States and Northern Territory Grants (Rural Adjustment) Bill 1988

Date Introduced: 12 October 1988
House: House of Representatives
Presented by: Hon. John Kerin, M.P., Minister for Primary Industry

Digest of Bill

Purpose

To provide for an agreement between the Commonwealth and the States (and Northern Territory) to establish a new Rural Adjustment Scheme, through which financial assistance will be provided for rural industries.

Background

The Rural Adjustment Scheme (RAS) is one of a number of schemes which have been implemented by the Commonwealth in recent years to assist rural industry structural adjustment, ease adjustment pressures and assist farmers to leave the industry if they are no longer viable.

The RAS was introduced on 1 January 1977 following an Industries Assistance Commission report which recommended that adjustment assistance be provided on a continuing basis under a single scheme operating under a Commonwealth – State Agreement. As a result of the RAS, all previous schemes were terminated. Many of the assistance measures under those schemes were incorporated into the RAS.

The RAS operates under the States Grants (Rural Adjustment) Act 1985. It covers all agricultural, pastoral, dairying, horticultural and apicultural industries. The RAS provides six measures of assistance which are funded in three separate parts.

Part A

Measures available under Part A include farm build–up, farm improvement, and debt reconstruction. The farm build–up provisions are designed to encourage the amalgamation of properties too small to be economical in the long run. Farm improvement assistance sets out to restore economic viability by offering financial advances for livestock, carry–on expenses and for further development of the farming property in the current form of production, or in substituting a new form of production. Debt reconstruction helps farmers who face the prospect of losing their properties because they have insufficient cash and credit resources to meet their financial commitments through lengthening the terms of a farmer's debt or reducing the rate of interest.

The States and the Northern Territory have responsibility for administering this Part, and may either borrow funds which they lend to farmers at subsidised
interest rates or subsidise the cost of farmers' commercial borrowings. The subsidy is financed through a grant by the Commonwealth. The maximum subsidy is 50% of borrowing costs (i.e. interest and other costs) but the actual amount for each farmer is a matter for the States to determine.

Part B

An industry declared by the Commonwealth and State governments to be eligible for assistance under Part B of the RAS due to a market downturn receives carry-on finance to assist likely viable producers to meet expenses incurred in operating their properties through short-term difficulties. Part B of the RAS did not operate in 1986-87 and 1987-88.

Part C

Two forms of assistance are available under this Part, household support and rehabilitation assistance. Household assistance is provided to help those farmers judged to be non-viable, ineligible for Parts A and B assistance, with insufficient resources to meet living expenses and in need of assistance to alleviate personal hardship while they decide whether to leave farming. Assistance is provided for up to one year at a rate equivalent to Unemployment Benefits. Rehabilitation Assistance is provided to farmers who have sold their properties and can demonstrate that they are suffering financial hardship. Rehabilitation Assistance takes the form of a loan indexed to the Consumer Price Index.

The majority of funding under RAS has been provided by the Commonwealth under Parts A and C. The subsidy paid in 1986-87 for Part A was $26.998 million. Expenditure in 1987-88 is expected to total $33.7 million. In 1986-87, Commonwealth expenditure under Part C was $5.9 million. Part C expenditure in 1987-88 is expected to total $7.4 million. Total Commonwealth expenditure on the RAS in 1987-88 is expected to total $44.4 million.

Following a review by independent consultants in 1987, the Commonwealth in May 1988 outlined a number of policy changes with respect to the RAS. The proposed changes include:

- defining more precisely the objectives of the RAS;
- rationalising the role of the States in administering the RAS;
- providing means tested rehabilitation grants of up to $28000 to farmers leaving agriculture; and
- giving the States more flexibility in financial matters.

In addition, the Commonwealth proposes to increase financial assistance for new commitments in 1988-89 under the RAS by $5.3 million. Under Part A of the RAS the Commonwealth proposes to provide $1.2 million for grants to assist with farmer skills improvement and obtaining financial/management advice. On the basis of new funding allocations, incorporating the above costs, total Commonwealth expenditure on the RAS is expected to be $56 million in 1988-89.
Main Provisions

The proposed agreement is contained in the Schedule to the Bill. Clause 4 of the Bill will give the Commonwealth authority to execute the agreement.

The purpose of the RAS is to assist in maintaining and improving the efficiency of Australian rural industries (Schedule clause 4).

The strategies to be employed in achieving the objectives are outlined in clause 5 of the Schedule. The major strategies include: carry-on finance; capital restructuring; increases in farm size or capital intensity; farm program changes; access to information on technological developments and their application; and the acquisition of improved skill levels.

The Commonwealth's role in the operation of the RAS is to provide policy guidelines and to establish a reporting system to monitor and assess a State's efficiency and effectiveness in implementing the program. The States are to manage the funds provided under the RAS and will be accountable for the achