwealth effectively in advance and without any real regard to the existing cash balances that the Authority had. If because of the eligibility criteria fewer businesses and farmers had applied for assistance and the cash balances had therefore built up, that did not really impact on the level of Commonwealth assistance provided the following year. So the levels of cash at any one time were building up.

In 1993 the Commonwealth advised that it would change the funding procedures firstly to run down the level of cash balances that had accumulated and to supply or provide funds in future to the State for the Rural Assistance Authority on the basis of a monthly estimate of expenditure over the following two months, with an acquittal of what had been spent in the previous two months. So the net effect of that was that the Commonwealth procedures were changed so that the money that the Rural Assistance Authority had, which by and large was Commonwealth money¹⁶⁵, was used in the first instance to provide assistance in 1993-94. Once that was substantially run down, the Commonwealth then started providing funds on a monthly basis....

COMMITTEE: [A]s a result of the surplus that existed previously and the aimed reduction in that, the Consolidated Fund allocation was obviously a lot less To the best of your knowledge, is it the intention to return it to a sustainable level, or to keep it at this reduced level?

MR SENDT: No, the reduction in Commonwealth funding was a once-off measure. I think the 1994-95 budget would have shown some increase in Commonwealth support.

MS SKOW: That is right, it did. As far as the Commonwealth is concerned, I guess that all it is worried about is that these cash balances do not accumulate in the future, so that perhaps in the past it was giving additional funding that was not required. Now it is trying to match up what is required with the level of funding.¹⁶⁶

- 13.1.3 The Authority's financial statements reveal that its cash balance decreased from \$43.691 million as at 30 June 1993 to \$12.881 million on 30 June 1994.¹⁶⁷ The 1994-95 budget papers showed that the Authority's cash balance was estimated to decrease by a further \$2.207 million in 1994-95. The 1994-95 budget papers also show that while the Authority received \$17.797 million from the Commonwealth Government in 1993-94 it was estimated that it would receive

¹⁶⁵ That is, the Authority's cash balance

¹⁶⁶ Evidence, Bob Sendt and Cathy Skow, 20 December 1994, pp.3-5

¹⁶⁷ Rural Assistance Authority, Annual Report 1994, p.54

\$45.077 million from the Commonwealth Government in 1994-95.¹⁶⁸ Figures 13.1 and 13.2 on the next page illustrate the changes in the Authority's cash balances and the increase in the Authority's expenditure between 1989 and 1994.

- 13.1.4 The Senate Committee considered the Commonwealth Government's funding of RAS in its report on *Rural Adjustment*. The Senate Committee expressed concern about the accumulation of reserves by the States from RAS '88 funding and supported the Commonwealth Government's initiatives in requiring State rural assistance authorities to run down their reserves and moving to an acquittals based funding system.

*The Committee is concerned that under previous funding arrangements, significant reserves of Commonwealth funds were allowed to accumulate with the States. The Committee, therefore, welcomes initiatives under RAS '92 that will ensure that these Commonwealth funds are used to assist farmers.*¹⁶⁹

¹⁶⁸ NSW Government, *Budget 1994-95, Budget Paper no.3, Volume 1*, pp.87, 91

¹⁶⁹ Senate Committee, *Rural Adjustment*, p.33

FIGURE 13.1

Rural Assistance Authority Cash Balances 1989-1994

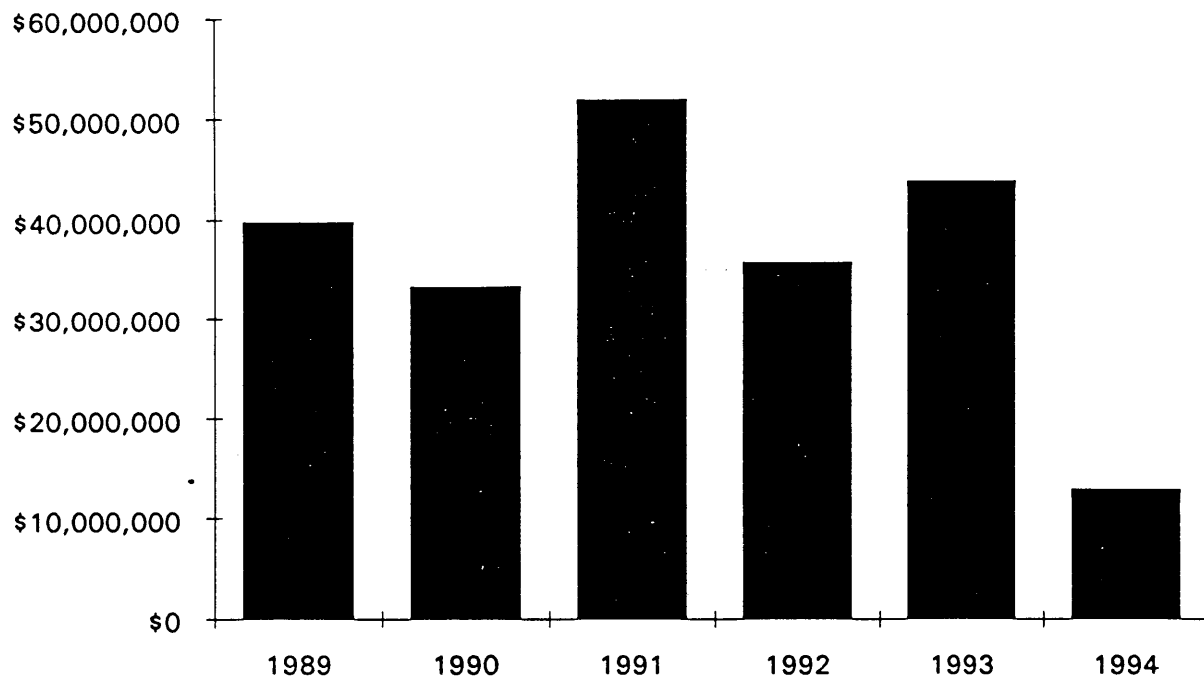
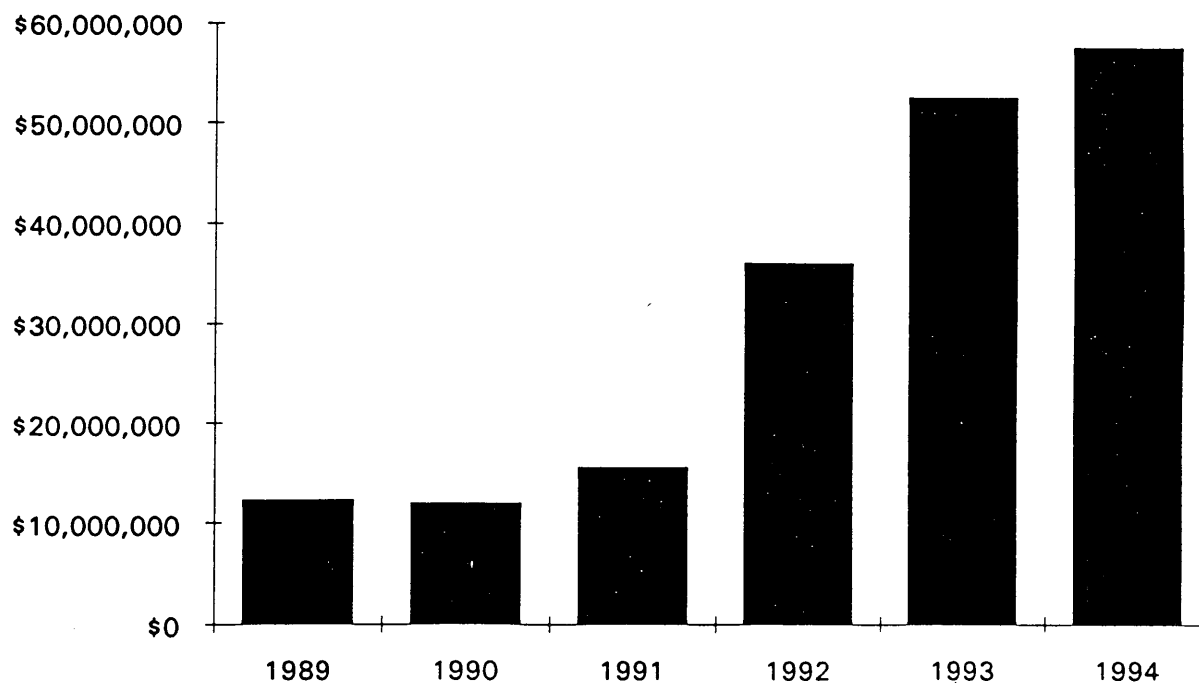


FIGURE 13.2

Rural Assistance Authority Grants to Farmers 1989-1994



13.2 Auditor-General's Report 1993

- 13.2.1 As outlined in paragraph 1.1.2 above, another of the issues of concern raised during the debate in the Legislative Assembly on 14 September 1994 on the referral of this inquiry to the Public Accounts Committee was a comment about the Authority contained in the Auditor-General's report for 1993. Once again, it was Bob Martin MP who drew attention to the relevant comment in Volume Three of the Auditor-General's report for 1993. The report had noted that the Authority's suspense account "included several large amounts that had remained unidentified and unclear for long periods, some being in excess of twelve months".¹⁷⁰
- 13.2.2 The Committee pursued this issue by way of discussions with staff of the Audit Office. The Committee was advised that the concerns raised about the Authority's suspense account related to a number of sums later identified as large loan repayments. The Audit Office advised that this issue had been resolved once drawn to the Authority's attention. This issue was not mentioned in the Auditor-General's 1994 report.

13.3 Loan Portfolio

- 13.3.1 As outlined in paragraph 2.7.2 above, the Rural Assistance Authority manages a loan portfolio worth over \$100 million. This includes \$45 million in loans provided under the Special Conservation Scheme, \$million in loans under the Relief Scheme, \$21 million in loans under old versions of RAS, and \$11 million in loans under old State schemes. The size of the Authority's loan portfolio is now decreasing, falling from \$126.476 million in 1992-93 to \$111.445 million in 1993-94. Some of the loans for which the Authority has responsibility are not due to be fully repaid until the year 2010.
- 13.3.2 Two issues arose during the course of the inquiry in relation to the Authority's loan portfolio. The first of these was the Authority's provision for **writing off bad debts**. During the 1993-94 financial year the Authority wrote off debts worth \$1.388 million. This compares with \$1.417 million during the 1992-93 financial year. When the Chief Executive and Chief Manager Lending appeared before the Committee on 20 December 1994 they were asked whether they felt the Authority's provision for bad debts was reasonable. They indicated that they felt the provision was realistic, being \$6 million on the entire loan portfolio, or about 8 or 9% of the "effective" loan portfolio.

MR MASLEN: Considering our portfolio, I think our level of provision for bad debts is realistic. We have made a provision in our annual accounts this year, which was accepted by Treasury and the Auditor-General.

¹⁷⁰ NSW Auditor-General, *Auditor-General's Report for 1993, Volume Three*, p.65

However, that is another issue that the Board has desired to have a look at in the new year - before we present our accounts next year - whether these provisions need to be revised or whether they are adequate.

COMMITTEE: In percentage terms, what is the provision for doubtful debts as part of the loans?

MR GRIFFITHS: ... The current available provision for doubtful debts is approximately \$6 million. Of that \$110 million loan portfolio, between \$40 million and \$45 million is in the Special Conservation Scheme. Given that they are secured by statutory charge the potential for loss there is very small. The effective loan portfolio we are talking about for provisioning is probably of the order of \$70 million. So it comes back to 8% or 9% of the principal balance of the loans outstanding.¹⁷¹

13.3.3 Mr Griffiths stated that the figure for the Authority's write off of bad debts during the 1994-95 financial would be distorted by two factors. Firstly, there would be an extraordinary item involving a very large figure, of about \$400,000 which would be written off as a result of the Oyster Marketing Co-operative being placed in receivership. (Some years ago the Authority had been directed by the then Minister for Fisheries to make a loan to the Co-operative for the purchase of premises at Taren Point.) Secondly, the drought was having a significant affect on this area of the Authority's operations through the lack of buyers for properties of farmers who decide to leave the industry and who carry loans with the Authority.¹⁷²

13.3.4 The Committee asked Mr Maslen and Mr Griffiths about the process by which the Authority writes off bad debts. Mr Maslen said that the Authority only writes off debts at the point at which a property is sold and never before this point. The process of debt write offs therefore takes place concurrently with the provision of the re-establishment grant. Mr Maslen gave the impression that as part of the arrangements to write off a debt the Authority sought to get back from the farmer the NSW Government's share of the re-establishment grant. However, Mr Griffiths clarified that the Authority did not seek to obtain part of the farmer's re-establishment grant itself, instead seeking to obtain part of the proceeds of the sale of productive assets.

COMMITTEE: Referring to the write off, particularly in rural debt, what criteria needs to be established for a debt to be written off? Is there a structured formula, or is it flexible? Does a person need to have exhausted all means of repayment and all equity in the property?

MR MASLEN: I will start the answer and Steve may like to add to it. When we get to the process where a debt is written off, a property may be sold or a first mortgagee may go into possession and sell at auction. We

¹⁷¹ Evidence, Graham Maslen and Steve Griffiths, 20 December 1994, p.13

¹⁷² *ibid.*, p.14

take what is left over. The question of the extent of the loan is determined by what the market brings and the bank accepts as the sale price. Really the amount of the write off is determined by what the property might bring at sale and what other mortgagees might be standing in front of the Authority. As we said previously, where we hold a statutory charge that is automatically paid first.

COMMITTEE: There are no debts written off prior to the point of sale? In other words, through negotiation with a borrower there are no write offs?

MR MASLEN: No.

COMMITTEE: There has to be disposal?

MR MASLEN: Yes. One of the provisions under the Rural Adjustment Scheme is the re-establishment grant. If a debt is left owing to the Board following sale, a farmer may be eligible for a re-establishment grant, even in those circumstances he probably would be entitled to a re-establishment grant. In those cases we try to come to some arrangement with the farmer. The re-establishment grant is to enable him to re-establish but we try to get at least the 10% State component. The re-establishment grant is funded 90:10 by the Commonwealth and State - \$5,000 is put in by the State. We try to get that back, at least....

MR GRIFFITHS: It is important to draw a distinction that we are not attempting to obtain funds from the re-establishment grant per se. Often there is stock and plant which can be sold, the proceeds of which are available to the farming family upon exit. While in a simplistic way we can say that we are seeking to reimburse the 10% State Government contribution to re-establishment, it is not coming out of the re-establishment grant. There is a clear understanding that is an inalienable payment to all creditors. If other funds are not available we would not insist on that.¹⁷³

- 13.3.5 The second issue which arose in relation to the Authority's loan portfolio was the **question of divestment**. The Senate Committee in its report on *Rural Adjustment* made reference to efforts by the Commonwealth Government to have "loan repayment commitment under pre 1985 schemes ... accelerated". It was noted that "settlement was reached with WA and negotiations are in progress with other States".¹⁷⁴ The Committee sought further information from the Department of Primary Industries and Energy about this issue and received the following advice.

Following a resolution of ARMCANZ in July 1993, an offer was made to the States in September 1993 to repay pre - 1985 RAS, Rural

¹⁷³ *ibid.*, pp.15-16

¹⁷⁴ Senate Committee, *Rural Adjustment*, p.35

Reconstruction and Marginal Diary loans. The basis of the original offer to pay out these loans (which run to 2006) involved a single repayment equal to the net present value (NPV) of the repayments which the Commonwealth would otherwise receive up to the end of the loan term. The rate applied to the NPV was the Commonwealth 10 year Bond rate (at that time 6.64%). the repayment of these loans would neither advantage or disadvantage the Commonwealth in financial terms (but it would reduce administrative costs for both the States and Commonwealth). Under the RAS 1976 legislation, the States also have the option to give notice that they wish to repay the full principal outstanding at a certain date.¹⁷⁵

- 13.3.6 When Terry Rumble MP and the Committee's Senior Project Officer visited RAFCOR in Western Australia they were told that RAFCOR was in the process of divesting itself of its loan portfolio. RAFCOR was offering existing clients a 15% discount on both the interest and principal repayable on their loans if they repaid the loan (either with cash or by refinancing with a commercial bank) by the end of March 1995. It was expected that most of RAFCOR's clients would take advantage of this offer.
- 13.3.7 When the Chief Executive and Chief Manager Lending appeared before the Committee on 20 December 1994 the Committee asked them whether the Authority had considered divesting itself of its loan portfolio. Mr Maslen said that he had actively considered this question when the Authority was first established but that it had been decided that do so would create unnecessary stress in the rural community as it would entail clients paying higher interest rates. Furthermore the likely return to the State Government from the sale of what is not a high quality loan portfolio would not be high.

COMMITTEE: Are you comfortable with the Authority administering old loans from previous assistance schemes? Has the Authority considered divesting itself of this loan portfolio, for example, by encouraging clients to re-finance with a commercial bank or by offering a discount as has been done in Western Australia?

MR MASLEN: Where our loans are protected by first mortgage, or first security, no. When the Authority was first set up, I had discussions with a bank to look at the question of whether we could sell off the loan portfolio at a discount to get a return for government. However, because of the onset of natural disaster after natural disaster, I felt the prime importance was not to sell off the loan portfolio and create further stress in the rural community if those loans were purchased by somebody else and then restructured at a higher interest rate. I think at the time my first priority was to provide continuing balanced assistance without upsetting the apple cart to my major stakeholders, which are farmers and small business people.

¹⁷⁵ Department of Primary Industries and Energy, *Advice provided to the Committee*, 11 January 1995

COMMITTEE: Is not the likelihood of attracting some bank to assume responsibility for those outstanding loans fairly remote? The terms and conditions that are applied under the existing arrangements are far more generous than could be offered by any other lending institution.

MR MASLEN: That is right. That is the danger I had: although the State Government would get an immediate return on the portfolio, the question was that the farmers who had the loans would suffer in the long run. That is something that I did not think was appropriate. Generally speaking, since we have taken over the administration of the older core debts, one of the strategies or goals is that we have put in place a monitoring process to make sure that we achieve reductions in the level of the number of accounts in arrears and the level of amounts in arrears. Over the last two years we have made really good progress in achieving those results.

COMMITTEE: Has that divestment been considered again by the Board since the original approach to a bank?

MR MASLEN: Not at this stage.

COMMITTEE: It has not been considered in the last four years or so?

MR MASLEN: No, it has not been discussed at all. If it is an issue and the Committee may like to consider it as a recommendation, we would only be too happy to take that on board.

MR GRIFFITHS: If I could add, the important point touched on by the Chairman for the State Government to look seriously at that option is that it needs to be getting what it considers is a realistic return. Quality of the older loans is not good in terms of security and I really think the discount factor that a commercial institution would be applying would be very high and the real rate of return would be less than if those loans could be managed by an organisation representing the State Government.

MR MASLEN: I support that view.¹⁷⁶

13.4 Accountability

- 13.4.1 The 1988 *Rural Agencies Review* was extremely critical of the accountability of the Rural Reconstruction Board and the Rural Industries Agency of the State bank. The review report noted that although the annual report of the Reconstruction Board contained a substantial amount of statistical information this was not presented in a readily accessible form. Furthermore, there was no accounting for the cost of administration of the Rural Reconstruction Board or the Rural Industries Agency. Nor was it possible to hold any individuals

¹⁷⁶ Evidence, Graham Maslen and Steve Griffiths, 20 December 1994, pp.11-12

responsible for the cost of administration. The review report made a number of recommendations for improvements to the information presented in the annual reports of the new Rural Assistance Authority. It was recommended that the following performance measures should be included:

(a) the value of assistance (new and continuing) provided during the year under each of the schemes and components of the schemes; in this respect the key measure of assistance provided should be the effective interest subsidy paid (which is a common denominator between concessional loans schemes and subsidy schemes) plus grants made or loans converted to grants;

(b) a dissection of the total assistance provided across industry and regional sectors;

(c) a detailed revenue and expenditure statement with supporting analysis of expenditure by expense type and main function compared with previous year;

(d) a statement of staff numbers (or equivalent staff numbers) compared with the previous year;

(e) source and application of funds;

(f) a balance sheet (with, if necessary, supporting balance sheets for individual funds).¹⁷⁷

13.4.2 An analysis of the Authority's annual reports from 1989 to 1994 shows that a number of the recommendations of the *NSW Rural Agencies Review* have been implemented. Information is presented in a readily accessible form on not only the value of assistance provided but also the numbers of applications received and approved / declined under each assistance scheme. Detailed information is provided on the Authority's staffing and there is a one page balance sheet as well as the annual financial statements. However, contrary to the recommendation made in the review report, there is no breakdown of the assistance provided across industry or regional sectors.

13.4.3 When officers of the NSW Treasury, appeared before the Committee on 20 December 1994 the Committee asked them for their views on the accountability of the Authority and its liaison with Treasury. They indicated that they had no concerns about the Authority's accountability and that the degree of financial information provided by the Authority in its annual reports had increased over recent years with the introduction of accrual accounting. They also indicated that they had no concerns about the liaison between the Authority and Treasury.¹⁷⁸

¹⁷⁷ NSW Treasury, *NSW Rural Agencies Review*, pp.47-49

¹⁷⁸ *Evidence*, Bob Sendt and Cathy Skow, 20 December 1994, pp.6-7

- 13.4.4 The Committee also received positive comments from staff of the Audit Office about the financial management and accountability of the Authority.

13.5 Findings and Recommendations

13.5.1 The 1993-94 NSW budget papers revealed a \$39 million decrease in the cash reserves of the Rural Assistance Authority. Under RAS schemes prior to RAS '92 the Commonwealth allocated funding to the States according a formula and allowed State RAS authorities to retain unexpended payments. Considerable cash reserves were built up by all State RAS authorities. In July 1993 the Commonwealth changed the funding method for RAS. Cash reserves were to be drawn down to one month's requirements and further funding provided by the Commonwealth on a monthly acquittals basis. Overall the Authority's expenditure increased from \$58.596 million in 1992-93 to \$63.414 million in 1993-94.

13.5.2 The Auditor-General's report for 1993 noted that the Authority's suspense account contained several large amounts that had remained unidentified and undeclared for long periods, some in excess of twelve months. The Committee understands that this involved loan repayments on old loans which were unidentified during the 1991-92 financial year. Staff of the Audit Office have advised that this issue has been satisfactorily resolved by the Authority.

13.5.3 RAS '92 provides assistance only in the form of grants. However, the Rural Assistance Authority has a substantial loan portfolio. The Authority manages loans of \$21 million from old RAS schemes and \$11 million from old State schemes. It also manages loans of \$45 million from the Special Conservation Scheme and \$32 million from the Natural Disasters Relief Scheme. Within this portfolio the Authority has made provision of \$6 million for doubtful debts. \$1.4 million was written off for bad debts in 1993-94.

13.5.4 The Authority considered divesting itself of its loan portfolio in 1989 but in view of the likely return to the NSW Government and the possible disruption to the Authority's clients decided to retain the loan portfolio. However, the Commonwealth Government is seeking to have repayments on pre-1985 RAS accelerated and RAFCOR is in the process of divesting itself of its loans portfolio.

13.5.5 *The Committee recommends that the Authority Board reconsider the question of whether the Authority should divest itself of parts of its loans portfolio from old schemes.*

13.5.6 The Committee notes the positive comments of staff of the Audit Office and NSW Treasury about the Authority's financial management and accountability.

CHAPTER FOURTEEN

DROUGHT ASSISTANCE

14.1 Drought declaration

14.1.1 The methods for declaring drought that are used in NSW and other States were described in some detail in the submission of the Rural Assistance Authority. This section of the Authority's submission is reproduced in full in Appendix Six. Drought declarations in NSW are approved and announced monthly by the Minister for Agriculture. Drought declarations relate to the amount of pasture and crops available for grazing livestock. Rural Lands Protection Boards (RLPBs) are drought declared when there is insufficient feed or water to sustain sheep or cattle. Local RLPBs initiate action for the declaration of a drought affected area. The application of an RLP Board must be supported by a recommendation from the Board's District Veterinarian or Ranger, and the NSW Agriculture Regional Drought Co-ordinator. For a district to be drought declared the following conditions must be widespread:

* in the eastern and central divisions of the State the area must be at least 350,000 ha in size;

* in the western division the area must be at least 20% of the size of the RLPB;

* at least half the area must be unable to sustain sheep or cattle; and

* stock numbers must be reduced or supplementary feeding carried out.

Drought declared areas may be defined by roads, rivers, State borders, parishes, property boundaries etc. Clearly definable areas of any size that adjoin a drought declared district may be added to that declaration initially or at a later date.¹⁷⁹

14.1.2 The purpose of drought declarations in NSW is to trigger the availability of transport subsidies for the movement of livestock, water and fodder. These subsidies are set at 50% of the total amount paid to the carrier. Livestock subsidies cover the movement of livestock to agistment, to further agistment, return from agistment, replacement stock movement and, in the Western Division, transport of stock to sale yards. The maximum subsidy per farming unit is \$15,000 per calendar year. During 1993-94, \$5.8 million was paid out on transport subsidies. \$1.6 million was paid during the period 1 July to 16

¹⁷⁹ Rural Assistance Authority, *Submission*, pp.22-23

September 1994. NSW Government liability for transport subsidies is expected to exceed \$20 million during 1994-95.¹⁸⁰

- 14.1.3 The current method of declaring drought affected areas in NSW is primarily directed towards the provision of assistance to the grazing industries, for both sheep and cattle. Therefore the system is more concerned with pastoral conditions than cropping. The Committee was told that the current system may not therefore be appropriate for cropping areas.

*We ... contend, on the advice of clients, that the drought declaration procedures administered by local rural lands protection boards are tardy, contain discrepancies and often show a lack of knowledge of local cropping and pastoral conditions. Indeed, the areas mentioned above, the rural protection areas, have had two years of crop failures in the last three years and yet those areas were not drought declared in those years, especially 1992. It would appear from our observation that drought declaration is based on pastoral conditions, not cropping conditions.*¹⁸¹

- 14.1.4 When senior representatives of the Department of Agriculture appeared before the Committee on 21 November 1994 they were asked about the plight of farmers bordering drought declared areas. Bryson Roberts, Program Leader, Rural Lands Protection, explained that it was possible for properties bordering drought declared districts to be added to the declaration. He also said that individual drought affected properties within districts which were not affected were unlikely to be in need of the same sort of transport subsidies as farmers in widely affected districts. Mr Roberts referred to the fact that individual properties were able to be drought declared in Queensland but said that this would be impractical in NSW due to smaller property sizes.

COMMITTEE: What do you say to a farmer whose property adjoins that of a farmer in a Rural Lands Protection Board district that has been drought declared but he is actually next door but his area has not been drought declared? ...

MR ROBERTS: Well, the way we do it, we do have boundaries and they are the boundary of the district or the area that is drought declared. It may not necessarily be a board or a division or boundary however, it is any clearly definable area. But I did mention that these declarations are done on a monthly basis. Now, if a farmer is just across this border that we draw of the area that is drought declared for one month, it is assessed again at the end of that month and normally if it continues to be dry the drought area grows as I mentioned like a sort of cancerous growth, grows out and almost invariably the person that is missing out or is not drought declared one month will probably be drought declared the following month....

¹⁸⁰ *ibid.*, p.23

¹⁸¹ *Evidence*, Michael Kennedy, Dubbo, 4 November 1994, p.18

Now, if you have an isolated drought area which can happen I would agree - they might just have a particular valley or an area that misses out on rainfall, if that suffers dry conditions and individual properties are suffering from drought, they are still not facing anywhere near the hardship if you have a widespread drought like the one we are suffering at present. The reason for saying that is quite clearly the price of fodder is going to be just sort of normal ruling rates. Agistment is available, not too far away, and so they do not suffer the financial hardship to anywhere near the same extent and of course for that reason the State Government believes they do not need transport subsidies which as I say are triggered by the drought declarations.

Now, it is different in other States. If we take our neighbour to the north, Queensland, clearly properties in NSW, south of that border, are small, in other words the land has been subdivided into smaller farms so when you move over particularly in western NSW and when you move over to Queensland they are much bigger pastoral properties and so they have got a mechanism in Queensland where owners of those properties can apply to have their property individually drought declared and so they do have local district drought committees that check these applications and do approve of individual properties being drought declared. When you get a lot of individual properties in a shire - they work on a shire basis in Queensland - when you get a lot of individual properties, it might be 40 or 50% whatever the figure may be, they declare the whole district.

Now, as I say, we have got much smaller properties. It would be much more difficult to administer that in NSW. It would be quite costly I might mention, as well, and we just have not got the structure to do it. But more to the point, we do not believe that small areas of individual property should be drought declared because you would probably well appreciate, bad management can cause drought on individual properties as well as lack of rainfall.¹⁸²

- 14.1.5 The system of drought declaration in NSW and the subsidies which they trigger may be subject to change in the near future. In 1992 the Commonwealth and State Governments agreed to a National Drought Policy which sought to make farmers take responsibility for preparing for and managing drought. The States agreed as part of the National Drought Policy to phase out transaction based subsidies such as the transport subsidies which operate in NSW. However, as NSW and Queensland were already experiencing drought conditions in 1992 it was agreed that there would be an extended transition period during which these subsidies would continue to be available.¹⁸³
- 14.1.6 More recently, in October 1994, the Commonwealth and State Agriculture Ministers agreed to the development of a more "harmonised", consistent and

¹⁸² Evidence, Bryson Roberts, 21 November 1994, pp.8-9,6-7

¹⁸³ Rural Assistance Authority, *Submission*, p.20

scientifically based system for the declaration of drought. It was agreed that a common set of six core criteria would be taken into account by the Commonwealth and States in future consideration of any drought and exceptional circumstances declarations. The six core criteria were:

- (i) meteorological conditions;
- (ii) agronomic and stock conditions;
- (iii) water supplies;
- (iv) environmental impacts;
- (v) farm income levels; and
- (vi) scale of the event.

14.1.7 Work is currently underway to quantify these core criteria. In November 1994 an article in the *Sydney Morning Herald* quoted from a confidential draft paper under consideration by a working party which is examining this issue. The article raised concerns that the core criteria would be quantified in such a way that, even in the context of the current severe drought, no area of NSW would be able to qualify for assistance.

Late last month the meeting of the Commonwealth and State Ministerial Council agreed to a set of core criteria...

So far so good. The real crunch will come when each of these criteria are quantified. Because however much talk there is of science in the process, the level applied to each criteria is ultimately a political choice.

The confidential draft paper obtained by the Herald quantifies the six criteria.

In summary, the prescription deficiency must be "so severe and unusual that there is a low probability of it occurring on average more than once in 25 years". There must be a complete crop failure, or no crop planted for the past two or three years (depending on the area) or the four to six seasons if a summer/winter crop area. The area must be 70% destocked with "significant livestock deaths, even on properties that have destocked more than 50% of herd/flock". River flow must be, or forecast to be, less than 20% of average in the next three months and dam storages at a 25-year-average low, while on farm storage must be empty, or forecast to be empty within three months, and bores dry or insufficient to meet stock and household requirements. Vegetation cover must be so low "that plant viability and soil stability is threatened", with "virtually no available soil moisture in plant root zone in top 1 to 2 metres". Farm cash income must be negative for two or more consecutive years, with the debt/equity ratio declining to less than 60% and the debt servicing ratio approaching

"critical levels". And there must be no stock agistment opportunities within a 500 kilometre radius, with access to off farm fodder "difficult and expensive".

It is indeed a comprehensive definition of drought.

It is also a portrait of a catastrophe.

Nowhere in NSW would qualify under all six criteria....

The new definition of drought looks very much like 1. no water; no crops; dying stock; huge debt 2. bereft of hope.¹⁸⁴

14.2 Exceptional circumstances drought assistance under RAS '92

14.2.1 The provision of exceptional circumstances assistance has been discussed in section 2.6 above. The decision to make exceptional circumstances assistance available is made by the Commonwealth Minister for Primary Industries and Energy. The Commonwealth Minister refers requests from State Governments for exceptional circumstances assistance to the Rural Adjustment Scheme Advisory Council, established under the provisions of Part Two of the *Adjustment Act 1992*.

14.2.2 The Rural Adjustment Scheme Advisory Council (RASAC) has a number of responsibilities including recommending a three year strategic plan, annual program, budget and funding levels for RAS. The Commonwealth Minister has also chosen to refer all requests for exceptional circumstances assistance to RASAC for advice. RASAC has eight members:

- Neil Inall (chairperson), a journalist and communicator on agriculture and rural affairs;
- Tim Sholz, representing the National Farmers Federation;
- Terry Johnston, from the Queensland Department of Primary Industries, representing State Governments;
- Ray Hicks, Chief Executive Officer of the Rural Finance Corporation of Victoria, representing State Governments;
- Professor Tim Reeves, Professor of Sustainable Agricultural Production at the University of Adelaide;

¹⁸⁴ Asa Wahlquist, "Drought now defined as the loss of all hope", *Sydney Morning Herald*, 21 November 1994

- Fran Rowe, rural counsellor, farmer and chairman of the NSW Rural Assistance Authority;
- Chris Shearer, Senior Manager, Rural Advisory Services with the National Australia Bank; and
- Bernard Wonder, First Assistant Secretary, Rural Division of the Commonwealth Department of Primary Industries and Energy, representing the Commonwealth Government.

RASAC has established a number of specialist committees. There is a committee on exceptional circumstances which initially considers requests for assistance. The members of the exceptional circumstances committee are Fran Rowe (chairperson), Neil Inall and Bernard Wonder.

- 14.2.3 The formula adopted by the Commonwealth Minister during the current drought has utilised the system of drought declarations which operates in NSW. The Minister has determined that for exceptional circumstances to be available an area must have been drought declared by the NSW Government for 24 out of the previous 36 months. The decision that an area qualifies for exceptional circumstances entitles eligible farmers in the area to receive exceptional circumstances assistance under the provisions of RAS and drought relief payments, as discussed in paragraph 2.7.1 above.
- 14.2.4 The Commonwealth Minister's determination that exceptional circumstances drought exists in NSW when an area has been drought declared for 24 out of the previous 36 months has been the subject of considerable criticism, and has been described as inflexible and arbitrary. It has been claimed that this has resulted in many farmers who are experiencing extreme financial difficulties due to the drought not qualifying for assistance.

Turning to the drought declaration criteria, one of our members is concerned by the arbitrariness of the present drought declaration areas. Indeed, his practice has calculated that he has 420 families in the rural lands protection areas of Gilgandra, Warren, Trangie, Narromine, Nyngan, Dunedoo, Peak Hill and Cumnock, all of whom are incurring severe financial problems due to the drought. These clients have no access to interest subsidies, or to the drought relief payment administered by the Rural Assistance Authority and the Department of Social Security, purely because of an arbitrary administrative decision which is totally discriminatory.¹⁸⁵

- 14.2.5 The Committee was told that the use of NSW drought declarations was inappropriate because of the specific purpose of the NSW system, which was incompatible with the objectives of exceptional circumstances assistance.

¹⁸⁵ *Evidence*, Michael Kennedy, Dubbo, 4 November 1994, p. 18

MR BOOTH: Just a comment, it has become confusing as to the purpose of drought declaration because as Bryson has said, in NSW, they exist to trigger the transport subsidies on transport of fodder and livestock. What has happened is that the exceptional circumstances provisions under the Commonwealth scheme have now come in on top of that and have attempted very untidily to use those as a basis for the defining of an exceptional event. So there are two systems in place.

COMMITTEE: So you would say that there may be some incompatibility between the two means of defining or by using one set of criteria it is not entirely suitable for the purposes for which it might otherwise be used for?

MR BOOTH: Well, the emphasis of the NSW scheme is really on livestock producers and it has focussed on their livestock in terms of maintaining them as far as transporting livestock themselves or fodder around, whereas the exceptional circumstances really comes down to what the effect is of the event, whether it is drought or drought plus something else on their farm incomes.

And finally, the assessment is made based on their debt and income situation as to whether they are eligible. In NSW, because the emphasis is on maintaining the livestock, everyone is eligible whereas under the RAS scheme they still do have that eligibility criteria because it is focussed finally on the effect on incomes....¹⁸⁶

- 14.2.6 The Committee was told that the use of NSW drought declarations to determine eligibility for exceptional circumstances assistance meant that farmers whose districts had not been drought declared for 24 months would not qualify for assistance while in some cases their neighbours were eligible for up to \$100,000 in interest subsidies and drought relief payments. Furthermore, the 24 out of 36 months formula took no account of the different impact of drought in different areas of the State. These points were put to the Committee most forcefully by the Mayors of Bogan Shire, Gilgandra and Coonabarabran, and the General Manager of Warren Council, when they gave evidence in Dubbo on 4 November 1994.

MRS McLAUGHLIN: I think that using pastoral protection boards or rural lands areas as boundaries is not a very efficient way. You might have a PP Board, such as Bogan shire, drought declared and the one next door is not, and yet when you get to the boundary there is no difference. You have to take it on a case-by-case basis and each case on its merits. I do not think you can use those sorts of straight lines, curved lines or any line. It has to be taken case by case.

MRS STOCKHAM: I endorse Councillor McLaughlin's words. We have the same sort of problem in the Gilgandra shire. We have three rural land

¹⁸⁶ Evidence, Jim Booth, 21 November 1994, p.7

boards in our shire district; we have the Dubbo lands board on this end, which is only really half in drought, but it is probably the worst hit drought area in our shire and yet we have only a roadway dividing the drought declared area and the other area. Farmers there will just simply have no income before at least 1996 and their farm debt will run up to at least another \$200,000, and they just simply will not be there in that time. We agree that these people should be looked at on an individual basis.

MR KERSHAW: I endorse that with the Warren shire. We have three pastoral protection boards; one is eligible and two are not. it is very difficult when farmers are looking across at neighbours because an imaginary line divides who can have the assistance and who cannot.

MRS POOLE: On the exceptional circumstances, it is 24 months out of 36. That is a fairly arbitrary figure that covers the whole of the State. I would like to make a comment that perhaps in different areas a 12 month drought is somewhat different to one in the western area or the southern area.¹⁸⁷

- 14.2.7 Exceptional circumstances drought assistance provides interest subsidies for the purposes of carry on finance, debt restructuring or productivity improvements. The cost is shared between the Commonwealth and the States on a 90:10 basis for subsidies of up to 50% and a 50:50 basis for subsidies above 50%. A subsidy of up to 100% may be paid, up to a maximum total of \$100,000. When exceptional circumstances drought assistance first became available the Queensland Government decided to provide a 50% subsidy on old debts and a 100% subsidy on both new and old debts. At the time of these decisions exceptional circumstances assistance under RAS was "funds limited". In September 1994 the Prime Minister announced that RAS would be "demand driven" so far as exceptional circumstances assistance was concerned. That is, funds would not be limited and all eligible farmers would receive assistance. The Queensland Government then decided to provide a 100% subsidy on all debts, both new and old. The NSW Government has continued to provide an 80% subsidy on all debts.
- 14.2.8 The Senate Committee discussed the provision of exceptional circumstances assistance in its report on *Rural Adjustment*. The Senate Committee welcomed the change to the funding of exceptional circumstances assistance to make it "demand driven". The Senate Committee supported the Commonwealth Government continuing to provide assistance to farmers in times of exceptional circumstances such as the current severe drought affecting NSW and Queensland. However, the Senate Committee noted that the provision of exceptional circumstances assistance as part of RAS tended to distort the focus of RAS '92 and clouded the objectives of the scheme. It was therefore recommended that exceptional circumstances provisions should be removed from

¹⁸⁷ *Evidence*, Elaine McLaughlin, Caroline Stockham, Max Kershaw and Patricia Poole, Dubbo, 4 November 1994, pp.45-46

RAS and included in a separate Commonwealth - State agreement.¹⁸⁸ The Committee sought the views of the Chief Executive of the Rural Assistance Authority on this issue when he gave evidence on 20 December 1994. Mr Maslen agreed that exceptional circumstances assistance clouds the Rural Adjustment Scheme and the focus of RAS '92.¹⁸⁹

14.3 Other drought assistance

14.3.1 Since the referral of this inquiry to the Committee on 14 September 1994 both the NSW and Commonwealth Governments have announced a number of other drought assistance measures in addition to exceptional circumstances assistance under the provisions of RAS. On 13 October 1994 the NSW Premier announced a \$65 million drought relief package (on top of \$22 million of assistance measures which had been announced in August). The measures announced by Mr Fahey included:

- **Local Government Rate relief:** Local Government borrowing limits were raised by \$30 million to enable councils in drought affected areas, at their discretion, to offer rate relief to farmers and rural businesses.
- **Interest subsidies for drought affected businesses:** the Minister for Small Business and Regional Development was to develop a scheme to make interest subsidies available to non-farm businesses suffering difficulties due to the drought. \$5 million of funding would be available for this scheme.
- **Help for country school children:** The private vehicle conveyance of school children subsidy would be doubled at a cost of \$7.5 million.
- **Drought relief co-ordination unit:** A drought relief co-ordination unit would be established in the Premiers' Department.
- **Electricity accounts payment assistance:** A voucher system would be established with funding of \$10 million.
- **Animal Welfare and humane treatment of stock:** \$1 million would be made available to Rural Lands Protection Boards and the RSPCA to enable severely affected livestock to be humanely treated. A further \$200,000 would be made available to animal welfare groups.
- **Debt mediation assistance:** The Government's contribution towards the cost of voluntary debt mediation between a farmer and bank under the

¹⁸⁸ Senate Committee, *Rural Adjustment*, pp.52-53

¹⁸⁹ *Evidence*, Graham Maslen, 20 December 1994, p.22

Australian Bankers Association Debt Mediation Scheme would be increased from \$1,000 to \$1,500.

- **Rural Community and Family Support Program:** An additional \$1 million would be provided to welfare agencies for cash relief payments to rural families in crisis.
- **Cloud Seeding:** A pilot cloud seeding project would be undertaken at a cost of \$100,000.
- **Assistance for farm water supplies and soil conservation measures:** The \$800,000 assets test for assistance under the Special Conservation Scheme would be suspended until 30 June 1995.
- **Fodder and Water trains:** Special trains to cart fodder and water free of charge would be commenced.
- **Free carriage of Charitable Goods by Rail:** Donations of clothing and food for drought affected families would be transported free of charge by the SRA.
- **Grazing on Crown Land:** Crown Land and State Recreation Areas would be opened to grazing where it could be undertaken without damaging sensitive environmental areas. (Grazing would not be permitted in National Parks or areas under consideration for inclusion in National Parks.)
- **Valuer General's Fees:** Proposed increases in property valuation fees for councils would be deferred in drought areas at a cost of \$300,000.¹⁹⁰

14.3.2 The Prime Minister announced a \$164 million package of drought assistance on 21 September 1994. The major initiatives included in this announcement were the introduction of Drought Relief Payments and the provision of exceptional circumstances drought assistance to a number of areas in northern NSW and Queensland. Other assistance included in this announcement were:

- **Austudy assets test:** The Austudy farm assets test would be removed for all families in exceptional circumstances areas.
- **Rural Counselling:** Provision would be made to increase the total number of rural counsellors nationally to 140, and to provide them with administrative assistance.
- **Drought preparedness:** The Government would review over the next few months proposals for investment allowances for farm storage and water facilities, faster depreciation for storage facilities, and funding through

¹⁹⁰ Premier of NSW, "More Drought Relief Measures", *News Release*, 13 October 1994

labour market programs to address land degradation and environmental protection in drought prone areas.¹⁹¹

14.3.3 The Prime Minister announced a further \$112 million package of drought relief measures on 8 December 1994. These measures included longer term mechanisms to encourage farmers to better prepare for drought in future.

- **Farm Management Bond Scheme:** This would encourage farmers to build cash reserves for downturns such as droughts. Tax deductibility would be provided in the year of deposit, the investment component would be raised from 80% to 100%, no withholding tax would be paid on withdrawal and the deposit limit would be increased from \$80,000 to \$150,000 for each taxpayer.
- **Taxation incentives for building up reserves:** An investment allowance of 10% for expenditure of up to \$50,000 per taxpayer per year would be provided until the year 2000 for fodder and water storage for livestock, water conveyancing and minimum tillage equipment.
- **Regional approach to adjustment:** An additional \$10 million would be provided for co-ordinated regional adjustment strategies including RAS, Landcare, labour market and welfare programs.
- **Landcare:** An additional \$14.4 million would be provided for Landcare projects in drought areas and there would be strengthened arrangements to encourage local communities to link Landcare projects with labour market programs.
- **Climate forecasting:** An additional \$5 million would be made available over three years for continuing research into climate forecasting and drought management techniques.

The Prime Minister also announced the extension of exceptional circumstances declarations to some further areas of NSW and the relaxing of some RAS eligibility criteria.¹⁹²

14.3.4 On 15 February 1995 the Premier announced a further \$20.5 million drought relief package. This includes the following measures.

Crop Planting Interest Subsidies: \$18 million would be made available to farmers in areas which did not qualify for Exceptional Circumstances Drought assistance under RAS to help farmers finance the purchase of seed, fertiliser and fuel to plant this year's crop. Interest subsidies of up to 80% on borrowings, to a maximum of \$36,000 would be available.

¹⁹¹ Prime Minister, "Drought Assistance", *Statement*, 21 September 1994

¹⁹² Prime Minister, "Additional Drought Relief", *Statement*, 8 December 1994

Additional Drought Support Workers: \$580,000 would be provided to fund four extra drought support workers.

Rebates on Loan Security Duty: \$2 million would be provided in rebates on loan security fees for farmers in exceptional circumstances areas who receive interest subsidies on new loans.¹⁹³

These measures were announced concurrently with \$10 million in payroll tax rebates for business in rural NSW.

14.4 Findings and Recommendations

14.4.1 The primary purpose of drought declarations in NSW is to trigger transport subsidies. The Committee understands that all states have agreed that, as part of the National Drought Strategy agreed to in 1992, such subsidies will be phased out.

14.4.2 Evidence was received critical of the criteria used by the Commonwealth Government to determine eligibility for Exceptional Circumstances Drought assistance under RAS '92. The requirement for areas to be drought declared for 24 out of the previous 36 months is overly restrictive and inflexible.

14.4.3 *The Committee recommends that the NSW Government urge the Commonwealth Government to reconsider the criteria used to determine eligibility for Exceptional Circumstances Drought assistance under the provisions of RAS '92.*

14.4.4 Evidence was received critical of the inflexibility of applying Exceptional Circumstances Drought assistance on the basis of Rural Lands Protection Board (RLPB) areas.

¹⁹³ Premier of NSW, "Third Major NSW Government Drought Relief Package", *News Release*, 15 February 1995

14.4.5 *The Committee recommends that the NSW Government urge the Commonwealth Government to consider a mechanism whereby properties bordering RLPB areas which qualify for Exceptional Circumstances assistance could be considered on a case by case basis.*

14.4.6 When exceptional circumstances assistance is provided under RAS '92 a State Government can contribute funds to provide an interest subsidy of between 50% and 100% to eligible applicants. When exceptional circumstances drought assistance first became available the Queensland Government decided to provide a 100% subsidy on new debts and a 50% subsidy on old debts. The NSW Government decided to provide an 80% subsidy on both new and old debts. At the time of these decisions exceptional circumstances assistance under RAS was "funds limited". In September 1994 the Prime Minister announced that exceptional circumstances assistance would be "demand driven", that is funds would not be limited and all eligible applicants would receive assistance. The Queensland Government then decided to provide a 100% subsidy on all debts, both new and old. The NSW Government continues to provide an 80% subsidy on all debts, both new and old.

14.4.7 State and Commonwealth Agriculture Ministers have recently agreed upon a core set of criteria to enable the declaration of droughts to be objectified and scientifically based. The Committee supports the development of a clear and agreed definition of drought. However, there is concern that this definition might be quantified in such a restrictive way as to prevent any area in NSW currently qualifying for Exceptional Circumstances Drought assistance.

14.4.8 Evidence was received critical of the provision of Exceptional Circumstances assistance under RAS. The Exceptional Circumstances Wool scheme generated considerable controversy, particularly the requirement that for farmers to qualify they needed to have received at least 65% of their income from wool or sheep. The provision of Exceptional Circumstances assistance under RAS has contributed to the confusion in the farming community about the objectives of RAS '92. The Committee notes the recommendation of the Senate Committee that Exceptional Circumstances assistance should be removed from RAS and included in a separate Commonwealth - State agreement.

14.4.9 Since the commencement of this inquiry both the NSW and Commonwealth Governments have announced the availability of a wide range of assistance measures to drought affected farmers in NSW.

CHAPTER FIFTEEN

FOLLOW UP REVIEW

- 15.1 The last review of the administration of rural assistance in NSW was conducted by Coopers & Lybrand WD Scott for the NSW Treasury in 1988. Over the six years since that review there have been a number of significant changes to the nature of rural assistance. Most recently the focus and objectives of the Rural Adjustment Scheme have been fundamentally changed through the introduction of RAS '92. It was therefore opportune for this inquiry to be undertaken, to re-examine the appropriateness and the effectiveness of the administration of rural assistance in NSW in 1994.
- 15.2 As a result of the 1988 *Review of NSW Rural Agencies* the Rural Assistance Authority was established with the primary objective of achieving efficiencies and reducing the cost of administration of rural assistance in NSW. This objective has clearly been achieved. The cost of administration of rural assistance has been significantly reduced since 1989. However, efficiency needs to be balanced against service delivery. The major focus of the Committee's attention and this report has been upon mechanisms which may improve the delivery of rural assistance by the Authority.
- 15.3 RAS '92 takes rural assistance in a new direction. RAS '92 has a sunset date of 31 December 2000 and is aimed at assisting the process of rural adjustment in Australia until then. Concern has been expressed by a number of commentators about the ineffectiveness of previous versions of RAS and the lack of measurement of the achievement of the objectives of earlier schemes. The Committee has been conscious of the need for the Rural Assistance Authority to respond to the changes in RAS and to ensure that its procedures provide the maximum possible prospects for the achievement of the objectives of RAS '92. The Committee has recommended a number of changes to the Authority's procedures. The Committee has also recommended that the Authority carefully consider a new approach to the administration of RAS which is being trialled in Western Australia. It may be that, in order for the objectives of RAS '92 to be achieved, a new and innovative approach such as that being used in Western Australia will be necessary.
- 15.4 Evidence taken by the Committee indicates that, prior to the commencement of this inquiry, the Authority Board had identified a number of the same issues of concern which have arisen during the course of this inquiry. The Authority Board has recently had a number of new members appointed and has set itself on a new course. The Committee was pleased to note the general direction in which the Board intends to move. The Committee considers that the Board will have a central role in the implementation of the recommendations contained in this report.

15.5 Overall the prospects for productive and useful change within the Authority appear to be good. The Committee looks forward to reviewing the implementation of these recommendations in 12 months time.

15.6 The Committee recommends that the next Public Accounts Committee undertake a follow up inquiry to monitor the Authority's implementation of the recommendations contained in this report twelve months after its tabling.

APPENDICES

- 1. List of witnesses**
- 2. List of those who made written submissions**
- 3. List of those with who the Committee met on interstate visits**
- 4. Major recommendations and conclusions of the Senate Rural and Regional Affairs and Transport References Committee report on *Rural Adjustment, Rural Debt and Rural Reconstruction*, December 1994**
- 5. Information on the Rural Adjustment and Finance Corporation of Western Australia (RAFCOR) pilot program for the administration of RAS '92**
- 6. Section from Rural Assistance Authority *Submission* summarising the drought declaration methods used in each State**

Appendix 1: List of Witnesses who appeared before the Committee

DATE	NAME, POSITION	ORGANISATION
4.11.94	Bruce Bashford, Rural Counsellor	NSW Association of Rural Counselling Groups
	Mary Ewing, Rural Counsellor	NSW Association of Rural Counselling Group
	Garry White, Rural Counsellor	NSW Association of Rural Counselling Group
	Michael Kennedy, Public Accountant	Dubbo Accountants Group
	Brett Richardson, Chartered Accountant	Dubbo Accountants Group
	Ronald Rich, Public Accountant	Dubbo Accountants Group
	Michael Egan, Chartered Accountant	Hassell & Associates
	David Duffy, Accounting Division Manager	Hassell & Associates
	Allan Tully, Regional Valuer	State Bank of NSW
	Patricia Boyd	
	Robert Tomlinson, Chairperson	Australian Grain Harvesters Association
	Patricia Poole, Mayor	Coonabarabran Council
	Elain McLaughlin, Mayor	Bogan Council
	Russell Butler, General Manager	Bogan Council
	Raymond Donald, Deputy Mayor	Bogan Council
	Caroline Stockham, Major	Gilgandra Council
	Paul Mann, General Manager	Gilgandra Council
Max Kershaw, General Manager	Warren Council	
14.11.94	Colin Bartrim, General Manager	ANZ Bank
	Stuart Dedman, Rural Service Manager	ANZ Bank
	David Neve, National Manager, Rural Management Services Division	Bird Cameron

Public Accounts Committee

	Neil Dobbin, NSW Manager	Primary Industries Bank of Australia
	Terry Ryan, Policy Director	NSW Farmers Association
	Linda Smith, Executive Officer	NSW Farmers Association
21.11.94	Jim Booth, General Manager, Economics Services Unit	NSW Dept. of Agriculture
	Bryson Roberts, Program Leader, Rural Lands Protection	NSW Dept. of Agriculture
	Sally Ware	
	Peter Ware	
	Tony Parker, Accountant	T. L. Parker & Co.
	Warren Musgrove, Professor of Agricultural Economics	Rural Development Centre, University of New England
	Richard Stayner, Senior Project Director	Rural Development Centre, University of New England
	Tony Taylor, Consulting Valuer	David Nelson & Partners
20.12.94	Bob Sendt, Acting Assistant Secretary Budget Management	NSW Treasury
	Cathy Skow, Budget Officer	NSW Treasury
	Graham Maslen, Chief Executive	Rural Assistance Authority
	Steve Griffiths, General Manager, Lending	Rural Assistance Authority
	Fran Rowe, Chairman	Rural Assistance Authority
	Barry Buffier, Board Member	Rural Assistance Authority
	John White, Board Member	Rural Assistance Authority

Appendix 2: List of those who made written submissions to the inquiry

NO	DATE RECE'D	NAME, POSITION	ORGANISATION
S1	31.10.94		Forbes Rural Counselling Inc.
S2		G.C. & L.M. Pittman	
S3		Jeremy McClure	NSW Farmer's Association, Wilcania White Cliffs branch
S4		G. Kayess	
S5		Bruce & Jean Smith	
S6		Bob Hodge	
S7		Fred Vallance	NSW Farmers Association, Ungarrie branch
S8		Ian Munro	NSW Farmers Association, Rankin Springs branch
S9		A.J Paton (Financial Counsellor) & W.J Thompson (Chairperson)	North East Riverina Rural Counselling Service Inc.
S10	04.11.94	Michael Egan	Hassall & Associates Pty Ltd.
S11		Michael Kennedy (Chairman)	Dubbo Public Accountants Group
S12		Paul Mann (General Manager)	Gilgandra Shire Council
S13		Russell Butler (General Manager)	Bogan Shire Council
S14		Patricia Boyd	
S15		Robert E. Tomlinson (Chairperson)	Australian Grain Harvesters Association Inc.
S16		Vic & Lorna Karja	
S17	11.11.94	A.J. Parker	T.L. Parker & Co.
S18	09.11.94	G. Hardie	NSW Farmers' Association, Tallimba branch
S19	14.11.94	R.J. Pattison	R.J. Pattison & Associates.

Public Accounts Committee

S20	14.11.94	D.T. Neve (National Manager)	Bird Cameron
S21	28.11.94	NF Dobbin, State Manager,	Primary Industry Bank of Australia Limited (PIBA)
S22	14.11.94	Mrs M. J. Johnston	
S23	14.11.94	J.A. Elliott	
S24	14.11.94	Allan Griffiths	NSW Farmers Association, Grenfell branch
S25	16.11.94	Robert Lloyd Harris	
S26	17.11.94	F.H. Mould	
S27	18.11.94	Megan Duncan	
S28	18.11.94	Barry Evans	
S29	15.11.94	Sue & Bill Stephens	
S30	21.11.94	Jim Booth Bryson Roberts	NSW Department of Agriculture
S31	21.11.94	Sally & Peter Ware	
S32	21.11.94	Aileen Hogan	
S33	25.11.94	Alison O'Brien	Ivey ATP, Agricultural & Management Consultants
S34	25.11.94	Tim Carr	Cobar Rural Advisory Service
S35	25.11.94		Rural Assistance Authority
S36	29.11.94	K W Walker, Head of Support Services NSW & ACT	National Australia Bank
S37	30.11.94	George Kayess	
S38	6.12.94	Mrs Patricia Keill, General Secretary	Country Women's Association of NSW
S39	7.17.94	letter from Noel Walker forwarded by Bob Martin MP	
S40	9.12.94	D. H. Ramsland, General Manager	Cobar Shire Council
S41	15.12.94	Professor Warren Musgrave and Mr Richard Stanyer	The Rural Development Centre University of New England
S42	22.12.94	Mr & Mrs Harrison	

Rural Assistance Authority

S43	22.12.94	M. Gillogly, Board Secretary	Gloucester Rural Lands Protection Board Wingham
s44	10.1.95	John Sykes	Rural Consulting Agronomic Services, Environmental and General Consulting
s45	16.1.95	R. W. D'Arcy, Secretary	Braidwood Rural Lands Protection Board
s46	23.1.95	Trudie C Stammers, Secretary	Denman-Singleton Rural Lands Protection Board
s47	14.2.95	R. M. Martin, Secretary	Rural Lands Protection Board

EXHIBITS

DATE	NAME ; TITLE OF EXHIBIT
21.11.94	Tony Parker 1. NSW Rural Assistance Authority, Application form
21.11.94	Tony Parker 2. NSW Rural Assistance Authority, Criteria used in assessing applications
21.11.94	Tony Parker 3. NSW Rural Assistance Authority, Application form
21.11.94	Tony Parker 4. NSW Rural Assistance Authority, Criteria used in assessing applications
21.11.94	Richard Stayner 5. "A study of farm adjustment in Bland Shire, Final report on diagnostic study to the NSW Rural Assistance Authority
20.12.94	6. Staff Profile provided by the RAA Monday 19.12.94 Qualifications/Background of Loans Assessing Staff Statistical Information provided by the RAA Monday 19 December 1994 "Numbers of Applications approved/declined by each loans officer"

**Appendix 3: List of those with whom the Committee
met on interstate visits**

Rural Finance Corporation of Victoria (RFC):

Dougall Graham (Board member)
Malcolm Smith (General Manager, Administration)
John Hutton (Manager Lending - RAS)
Peter Richmond (Regional Manager, North East Region)

Senate Rural and Regional Affairs and Transport References Committee:

Senator David Brownhill (Chairman)
Senator Bryant Burns (Deputy Chairman)
Senator Paul Calvert
Senator John Panizza
Neil Bessell (Secretary)

Commonwealth Department of Primary Industries and Energy:

Bernard Wonder (First Assistant Secretary, Rural Division)
Dean Merrilees (Operations Manager, RAS Management branch)

Rural Adjustment and Finance Corporation of Western Australia (RAFCOR):

Ross Donald (Chairman of the Board)
Stephen Lee (Board member)
Steve Barndon (Manager, Client Accounts)
Clint Lester (Manager, Field Extension Services)
Bryan Annen (Finance and Administration)

Rural Finance and Development (RFD) division of the Department of Primary Industries of South Australia (PISA):

Kevin Gent (Manager, Operations)
Malcolm Post (Manager, Lending Services)

**Appendix 4: Major recommendations and conclusions
from the report of the Senate Rural and Regional
Affairs and Transport References Committee on *Rural
Adjustment, Rural Debt and Rural Reconstruction*
December 1994**

The Parliament of the Commonwealth of Australia

**Rural Adjustment, Rural Debt and
Rural Reconstruction**

Report

**Senate Rural and Regional Affairs
and Transport References Committee**

December 1994

MAJOR RECOMMENDATIONS AND CONCLUSIONS

RURAL ADJUSTMENT SCHEME

The adequacy of the rural adjustment scheme

The Committee found it difficult to make definitive judgements about the rural adjustment scheme because it did not receive detailed data or research on the performance or effectiveness of the scheme. In this regard, the Committee notes three contributing factors to this situation. Firstly, the Department of Primary Industries and Energy has not developed a fully operational management information system even though its importance has been recognised since at least 1988.

Secondly, although the current rural adjustment scheme commenced on 1 January 1993, the Department of Primary Industries and Energy has not yet developed performance indicators that are directly linked to the objectives of the program.

Thirdly, RAS 92 has only been operating for a little over eighteen months and a significant proportion of funding, during this period, has been directed towards the exceptional circumstances provisions of RAS rather than the normal adjustment measures.

Given the lack of detailed information on the performance and effectiveness of the scheme, the Committee also found it difficult to assess and determine whether taxpayers money is being directed towards effective adjustment measures.

The Committee notes that the focus of RAS 92 is towards longer term adjustment measures, and in particular, farm productivity, profitability and sustainability and is encouraged by preliminary advice from ABARE that RAS assistance is being directed in a way that is consistent with its objectives. According to ABARE, RAS 92 recipients, compared to recipients of former schemes, are more financially sound and more profitable.

On the basis of the evidence presented to the inquiry, the Committee considers that in the short to medium term, several aspects of the rural adjustment scheme must be improved and changed. The Committee is of the view that there is considerable confusion in the rural community about the focus and objectives of RAS 92. This confusion is so widespread that the Committee considers that, if accepted by the government, the recommendations in this report should be implemented as a revamped program with a new name. This program should focus on farm productivity, profitability and sustainability with a principal component being skills enhancement, professional advice and financial management, as well as the re-establishment grant. The Committee is of the view that exceptional circumstances should be removed from rural adjustment and made the subject of a separate Commonwealth-state agreement.

In the longer term, the need for rural adjustment measures and exceptional circumstances provisions should diminish as other mechanisms that encourage a self reliant, risk management approach to farming, including an attractive income equalisation deposit scheme and taxation reform, are introduced.

Guidelines

The Committee recognises that in relation to Commonwealth-state agreements a fine balance needs to be drawn between guidance or direction and the need for administrative flexibility in the delivery of programs arising from Commonwealth-state agreements.

Nevertheless, the Committee considers that it is essential that the Commonwealth government promote a more consistent and uniform approach to the implementation of rural adjustment measures. To achieve this objective, the Committee is of the view that guidelines should be more prescriptive in order to avoid ambiguities and anomalies in interpretation and results. This in turn will mean that potential recipients of RAS will have a clearer understanding of their eligibility for and entitlements to RAS programs.

The Committee welcomes advice from the Department that it is preparing a manual of accounting and administrative procedures for use by the Commonwealth and states to ensure consistency but is disappointed that this manual was not prepared earlier. The Committee, however, is not convinced that this measure alone will solve inherent problems with the formulation and implementation of guidelines. Accordingly, the Committee recommends that, in some instances, guidelines should include a memorandum of understanding on the scope and application of the measures agreed to between the Commonwealth and the states and territories. The Committee considers that the memorandum of understanding need not be a legalistic document but should contain clear definitions of purpose, scope or application of adjustment measures.

Funding

The Committee considers that it is essential that funding for RAS is appropriate to meet the aims and objectives of rural adjustment.

The Committee recommends that when presenting RAS expenditure figures, the Department of Primary Industries and Energy draws a clear distinction between annual appropriations and reserves held by the states.

The Committee is concerned that under previous funding arrangements, significant reserves of Commonwealth funds were allowed to accumulate with the states. The Committee, therefore, welcomes initiatives under RAS 92 that will ensure that these Commonwealth funds are used to assist farmers.

Funding arrangements

The Committee welcomes recent enhancements to RAS in order to improve overall financial management, control and accountability. In particular, the Committee welcomes moves between the Commonwealth and the states to rationalise previous programs.

Interest subsidies

The Committee recommends that the Department of Primary Industries and Energy reassess whether interest subsidies are an effective instrument to facilitate rural adjustment.

Skills enhancement

The Committee is convinced that sound financial and management skills are the key to a robust, competitive, profitable and flexible farm sector. Accordingly, the Committee recommends that, in the medium to long term, skills enhancement, including education, training and access to professional advice, should become the principal component of the rural adjustment scheme.

The Committee also recommends that the Commonwealth and states develop procedures to ensure that recipients of RAS productivity and skills enhancement measures have sustainable business and farm plans.

Amount of the re-establishment grant

The Committee notes the advice of the Department of Primary Industries and Energy that a re-establishment grant is intended to provide an incentive for farmers without prospects to exit with dignity. On the basis of the evidence presented during the inquiry, the Committee is not convinced that these objectives are being achieved.

The Committee recommends that the Commonwealth government consider increasing the level of the re-establishment grant or alternatively, modifying the current assets threshold so that farming families may exit with more assets.

Re-establishment grant and JSA

The Committee considers that regulations stipulating that a farmer or spouse who remains on JSA for longer than 9 months is excluded from the \$45 000 re-establishment grant cannot be justified on the grounds of basic rights to access government programs. Accordingly, the link between eligibility for the re-establishment grant and job search allowance should be abolished.

Re-establishment grant and orderly exit

The Committee recommends that the Department of Primary Industries and Energy reviews the need to include orderly exit requirements in the re-establishment guidelines.

Re-establishment grant and re-training

The Committee found the evidence on re-training and re-establishment grants persuasive. The Committee, therefore, recommends that the Commonwealth government include a specific re-training component in re-establishment grants.

Exceptional circumstances

The Committee reiterates the view it expressed in its report entitled *A National Drought Policy* that individual landholders within rural industries should be responsible for preparing and managing for variable climatic, seasonable and industry conditions. However, it considers that there are limits to risk management and self reliance and that there are circumstances for which even a prudent farmer cannot plan.

The Committee considers that the Commonwealth government has a responsibility to provide additional assistance in times of exceptional circumstances, as it is in the national interest to protect and maintain Australia's agricultural base and productive capacity, including the breeding stock.

The Committee considers that the Commonwealth government should define exceptional circumstances.

The Committee agrees with evidence presented during the inquiry that exceptional circumstances provisions are inconsistent with the objectives of the current rural adjustment scheme and distort its focus on productivity, profitability and sustainability.

The Committee recommends that exceptional circumstances provisions should be removed from the rural adjustment scheme and included in a separate Commonwealth-state agreement.

Exceptional circumstances-funding

The Committee notes significant improvements to funding of exceptional circumstances. In particular, the Committee welcomes the provision of sufficient resources so that all farm enterprises eligible for exceptional circumstances for drought in Queensland and New South Wales will be fully funded. The Committee supports the move to "demand driven" exceptional circumstances.

Exceptional circumstances-guidelines

The Committee reiterates its view that the Commonwealth government must promote a more consistent and uniform approach to rural adjustment and that guidelines should be more prescriptive. This conclusion is particularly relevant to guidelines for exceptional circumstances where it is essential that potential recipients who are experiencing hardship, have a clear understanding of access to and eligibility for assistance.

The Committee recommends that the Department of Primary Industries and Energy re-examine recommendations to improve exceptional circumstances guidelines proposed by the National Farmers Federation and the Grains Council of Australia.

Exceptional circumstances - definition-drought

The Committee reiterates the view it expressed in its 1992 report on *A National Drought Policy* that the Commonwealth's role in relation to severe drought must be consistent and clearly enunciated. Therefore, the Committee considers it imperative that the Commonwealth government develop a definition of severe drought and that the proposal from the Cattle Council of Australia provides a useful framework for this definition. The Cattle Council proposed that the trigger mechanism to activate Commonwealth involvement and assistance should incorporate:

- an application for extreme drought status, presumably emanating from the shire concerned;

- use of an objective measure of extreme drought calling on satellite technology, sophisticated mapping techniques and ground checks, which could include soil moisture readings, rainfall records, etc; and
- an overriding subjective assessment by a tripartite drought committee or structure involving the Commonwealth, states and producers and drawing upon local knowledge and expertise.

Exceptional circumstances - drought relief payments

The Committee welcomes the introduction of drought relief payments and changes to the RAS scheme as a response to the critical drought conditions in Queensland and northern New South Wales.

The Committee also welcomes the government's recognition that assistance must be provided after the breaking of the drought and that longer term solutions are required. In particular, the Committee supports the government's initiative to continue drought relief payments until six months after exceptional circumstances conditions are terminated.

The Committee considers that the Department of Primary Industries and Energy and the Department of Social Security must monitor the effectiveness of the drought relief package in order to ensure that it is properly targeted and is providing effective assistance. This will enable the Commonwealth government to respond promptly and effectively if conditions worsen.

Farm household support

The Committee received consistent evidence that the Farm Household Support program is "a total failure" because of ill-defined operating guidelines, inadequate training for DSS staff and poor communication. The Committee agrees and recommends that this program should be significantly overhauled. The Committee understands that more appropriate and effective assistance will be available when income support measures announced in the White Paper on Employment and Growth are introduced.

Commonwealth administration - performance indicators

The Committee considers that it is imperative that the Department of Primary Industries and Energy develop performance indicators for the rural adjustment scheme and recommends that this matter be addressed urgently.

Commonwealth administration - management information system

The Committee considers that effective program management demands an ability to monitor performance. The failure of the Department of Primary Industries and Energy to develop a management information system is a serious deficiency in the administration of the rural adjustment scheme that must be addressed immediately.

The Committee recommends that the Department of Primary Industries and Energy accord the highest priority to the development of a fully operational management information system.

The Committee is also of the view that the Department of Primary Industries and Energy must gain a better appreciation of, and monitor more closely, the effectiveness of programs at the grassroots level. The Committee recommends that the Commonwealth government ensures that the Department has sufficient personnel and financial resources to undertake proper monitoring and evaluation of rural adjustment programs.

Regional approach to RAS

The Committee notes recent initiatives in the south west of Queensland designed to achieve an integrated regional adjustment and recovery program. The Committee also notes that this strategy was initiated by, and is based on, a community approach to adjustment and recovery.

The Committee strongly supports an integrated regional approach to rural adjustment and recovery, as this will encourage a comprehensive response to the full range of impediments to rural development in a given region.

The Committee recommends that the Commonwealth government provide new funding for integrated regional adjustment and recovery programs, but not at the expense of "normal" RAS funding. The Committee also recommends that underspends arising from the annual allocation to normal RAS should also be directed to these programs.

The Committee further recommends that the Commonwealth government should not impose levies on the states and territories for the purposes of funding regional adjustment and recovery programs.

Fisheries

The Committee recommends that the Department of Primary Industries and Energy, in consultation with state and territory governments and the industry, re-examine whether it is appropriate to include fishing within the scope of rural adjustment.

Young farmers

The Committee recommends that the Department of Primary Industries and Energy examine whether it is appropriate for rural adjustment programs and, in particular, the skills enhancement component to include measures that will encourage young farmers.

Integration of RAS with other programs

The Committee endorses evidence presented during the inquiry that an holistic approach must be adopted when addressing rural adjustment. The Committee considers that the synergy between RAS and other programs, such as landcare, is increasing and that this must be reflected in government programs.

State administration - promotion and delivery of RAS programs

During the inquiry it became apparent to the Committee that detailed information on the rural adjustment scheme, guidelines and assessment criteria have not been widely disseminated or are not well understood. In particular, Commonwealth and state governments have not made

clear to rural communities the change in focus from carry-on assistance provided by RAS 88 to adjustment measures contained in RAS 92.

This confusion is so widespread, the Committee considers that the Commonwealth and the states must, as a matter of priority, improve the promotion and delivery of rural adjustment programs.

State administration - access to information

The Committee recommends that the Commonwealth government ensures that procedural guidelines and policies used by state and territory RAS authorities to assess eligibility for assistance be made available to the public.

State administration - conflict of interests

Given concerns expressed on this matter during the inquiry, the Committee welcomes advice from the Department of Primary Industries and Energy that RAS administration in the states and territories will be separated from commercial lending activities. This will allay concerns and perceptions about conflicts of interest between these functions and activities.

State administration - competence and integrity

The Committee is not in a position to assess whether accusations concerning the competence and integrity of some state RAS authorities are well founded. Nevertheless, the Committee is concerned that this evidence may reflect the low regard in which some RAS authorities are held by some people. The Committee considers that state RAS authorities should promote a positive perception of their role in the rural community.

Appeal mechanisms

The Committee notes concerns that some states do not have properly structured appeal mechanisms for unsuccessful RAS applicants. The Committee also notes assurances from state and territory authorities that proper and independent avenues of appeal are available. The Committee recommends that the Commonwealth government ensures that properly structured independent avenues of appeal are available. The Committee also recommends that the Commonwealth, in consultation with the states and territories, develop standard practices and procedures for appeals.

Farm inspections

The Committee considers that on farm inspections are preferable when RAS authorities are assessing applications, notwithstanding costs associated with this practice.

RURAL DEBT AND ITS CONSEQUENCES

The Committee considers that, although rural debt is estimated to be \$17 billion, this debt is a symptom rather than the cause of more fundamental and deep seated problems in rural Australia. The Committee believes that responses and solutions should be directed to the source of these problems rather than their repercussions.

The Committee agrees with evidence that the underlying causes of poor profitability on some farms are fragile business structures, inadequate management performance and insidious land degradation. It also agrees that improved business management performance is the key to tackling these causes, thereby developing a strong competitive and sustainable farm sector. The Committee's views on this matter are reflected in its recommendations that skills enhancement, including training, professional advice and financial management, should become a key component of a revamped rural adjustment scheme.

The Committee recognises that rural Australia is undergoing a period of significant change and that this is having profound effects on individuals, families and the fabric of rural communities.

RURAL RECONSTRUCTION

Role of government - rural counsellors

During the inquiry the Committee met with many rural counsellors throughout Australia. The Committee was impressed with their dedication and commitment to the rural communities in which they provide invaluable services. The Committee registers its strong support for the rural counselling program.

Role of government - income equalisation deposit scheme

The most consistent evidence the Committee received during the inquiry was that the income equalisation deposit scheme is not attractive to farmers and needs to be changed significantly. The Committee reiterates the recommendation it made in its report on *A National Drought Policy* in 1992 that the Commonwealth government must introduce an effective IED scheme.

To achieve this objective, the Committee recommends that the Commonwealth government give detailed consideration to changes to the scheme proposed by ABARE, the New South Wales Farmers Association and the review sponsored by New South Wales Agriculture.

The Committee further recommends that the Commonwealth government authorise major financial institutions to receive and hold IEDs on deposit.

Role of the government - taxation.

The Committee recommends that the Commonwealth government review income tax provisions that influence risk management strategies such as income averaging, provisional tax and tax loss provisions. In particular, this review should examine carry back of losses proposed by the Victorian government and carry forward of tax credits proposed by the NFF.

The Committee also recommends that the Commonwealth government examine whether the capital gains tax should be imposed when farmers dispose of off-farm assets in response to exceptional circumstances.

Role of the financial sector

The Committee notes the strong criticisms, and even anger, about the behaviour of the banks and financial institutions. There is little doubt that following deregulation in 1983-84 the banks, in pursuit of market share in the face of heightened competition, made loans based on security levels offered by existing equity but without sufficient regard to the capacity of clients to repay. This approach, together with very high interest rates in the late 1980s, played a significant role in the development of a debt crisis which continues to affect many farmers.

Evidence indicated that risk margins, when added to prevailing interest rates, resulted in some farmers being charged as much as 30 per cent interest. Currently, interest rates are lower but the margins charged by the banks continue to be a cause of concern. The Committee notes the concerns of several witnesses who questioned the justice and morality of banks increasing margins whenever farmers run into difficulty, thereby exacerbating hardship.

There is also evidence that some banks and financial institutions behaved in an insensitive manner when farmers encountered debt difficulty, sometimes with little regard for the social consequences of their actions. Witnesses who appeared before the Committee maintained that these actions betrayed the trust which had developed between farmers and their bankers over several decades.

The Committee notes evidence suggesting that more recently some banks have adopted a more responsible and sensitive approach to the plight of individual farmers overwhelmed by debt, drought and poor returns and are negotiating with them on a case by case basis. However, the Committee believes much more needs to be done. In this regard, the Committee draws the attention of the Commonwealth government to concerns expressed in evidence about the failure to implement aspects of the Martin report on banking, including a Farm code of Practice, and the powers of the banking ombudsman.

The Committee is aware that in some cases a financial impasse between farmers and creditors develops which may require negotiation and mediation. The Committee strongly supports the concept of farm debt mediation and recommends that the Commonwealth government, in consultation with the states and financial institutions, examine the feasibility of establishing a farm debt mediation service and if so under what circumstances and conditions banks and their clients should be required to use it.

**Appendix 5: Information on the Rural Adjustment and
Finance Corporation of Western Australia (RAFCOR)
pilot program for the administration of RAS '92**

DRAFT - 16 January 1995

DRAFT

RURAL
ADJUSTMENT
AND
FINANCE
CORPORATION

32 St George's Terrace
PERTH WA 6000

Telephone: (09) 222 0000
Facsimile: (09) 222 0055

Toll Free No: 008 198 231

DESCRIPTION
OF THE
APPLICATION PROCESS

**PLAN AND SEQUENCE
OF THE
RURAL ADJUSTMENT SCHEME PRODUCTIVITY SUPPORT
APPLICATION PROCESS**

Step	Process
1.	Problem recognised by farmer and decision to act.
2.	Easy Check completed by farmer and reviewed by qualified Consultant.
3.	Corporation contacted to discuss results of the Easy Check and next step.
4.	Farmer appoints Nominated Consultant or uses existing Consultant.
5.	Farm Check and Business Development Plan completed by farmer and forwarded to Nominated Consultant or existing Consultant.
6.	Nominated Consultant visits farm and appraises business and plans.
7.	Farmer decides to proceed with application.
8.	Application, Proposal and Consultant's Report and Recommendation forwarded through the financier to the Corporation.
9.	Proposal assessed by Corporation and decision made on support.
10.	Farmer notified of results of decision.

Note: The plans which are supported by the Rural Adjustment Scheme are seen as a joint agreement between the farmer, their financier and the Corporation.

APPLICATION PROCESS FOR RAS PRODUCTIVITY SUPPORT

The new application process is summarised following the sequence on the table attached.

1. PROBLEM RECOGNITION

The first step is for the farmer to recognise that there is a problem.

Farmers can develop their problem recognition and business management skills by working with a consultant and undertaking training programs, both supported by RAS.

2. ACTION DECISION

Having realised there is a problem, it is important a decision is taken to do something about it. There are plenty of sources of help, starting with the farmer's own family and neighbours, financiers and accountants, the Department of Agriculture, the local Land Conservation District Committee through to specialist consultants and the Corporation.

The Corporation believes that farmers should consider all other sources of help before they apply for RAS support.

3. EASY CHECK

It is recognised that RAS applications involve significant work for the farmer and so before going to a lot of trouble, it is worth finding out if the farm business is eligible according to the rules set down for the Scheme.

The farmer is now able to check the eligibility of the farm business by following the Easy Check questionnaire and making Yes/No decisions about eligibility questions. Some simple analysis of the farm financial position is required.

Sometimes farmers will apply for productivity support when in fact the position of their businesses is such that the only support that can be offered is to help them leave the industry. The Easy Check also picks up this group.

4. CONSULTANTS

The Corporation is aware that sometimes the eligibility questions may not be simple ones for a farmer to answer and so it intends to use the services of consultants to check whether the Easy Check has been completed correctly to save the frustration of later decline because of a technicality.

The first step is to fill out an Easy Check and have it checked by a Agricultural Consultant skilled in farm business analysis.

The Corporation will pay a fee of \$80 to the Consultant towards the cost of the check

If the farmer already uses a Consultant, the existing Consultant can be used to check the Easy Check.

5. CONTACT THE CORPORATION

Applicants should contact a Corporation Senior Development Officer at this point to discuss the outcome of Easy Check and the next step.

6a. NOMINATED CONSULTANTS

To obtain Productivity Support farmers have to establish that they have the skills and ability to achieve sustainable long-term profitability. They do this by demonstrating that their past performance gives confidence for the future and by drawing up business development plans to show how they will achieve it.

The process includes the use of consultants who have been listed by the Australian Association of Agricultural Consultants (WA) (AAAC (WA)) as having the necessary skills and experience in technical, financial and farm management issues to be able to determine whether a farm business is likely to be able to return to long-term profitability.

Those Consultants who have attended a Corporation workshop, and are familiar with the policy and guidelines, are known as "Nominated Consultants" by the Corporation.

A list of Nominated Consultants from which farmers can select one of their choice is attached to the Easy Check. The Nominated Consultant will provide a independent appraisal of the farmer's business and proposals in a similar way that a tax agent or accountant works to draw up a tax return.

The Nominated Consultant will be paid by the farmer and the Corporation will provide a grant to the farmer of up to \$2000 as a contribution towards the cost of the Consultant's services. The farmer and the Consultant have to negotiate the total cost of the service on normal commercial terms.

If Easy Check indicates the business is at risk and possibly not eligible for Productivity Support, the farmer will still be eligible to receive the grant to have the business reviewed, provided all other eligibility criteria such as labour requirements and non essential assets are satisfied.

If the Nominated Consultant's review does not indicate the business will have long term sustainable profitability, advice will be given as to what action should be taken, including advice on the option of leaving the industry.

Proposals that are prepared by a Nominated Consultant will be fast tracked to give rapid decisions.

6b. EXISTING CONSULTANT

If a farmer has already been using the services of a Consultant, the same Consultant can be used to put a proposal to the Corporation. However no grant will be paid towards the cost.

Where possible the application will be fast tracked but in some cases the Corporation may require a second opinion and/or a farm visit.

6c. NO CONSULTANT

Farmers choosing not to use the services of a Consultant, may forward proposals through their financier to the Corporation. The Corporation will then engage a Consultant to visit the farm and prepare a report on the farmer's proposal. Clearly this will take time.

7. PAST PERFORMANCE / FUTURE PLANS

The first step in the engagement of a Nominated Consultant is to complete the Farm Check and to draw up at least a first draft of a Business Development Plan to allow the Consultant to look at the record and develop an opinion of the farm and farmer's performance and capability.

If the Farm Check is not completed, the information should be provided in a form which the Nominated Consultant believes is adequate to establish an opinion.

Getting this data together is the farmer's responsibility and the Corporation will not make any support available for this step.

The completed Farm Check and the draft Business Development Plan should then be given to the Nominated Consultant. The Consultant will review the information and may need to discuss them with the farmer to refine them to something that both agree is feasible and achievable.

8. FARM VISIT

The Nominated Consultant will visit the farm after the information has been received and reviewed, so that there is a good understanding of the business before getting onto the farm.

The farmer may then decide to proceed with an application.

9a. PROPOSAL REPORT

The Nominated Consultant is then asked to report on the proposal by comparing it against the items in the agreement between the Commonwealth and State which cover such issues as eligibility, financial independence, non-essential assets and so on. This takes the form of a Proposal Report which is filled in by the Nominated Consultant.

9b. RECOMMENDATION

The Report also includes the recommendation by the Nominated Consultant on the type and form of productivity support that should be provided to enable the plans to be successful.

Support can include training, professional advice and financial support to implement a business plan. For instance, help to buy a boom spray or to buy Nitrogen fertiliser, assistance for farm development to assist long term profitability, plus training in financial management and ongoing farm management advice.

9c. APPLICATION

The documents are to be sent to the Corporation via the financiers who will complete the Bank Supplementary Sheet.

The final result will be a plan for improvement, which is in effect an agreement between the farmer, the financier and the Corporation.

An application will consist of :

1. **Easy Check**
2. **Farm Check**
3. **Business Development Plan**
4. **RAFZACK analysis**
5. **Application Form**
6. **Proposal Report**

10. DECISION

Rapid decisions will result particularly if standard format for plans and budgets are adhered to.

11. ADVICE TO CLIENTS

Applicants and Nominated Consultants will be advised quickly in most cases.

IMPLEMENTATION

The responsibility for implementing business plans rests with the farmer.

MONITORING

The Corporation will monitor the implementation of business development plans by using the annual review process to check that what has been said will be done. It is not expected that plans will always be followed exactly but given that the recommendation for support is expected to be specific, it should be clear that the support provided has been directed to the use intended.

EFFECTIVENESS OF SUPPORT

The Corporation will survey a proportion of businesses provided with support to determine the overall effectiveness of the RAS. Recipients of support may be asked to provide information after support has ceased to determine the effectiveness of the support.

RURAL
ADJUSTMENT
AND
FINANCE
CORPORATION

DRAFT

32 St George's Terrace
PERTH WA 6000

Telephone: (09) 222 0000
Facsimile: (09) 222 0055

Free Call No: 1800 198 231

JANUARY - 1/1995

EASY CHECK

**MAIN REQUIREMENTS
FOR
RAS PRODUCTIVITY SUPPORT
IN
WESTERN AUSTRALIA**

1. Must spend more than 50% of available time working on the property.
2. Must have been farming in Western Australia for the past two (2) years and own the farm property, or hold a minimum five (5) year agreement to sharefarm or lease.
3. The farm debt should be more than the annual farm income but less than 2.5 times the annual farm income.
4. Equity should be more than 50% and less than 85% of total assets.
5. Finance which is not dependent on RAS support, must have been arranged, and the financier must support the proposals to improve productivity (*the farm business*).
6. Surplus farm non-essential and non-farm assets must be less than long-term farm annual operating costs.
7. The total support package is an amount up to a maximum of 20% of YIYO farm receipts (*with productivity improvements*) or \$100,000 (*less previous support*), or three years' support, whichever comes first. The maximum package in any one year is \$40,000 or 50% of the interest raised on hardcore debt.
8. Applicants must provide a Farm Business Development Plan which they have developed themselves or with a rural consultant. This needs to show the cost and expected gains of the implementation of the Farm Business Development Plan.

STEPS IN THE APPLICATION PROCESS

SUMMARY

This is a summary of what steps you should follow to apply for support to improve the productivity and profitability of your farm business.

Those applicants applying for other support such as Farm Family Support should contact the Corporation to determine what "steps" to take.

1. Recognise your farm business may need support to fund productivity measures.
2. Complete the Easy Check questionnaire and have it "*checked*" by a professionally qualified Agricultural Consultant.
3. If, after discussing this Easy Check with an Agricultural Consultant, you believe you could be eligible for RAS support, please contact a Corporation Senior Development Officer, on *1800 198 231*, who can send you an Application Pack.
4. Fill out the Farm Check forms from the Application Pack and draw up a Farm Business Development Plan.
5. Approach a "Nominated Consultant" (*see next page*) to complete a Proposal Report. If you already engage a consultant he/she can help prepare your proposal.
6. Complete the Application Form.
7. Have your Bank complete the Bank Supplementary Sheet which is at the end of the Application Form.
8. Send this Easy Check along with your Application Form, Farm Check, Farm Business Development Plan and Proposal Report to the Corporation.
9. On receiving your application, if you have used a "Nominated Consultant" the Corporation will pay an amount of up to \$2,000 towards the cost of the "Nominated Consultant's" services. This may be paid direct to the Consultant on completion of the Proposal Report, (*with appropriate authorisation incorporated into the Consultant's invoice and signed by you*). This amount, however, may not cover the total cost of preparing a Proposal Report in complex situations and you may have to meet any "excess" costs to secure the services of a "Nominated Consultant". The Consultant and yourself should establish, before commencing the Proposal Report, the likely fee for preparing the report.

No grant is available if you employ your existing consultant.

RURAL ADJUSTMENT AND FINANCE CORPORATION OF WA

**CONSULTANTS NOMINATED
for the
APPLICATION PROCESS**

1/95

NAME	ADDRESS	TELEPHONE	FAX
BEDBROOK, DA (David)	Bedbrook Johnston P O Box 454 WEMBLEY 6014	388 1377 447 7704 a/h	388 1347
BOSUSTOW, C (Colin)	Primary Consulting Services Pty Ltd P O Box 367 MT LAWLEY 6050	375 2646 344 2550 a/h	375 2648
BRISCOE, P (Peter)	P O Box 205 ALBANY 6330	098 414 993 098 414 993 a/h	098 418 650
FALCONER, D (David)	Falconer Hackett Suite 5, Lawton House 105 Broadway NEDLANDS 6009	386 6279 454 8872 a/h	386 3206
FIEVEZ, P (Pierre)	141 Stirling Highway NEDLANDS 6009	389 8860 386 2443 a/h	386 4954
GRIEVE, R (Rod)	Rod Grieve P O Box 831 ALBANY 6330	098 421 267	098 421 034
JOHNSTON, T (Tim)	Bedbrook Johnston P O Box 454 WEMBLEY 6014	388 1377 387 6087 a/h	388 1347
REES, D (David)	17 Morley Place ALBANY 6330	098 422 770 098 412 770 a/h	098 421 062
RICHARDSON, J (John)	P O Box 948 ESPERANCE 6450	090 713 655 090 713 191 a/h	090 714 104
RIPLEY, J (Jack)	Jack Ripley & Associates 85 Havelock Street WEST PERTH 6005	481 3406 364 6471 a/h	481 3162

Rural Adjustment Scheme

EASY CHECK

This Easy Check is for you as a farmer to complete so as to indicate whether you might be able to get support under the Rural Adjustment Scheme (RAS).

A "farmer" is defined as a person operating an enterprise in the agricultural, pastoral, horticultural, apicultural and aquacultural industries.

RAS supports farmers in two ways:

- (i) to help farm families to implement measures to improve farm performance in a way that leads to sustainable long-term profitability of the farm enterprise; and
- (ii) to help farm families whose farm enterprises are not able to demonstrate sustainable long-term profitability to leave the farm enterprise and farming.

The support available under RAS is not intended for all farm businesses and is only a short term measure (1-3 years). The Commonwealth Government has issued eligibility criteria which farmers and farm businesses must satisfy if they are to receive support. These criteria define the target group of farmers and farm businesses intended for support.

The questions will help you find out if you and your farm business are likely to be eligible for RAS support. Once you have completed this Easy Check, you should discuss it with an Agricultural Consultant, who is skilled in farm business management.

The Corporation will pay the consultant a fee of \$80 towards the cost.

If you already engage a consultant, he/she can be used to check the Easy Check.

If you find it difficult to answer any of the questions, you should talk to:

- the Corporation; (ask for a Senior Development Officer); or
- an agricultural consultant or a Rural Counsellor; or
- your bank manager or your accountant.

In this questionnaire, "YOU" means **ALL** the people in the farm business. This means:

- the sole trader;
- all partners in a partnership;
- all shareholders in a trading company; or
- all beneficiaries who have beneficiary accounts in a discretionary trading trust.

If your farm business structure is complex, or there are retired or semi-retired parents, it may be worth discussing the situation with Corporation officers before going past this Easy Check. Please provide full details when discussing matters with the Corporation.

EASY CHECK QUESTIONNAIRE

Please answer the following questions in order, ticking either "YES" or "NO".

You will need your **ACTUAL** cash flow records, current cash flow budget, and Statement of Assets and Liabilities as at the end of last year (*beginning of this farm year*) to answer some of the questions. Most businesses keep these records as a matter of course but you could perhaps get help from your bank or accountant if you don't.

By the end of this questionnaire you will have a good idea of whether you might be eligible for RAS support and what the best support for your farm business might be.

ARE YOU ELIGIBLE?

1. Have you received a Re-establishment Grant and/or a Farm Sale Relocation Grant?

(Please tick appropriate box)

Yes

You are not eligible for further RAS support.
Do not continue.

No

Go to Question 2.

RE-ESTABLISHMENT GRANTS

Farmers who have received Re-establishment or Farm Sale & Relocation Strategy support have already agreed to leave the industry.

Therefore, they are not eligible for further support.

2. Do you farm within the agricultural, pastoral, horticultural, apicultural or aquacultural industries in WA?

(Please tick appropriate box)

Yes

Go to Question 3.

No

3. Is more than 50% of the TOTAL LABOUR TIME of all the people in the farm business devoted to the farm business under normal circumstances?

(TOTAL LABOUR TIME refers to the number of hours that you actually spend working, whether on or off farm, during a normal working week).

(Please tick appropriate box)

Yes

Go to Question 4.

No

LABOUR TESTS

Total Labour Time refers to the AVERAGE of the labour time devoted by all the people in the farm business; for example:

	Labour Time
Michael	80%
Denise	60%
Ben	40%
Devote	180 (%) to the farm business.

The Total Labour Time is therefore calculated to be 60% (180 divided by 3).

Excluded from the above are retired parents, and dependent children/students.

Applicants are considered to be those involved in the business trading entity.

Only in the case of a discretionary trading trust (eg a family trust, not a unit trust) can there be non-eligible beneficiaries allowed.

The case of a discretionary trust can be treated by the trustees signing a declaration that for the period of the support, no drawings, income or taxable income will be paid or distributed to that person(s).

4. Does at least one of you (the people in the farm business):
- (a) own the farm land or have a lease or sharefarming agreement for the next five (5) years; **AND**
 - (b) have they been working the farm for two (2) or more years?

(Please tick appropriate box)

Yes

Go to Question 5.

No

LESSEES AND SHAREFARMERS

Normally a written agreement which covers the past 5 years of leasing or sharefarming must be sighted and there must be documentation available which indicates security of tenure over the land into the long term.

5. Did you answer "YES" to Questions 2, 3 and 4?

(Please tick appropriate box)

Yes

Go to Question 6.

No

You can proceed to Question 6, but you should be aware that you may not be eligible for RAS support.

PAST SUPPORT

6. Have you received RAS support to improve your farm business (eg., Exceptional Circumstances Support, Interest Subsidy, Farm Management Advice), including any loan payout discount (*this was available between 1 July 1994 and 31 March 1995*)?

(Please tick appropriate box)

Yes

Go to Question 7.

No

Go to Question 8.

7. Have you received RAS support to improve your farm business over the past five (5) years in dollar terms less than:

- a) 20% of your budgeted Gross Farm Receipts (GFR) * (*see below*); **OR**
b) \$100,000 * (*See below*)?

(Please tick appropriate box)

Yes

Go to Question 8, but you should be aware that any further support may be limited.

No

You are not eligible for further support to improve productivity but you may be eligible for other support. Please contact the Corporation for past support details before you continue.

MAXIMUM SUPPORT LIMITS

Support to applicants over time has maximum limits of:

- 20 per cent of YIYO gross farm receipts with the productivity measures, costs and gains, **OR**
- \$100,000, **OR**
- 3 years support from 1 January 1993,

whichever comes first.

* This support comprises of a portion of Exceptional Circumstances and Part B payments, past interest subsidies, Farm Management Advice, Business Options Advice, Professional Advice Grants, Productivity Support to date, and the amount of the discount received from paying out of Corporation loans.

Please contact your Corporation Senior Development Officer who can assist in providing you with information of past support.

If this maximum has been reached, then no more support for Productivity Improvement can be provided. Part of the rationale for providing support is that the applicant is to become independent of further taxpayer support within a reasonable period.

The limits are generous, and if they have not been sufficient, then the farmer clearly may have other problems which need to be addressed.

REDUCTION OF FURTHER SUPPORT

Where previous support has been less than the maximum, the provision of further support may be reduced if it is believed that the earlier support has not been used effectively.

Support may also be discounted in the case of excessive personal drawings by the amount which the Corporation deems drawings to have been excessive over the past 3 years.

RE-ESTABLISHMENT OR FARM SALE AND RELOCATION STRATEGY SUPPORT APPLICANTS

The above maximum limits do not apply.

OFF-FARM AND NON ESSENTIAL ASSETS

8. Is the value of ALL your off-farm assets and/or non-essential and surplus farm assets, less than your annual Farm Operating Costs (FOC)? Please refer to your budget for the current year and your Statement of Assets and Liabilities for this information. Also refer to the next page.

(Please tick appropriate box)

Yes

Go to Question 9.

No

You can proceed to Question 9, but you should be aware that you may not be eligible for RAS support, as you have Excess Assets. If you decide to continue and complete this Questionnaire, an Agricultural Consultant can check your eligibility.

ASSETS FOR PRUDENT RISK MANAGEMENT

The Scheme requires that non-farm assets are not to be in excess of those needed for "prudent risk management".

The Corporation believes that the amount of non-farm assets must not exceed the last five year average operating costs for the business as being sufficient for "prudent risk management".

Where non-farm assets exceed the last five year average operating costs, the amount in excess, *must* be applied to the farm business first.

The concept that excess non-farm assets be used first, is based on the premise that you must do all you reasonably can to help yourself, before Government support can be considered.

NON-FARM ASSETS

This means an asset which is not part of the farm business. This includes a house or unit in Perth, holiday houses or blocks, share portfolios etc.

NON-ESSENTIAL AND SURPLUS FARM ASSETS

This means boats, race or polo horses, racing, vintage or high value cars etc, as non-essential assets, and, generally surplus machinery as surplus farm assets *cannot* be retained to be eligible for Productivity support, as they are not essential to the management of the business.

EXCLUSION

A retirement house for aged parents is allowed to be retained, provided the value of the house does not exceed \$200,000 and the parents are going to retire within the next two years.

Approved superannuation funds do not need to be considered for liquidation.

GENERAL

If major non-farm or non-essential assets such as land or buildings need to be disposed of, then the Corporation will normally allow one year for this to take place. This is considered in the application assessment and followed up at the annual review.

Applicants who have non-farm or non-essential or surplus farm assets greater than is deemed reasonable (in excess of those needed for prudent risk management) are declined support on the grounds of not being in need because they have the ability (that is, sufficient resources) to help themselves first.

In other cases, support may be reduced by the amount that the assets are considered to be excessive.

EQUITY

9. Equity indicates how much of your business is owed to others because of debt. Financiers, such as banks, look at your equity to see what security is available. The higher the equity (i.e. the less you owe), the greater your potential to borrow. (See next page for notes).

At the end of your last farming year (usually January), was your equity in your farm business between 85% and 50%?

(See below for method of calculating equity)

(Please tick appropriate box)

- Yes Go to Question 12.
 No Go to Question 10.

CALCULATION OF EQUITY

PERCENTAGE EQUITY = (TOTAL ASSETS *less* TOTAL LIABILITIES) *divided by* TOTAL ASSETS, and then *multiplied by* 100.

To calculate your equity as a percentage, go to your Statement of Assets and Liabilities for the end of the last "Farm Trading Year" (beginning of this year), and calculate the following :

- | | | | | |
|----|---------------------------------|-------------------------|---|---------|
| A. | Total Assets | "End of Last Farm Year" | = | \$ |
| B. | Total Liabilities | "End of Last Farm Year" | = | \$ |
| C. | EQUITY \$ | | = | \$ |
| | [A minus by B] | | | |
| D. | EQUITY % | | = | _____ % |
| | [C divided by A multiplied 100] | | | |

EQUITY

Equity can be readily altered by the value that the farmer places on the land and assets. It is not unusual for an inflated value to be attributed to land or for the land not to have been revalued for some time.

The Corporation will rely on the Valuer General's Office valuation of the farm's value, which is based on sales evidence.

Similarly, *liabilities must be taken as at the end of the last farm trading year* (i.e., beginning of the current year). At this time, it is expected that operating debt will be at a minimum.

Debt should not be artificially inflated by overdrafts or operating funds which would normally be cleared by the end of a farm budget year. Any operating debt which remains uncleared is regarded as hard core debt and should be included.

10. Is your equity % higher than 85%?

(Please tick appropriate box)

Yes

You do not appear to fit the profile of a farm business that could demonstrate a NEED for RAS support.

No

Go to Question 11.

11. Is your equity less than \$90,000?

(Please tick appropriate box)

Yes

You appear to fit the profile of a farm business that may be eligible for support from Re-establishment, or, if equity is lower than \$45,000, the Farm Sale and Relocation Strategy and Re-establishment package may be suitable.

No

Go to Question 12.

DEBT TO INCOME RATIO

12. Your Debt to Income Ratio gives an idea of how easily your farm business can repay loan interest and principal, from your farm income. The greater your debt is, compared to income, the more difficult it is for you to service your loans.

Are your debts more than your Gross Farm Income (ratio of 1:1), and, less than 2.5 times your Gross Farm Income (ratio of 2.5:1)? (*See below for method of calculation*)

(Please tick appropriate box)

Yes

Go to Question 13.

No

CALCULATION OF DEBT TO INCOME

To calculate your Debt to Income Ratio, go to your current year cash flow budget and Statement of Assets and Liabilities information and complete the following:

Liabilities at the end of the "Last Farm Trading Year"	=	\$
Budgeted Gross Farm Income for Current Year	=	\$
		<i>Equals</i>
DEBT to INCOME RATIO (to 2 decimal places)	=	_____ : 1

DEBT TO INCOME

As for equity, debt or *total liabilities should be taken at the end of the last farm trading year*. This is when operating debt is normally at a minimum.

- Current debt to gross farm income of less than 1, normally indicates a healthy business.
- Current debt to gross farm income of 1 to 1.5 normally indicates a business in difficulty.
- Current debt to gross farm income of 1.5 to 2.5 usually indicates a business in severe difficulty.
- Current debt to gross farm income over 2.5 usually indicates a business in extreme difficulty.

13. Did you answer Yes to **EITHER** of the Questions 9 or 12?

(Please tick appropriate box)

Yes

Go to Question 14.

No

You may not fit the profile of farm businesses targeted for RAS productivity support. Discuss with your financier, farm management consultant, accountant, rural counsellor or Corporation officer before continuing to Question 14.

14. Have you been successful in arranging carry-on (seasonal finance), from your financier(s) e.g., bank, stock firm, for the next 12 months?

(Please tick appropriate box)

Yes

Go to Question 15.

No

SUPPORT FROM COMMERCIAL FINANCIERS

You must first do all you can to help yourself; your commercial financiers must also do all they can to help you as well. When this has been done, then RAS support can be considered.

If commercial financiers are not prepared to support and finance your rural enterprise then the taxpayer has no role in carrying the risk.

Support will *not* be provided if financiers suggest that they will only provide loans or carry-on funds subject to you receiving RAS support.

Financiers have to satisfy themselves that your business is profitable in the long term, and they must acknowledge this on the Bank Supplementary Sheet (*last page of the Application Form*).

15. Did you record a cash surplus after allowing for operating costs, financing costs, drawings, taxation and plant replacement, but excluding new loans and sales of assets, in at least one or more of the past 5 years ?

(Please tick appropriate box)

Yes

Go to Question 16.

No

This question is designed to screen out those applicants who are able to demonstrate by their trading track record that they are going to survive, because they cannot return a cash surplus in any year.

16. Did you answer YES to Questions 14 and 15 above?

(Please tick appropriate box)

Yes

You appear to be eligible for support to improve productivity, and if interested, you should have this Easy Check "Checked" by a Consultant before continuing through to the next stage of the application process.

No

You appear to fit the profile of a farm business which **MAY NOT** be able to demonstrate long-term profitability. RAS support is available to farm businesses in this situation to leave the industry. Please contact the Corporation for more details before you continue with your application.

ELIGIBILITY

It should be clearly understood by you and the consultant that successful completion of this Easy Check does not mean automatic eligibility for support.

This Easy Check is a general filter and will only exclude those least likely to be eligible for support.

If you wish to continue, then there is further detailed work required which will better indicate whether support is available and what form this should take.

If you decide to continue, you should first contact the Corporation to discuss the next stage of the application process.

EASY CHECK DECLARATION

We, the undersigned, have checked this Easy Check questionnaire, and, to the best of our understanding and belief, it is a true representation of our/the applicant's situation with respect to the policies and guidelines of the Rural Adjustment Scheme.

We believe the applicants:

May be eligible for support.

If so, what type?

.....

Are not eligible for support.

Reasons:

.....

.....

Applicant's Trading Name(s):.....

Address:.....

.....

Phone No: Fax No:

Signed: Date:

Consultant's Name:

Signed: Date:

DECLARATION

You are required to sign this declaration to show that the information that is supplied is correct. If there is more than one applicant, only one authorised person of the trading entity need sign this declaration.

The consultant is also required to sign the declaration to show that the answers and information have been checked and discussed with you.

This step will help prevent later disappointment if applications are declined on eligibility grounds or if audit reveals irregularity.

INVOICE

To: Rural Adjustment and Finance Corporation
GPO Box U1997
PERTH WA 6001

I,
(Consultant)

of
(Company/Trading Name)

Address
.....

have checked and discussed the Easy Check with:

Applicants
(Trading name)

Address
.....

I/We declare that we (*the applicants*) have completed the Easy Check and have discussed it in full with the above Consultant and agree that the Consultant be paid for his/her services.

Signed:

Date:

Please forward \$80 to meet the cost of this consultancy service

Signed by Consultant

Date:

**Appendix 6: Section from Rural Assistance Authority
Submission summarising the drought declaration
methods used in each State**



NSW

**Rural Assistance
Authority**

**SUBMISSION TO THE
PUBLIC ACCOUNTS
COMMITTEE
INQUIRY INTO THE
NSW RURAL ASSISTANCE
AUTHORITY**

November 1994

TERMS OF REFERENCE

3. The criteria and method used in New South Wales to declare drought areas, in comparison with other States.

DROUGHT ASSISTANCE MEASURES IN THE STATES AND TERRITORIES

In the past, drought assistance measures provided by the State and Territory Governments varied significantly but generally took the form of concessional loans for carry-on purposes or for very specific purposes such as freight subsidies for the transport of fodder, water and livestock, and financial aid for eligible activities.

Since the signing of the National Drought Policy (NDP) Statement in 1992, the States and Territories have moved towards implementation of the range of measures spelt out in the NDP and this has generally involved the phasing out of transaction based subsidies that may have been provided during periods of drought. However, some States, notably Queensland and New South Wales, were experiencing drought at the time of the new policy agreement and have had an extended transition during which assistance through transaction based subsidies has been maintained.

PRINCIPLES

National Process for Drought Exceptional Circumstances

The following principles were recommended to the Agriculture & Resource Management Council of Australia and New Zealand (ARMCANZ) meeting on the 28 October 1994 as the basis for a national process:

- a) Judgement will always be necessary; a totally objective and automatic system of drought declaration is not possible.
- b) A simple approach is essential. What is needed is a system which would be easy to explain in the public domain.
- c) The impact of drought depends on a range of factors other than rainfall.
- d) The development of a "harmonised" or "more consistent" system of drought declaration is possible. For a variety of scientific, economic and statistical reasons, a totally uniform Commonwealth/State system is not feasible.

- e) Improved public understanding of the differences between normal drought and exceptional drought will be necessary and Ministers will have a major role in this process.
- f) To develop and implement appropriate risk management strategies, farmers should have the earliest possible access to available public information on meteorological, agronomic and natural resource conditions.
- g) The National Drought Policy continues to be a sound policy framework. It will be important to emphasise the concept of drought as a normal part of farm life. Policies should encourage, not discourage self-reliance and risk management.

During the above meeting the Commonwealth and States agreed on a harmonised system for considering drought declarations.

The Minister for Primary Industries and Energy, Senator Bob Collins, who chaired the meeting, announced the agreement.

It was agreed that a common set of core criteria would be taken into account by both the Commonwealth and the States in future consideration of any drought and exceptional circumstances declarations.

Ministers agreed on the following core criteria:

1. meteorological conditions
2. agronomic and stock conditions
3. water supplies
4. environmental impacts
5. farm income levels
6. scale of the event

Ministers also agreed that the onus would be on State and Territory governments to make the initial case, in terms of these criteria, for the existence of exceptional drought in their State, or in regions.

As a working guideline, exceptional circumstances would be indicated when the combined impact on farmers of the core criteria was a rare and severe occurrence.

Minister Collins said that he would continue to refer applications for exceptional circumstances assistance to the Rural Adjustment Scheme Advisory Council (RASAC).

RASAC would advise the Commonwealth Minister in terms of the agreed criteria.

Final decision on whether exceptional circumstances existed in a State or region would continue to be made by the Commonwealth Cabinet.

When exceptional drought is shown to exist, special assistance under the Rural Adjustment Scheme and other Commonwealth and State programs is available.

Senator Collins said that the agreement by ARMCANZ Ministers was an important step towards a more easily understood national system.

The Board of the Authority welcomed the thrust of this announcement, however it needs to be recognised that drought declarations per se do not mean that Exceptional Circumstances exist.

EXISTING DROUGHT ASSISTANCE MECHANISMS

The Authority plays no part in the drought declaration process which is handled by Rural Lands Protection Boards, NSW Agriculture and the Minister.

NEW SOUTH WALES

Drought Declarations

The drought declarations in New South Wales that are approved and announced monthly by the Minister for Agriculture relate to the amount of pasture and crops available for grazing livestock. Rural Lands Protection Districts are drought declared when there is insufficient feed or water to sustain sheep or cattle. Local Rural Lands Protection Boards initiate action for the declaration of a drought affected area. The Board's application must be supported by an independent recommendation from the Board's District Veterinarian or Ranger, and the NSW Agriculture Regional Drought Coordinator.

Conditions for drought declarations

Districts are declared drought stricken only when drought conditions are widespread. For an initial drought declaration, the following conditions apply:

- The minimum area that will be declared in the Eastern and Central Divisions is around 350,000 ha — about the size of the smallest Rural Lands Protection District in the State.
- In the larger Western Division Rural Lands Protection Districts, the minimum area that will be drought declared is around 20% of the district.
- At least half of the proposed area must be unable to sustain sheep or cattle.
- Clearly definable areas of any size that *adjoin* a district qualifying for drought declaration may be added to that declaration initially or later.

Drought affected areas may be defined by roads, rivers, State borders, parishes, property boundaries, etc.

During dry conditions, stock numbers should be reduced or some supplementary feeding carried out before drought can be said to exist. The distinction must be made between supplementary and survival feeding.

In addition to financial support through the Rural Adjustment Scheme (RAS), stock owners whose properties are drought stricken and are within a drought declared area can apply for certain forms of drought relief. These include transport subsidies for drought movement of livestock, water and fodder (usually 50% of the total amount paid to the carrier). Conditions have recently been liberalised to include up to \$40 per tonne for sea transport of fodder from South Australian and Victorian ports to NSW plus extension of maximum road distance from 1000 to 1500km.

Livestock transport subsidies cover movement to agistment, to further agistment, returning from agistment, replacement stock movement and in the Western Division, transport of stock to sale yards. The maximum subsidy per farming unit is \$15,000 per calendar year

During 1993-94, \$5.8 million was paid out on transport subsidies, and \$1.6 million has been paid during the period 1 July to 16 September 1994. A total of \$33.2 million in transaction subsidies has been paid since June 1991. NSW Government liability for transport subsidies will easily exceed \$20 million in 1994-95 at current expenditure. \$16.6 million was expended in 1991-92 and conditions are now more liberal and the drought is worse.

Seven Drought Workers have been appointed to provide support services to drought affected farm families. \$1 million has been allocated to these workers including \$0.25 million for immediate cash payments for household expenditure for adverse circumstances. \$100,000 has also been allocated to Country Care Link and Lifeline charity services.

The State Government will provide 50% of the cost, for 1994-95, for the 29 Rural Counsellors operating under the Commonwealth Rural Counselling Program in NSW, thus waiving the required 25% community contribution. An additional \$0.75 million has been allocated. A drought hotline is also in place for producers to access free advice or referral on all areas relating to drought. The NSW Department of Agriculture will expend a minimum of \$13 million from its 1994-95 allocation for specialist advisory services, publications, meetings, personalised advice etc.

In NSW 93% of the State is now drought declared with the worst affected areas in the north and north west of the State. Severe rainfall deficiencies have now emerged in southern parts of the State. 55 of 57 Rural Lands Protection Boards are officially declared and 20 Boards have been declared for more than half of the past 42 months. The NSW winter crop is likely to be down \$1 billion or 75% in gross terms compared with 1993-94.

VICTORIA

The following guidelines are used in Victoria to assist officers in making their report on an area. Use of these guidelines provides uniformity in approach across the State.

Dryland Areas

- (a) Comment on all relevant factors, e.g., recent fires, frosts, winds, evaporation, current and recent past production, lambing and calving percentages, erosion risk, fodder reserves and availability and water supply.
- (b) Assess industry and commodity situations, market trends, stock prices and special sales.
- (c) Comment on relationship to other recent drought considerations, consistency, cross-border situation, scale of seasonal pattern, localised or widespread.
- (d) Assess stock water situation and report the percentage of farmers forced to sell or agist stock, or cart water for stock.
- (e) Assess stock feed situation and report the percentage of farmers short of feed to the extent that they are forced to sell or agist stock or buy feed in substantially greater than normal amounts.
- (f) Report on rainfall received over the previous two years on a monthly decile basis. Specifically, comment should be made on any failure of consecutive growing seasons, or any succession of circumstances which have depleted normal drought reserves as well as the stock water supplied.
- (g) Failure of a growing season is indicated in autumn by the absence of breaking rainfall and rainfall in decile 3 or lower in each of three consecutive months. Spring failure is indicated by rainfall in decile 1 during each of two or more successive months.

The occurrence and relative abundance of winter rainfall and run off rains to replenish stock water supplies should be noted.

Defined Irrigation Districts (in consideration with guidelines for dry land).

Assess the availability of irrigation water and report on the likely allocation before 1 March.

Victoria is committed to implementing the National Drought Policy but, at present, the previous policy arrangements are in operation. There is no set list of assistance measures - these are introduced on a case by case basis once drought declaration criteria are met.

Assistance measures include subsidies on the movement of stock and fodder and assistance on the cost of finance. Transport subsidies may cover stock, fodder and water cartage (50% of the cost of transport by road or rail, although distance limits apply).

Assistance will be provided to municipalities to establish pits for the disposal of unsaleable stock.

QUEENSLAND

Procedures for Area Drought Declarations

Field officers make an assessment of seasonal conditions in terms of the following:

- availability of pasture and water
- condition of stock
- whether drought mortalities of stock are occurring
- the extent of drought movements of stock to forced sales or slaughter and to agistment
- quantity of fodder introduced
- assessment of agricultural and horticultural industries
- number of individually droughted property (IDP) declarations that have been issued.
(No particular percentage of properties declared as IDP is required before an area recommendation is made.)
- whether other abnormal factors have affected the situation, for example high temperatures and winds.

In addition field officers (Animal Health Bureau Inspectors) consult with fellow Department of Primary Industry officers, Local Drought Committee industry members, and with other knowledgeable persons (graziers, agents etc.) concerning conditions.

Rainfall distributions (or other extenuating circumstances) that may distort an area's total yearly rainfall records are also taken into account.

A thorough assessment of conditions is made by the Local Drought Committee (LDC) and where the above criteria have all been addressed, a formal recommendation is made by the relevant LDC through the Stock Inspector (Coordinator) and forwarded to the Regional Inspector, Animal Health Bureau (Field Service) for support and submission to Natural Disaster Relief Section (NDRS) for processing.

Monthly rainfall records for the past 12 months are analysed by the NDRS. Using historical records obtained from the Bureau of Meteorology those areas experiencing an extreme (one in 10 to 15 years) event can be identified.

NDRS analyse the submission and determine rainfall deficiencies. Provided all the criteria have been met, a recommendation is made to the Minister for area declaration. Generally an area needs to meet the criteria for a once in 10 to 15 year event in accordance with Government policy to be considered a drought. Area declarations are made by the Minister for Primary Industries in consultation with the Treasurer.

Upon the official declaration of a shire, all Individual Droughted Property (IDP) declarations within that shire are automatically revoked, as these properties are included under the area declaration.

In addition to financial support through the RAS, freight subsidies are available for transport of fodder and stock movements for restocking or returning from agistment following drought. A subsidy is paid on water carted by either the producer or contractors (where the producer does not own a suitable vehicle). The subsidy is conditional on producers promising to establish adequate water supplies within a reasonable time. Should such action not occur the subsidy cannot be claimed again in future droughts.

The Queensland Department of Primary Industries employs State rural counsellors to assist with financial advice to farmers in severe financial difficulties.

Over \$30 million has been paid on transport subsidies during the current drought.

Queensland has established drought prediction and decision making tools and services, including the Southern Oscillation Index (SOI) fax hotline for long term weather information; a Drought Information Centre providing toll-free telephone access to drought information and services; Drought Bulletins providing the latest information on assistance; and a computerised Fodder Register accessible via a hotline.

Social welfare support is provided as emergency financial assistance, information and advice to farm families through community based drought support workers. Funding is also provided for a range of Cross Program services including community information, child care, family support and youth projects.

WESTERN AUSTRALIA

Drought Exceptional Circumstances

Past Situation

Before late 1992 Western Australia drought declared areas were based on objective measures (including the extent and timing of any rainfall deficiency).

In agricultural cropping areas, Shire (or parts of Shire) were drought declared where crop yields fell below 55% of the Shire's long-term average. The predominantly pasture based farming systems relied on inspection of pasture and stock conditions by a professional officer of the Department of Agriculture.

For the pastoral regions, judgments were made using WATBAL ANALYSIS. WATBAL is a soil water balance model which assesses rainfall for each five day period over the year, and uses historical information to determine if there is sufficient soil moisture available to support plant growth. A station would be drought declared where the WATBAL results indicated a property was within decile one, based on the past experiences for that station.

Drought declarations triggered transaction based subsidies for livestock and fodder regardless to individuals' financial need as well as financially needs tested interest subsidies of up to 100%. In pastoral areas, assistance has also been targeted at drought proofing stations through grants for sinking bores.

Current Position

Since late 1992, no drought declarations have been made in Western Australia. No specific State assistance exists for drought relief. There has been no recent expenditure on transaction (transport) based subsidies during this period.

However, there are separate arrangements for providing stock water during periods of severe water deficiency. *Water deficiency assistance* is normally activated where there is serious rainfall deficiency and when at least 10% of the farmers in a seriously rainfall affected Shire or Shire ward are carting water for stock purposes. The State Government arranges for water to be delivered to suitable storage sites within 40 km of all affected farms.

A Seasonal Advisory Committee has been established by the Minister to provide advice on seasonal developments in the State. The role of the Committee is to improve coordination between community groups and the State Government agencies.

Western Australia is supportive of the NDP with its emphasis on self-reliance and management for risk and sustainability.

SOUTH AUSTRALIA

South Australia strongly supports the NDP and relies on the RAS to target assistance to drought affected producers. A new Property Management Planning Grant Scheme has been developed to complement this direction and encourage landholders to review their business and sustainability operations. The South Australian Government has not declared "drought" for over ten years.

There is also a policy of carting water at a subsidised rate to community tanks in areas where there is no water reticulation or bore water.

TASMANIA

Drought Declarations

In order to identify areas as being drought affected, consultation with Government departments and industry is paramount and includes: the Bureau of Meteorology, Department of Primary Industry and Fisheries (DPIF), Tasmanian Farmers and Graziers (TFGA), Tasmania Development and Resources (TDR), agricultural consultants, rural counsellors and banking representatives.

Tasmania's drought policy is consistent with the NDP and State transaction based drought assistance ceased in 1986. The RAS is used to target assistance to drought affected producers.

The Minister for Primary Industries and Fisheries has established an advisory group to provide advice in relation to the impact of drought. The Advisory Group is presently assessing the situation and is considering whether to seek additional support through the exceptional circumstances provision of RAS.

The Department of Primary Industries and Fisheries has provided funds to the Hydro Electric Commission's Cloud Seeding Unit for a three month program to seed appropriate clouds in an endeavour to increase rainfall in the drought affected areas of the State.

NORTHERN TERRITORY

Pastoral Properties

Producers who consider they are drought affected must apply to the Department of Primary Industry and Fisheries (DPIF) for annual drought declaration to be eligible for any form of NT Government (NTG) drought assistance.

Applications must be lodged no earlier than 1 April or later than 31 May in the year for which drought declaration is sought.

Application for drought declaration must include:

- Proposed turnoff numbers in the year of application;
- Summary of drought management arrangements proposed for the property, including the recovery period;
- Type and level of assistance sought;
- Proposed use of funds sought.

The DPIF will assess individual properties for which drought declaration has been sought. This assessment will include an evaluation of the severity of the drought.

Severe drought declaration may be declined at the discretion of the DPIF where the producer is considered to have access to an adjoining property or properties by common ownership or commercial arrangement. Where two or more properties are operated as a single enterprise, the overall circumstances of these properties will be taken into account in drought declaration.

Plant Producing Properties

Property owners who consider they are drought affected must make application to the DPIF for annual drought declaration for NTG severe drought assistance. Applications must be made prior to harvest or other use of the crop but no later than 31 May. Drought declaration will not be made if the crop is ploughed in or otherwise disposed of or utilised prior to inspection.

Applicants must provide a summary of their drought management arrangements proposed for the property.

The DPIF will assess individual properties for which drought declaration has been sought. This assessment will include an evaluation of the severity of the drought.

Declaration and Cessation

Declarations of severe drought will be made by the Secretary of the DPIF. Application for drought declaration will be necessary for each year the property is, in the view of the producer, in drought. Eligibility for assistance once drought declared will apply from 1 January to 31 December in the year of declaration. Determination by the Secretary will include declaration as to whether a condition of severe drought exists for which NT Government assistance arrangements apply.

Appeal

Applicants may appeal decisions to the Minister within 28 days of a decision being forwarded to the producer. The Minister's decision shall be final.

In addition to drought assistance through the RAS, the Northern Territory continues to provide financial assistance to producers experiencing severe drought.

Producers seeking assistance from the Northern Territory Government are required to seek drought declaration on an annual basis and declare their intentions in respect of the management of their drought affected property including the turnoff of stock.

Assistance may be provided by way of either loans/grants or freight assistance on above average stock turnoff. Producers may only apply for loans/grants or freight assistance. Assistance may be made available each year that severe drought continues but there is no automatic entitlement for further assistance following a previous year's assistance.

AUSTRALIAN CAPITAL TERRITORY

The ACT subscribes to the thrust of the NDP. Drought was declared in the ACT on 14 September 1994, following declarations in surrounding NSW areas. Declaration of drought will allow ACT farmers to receive concessions on the cost of transporting fodder into the ACT, moving stock to agistment outside the ACT, and for the transport of water. \$50,000 has been made available for transport subsidies.

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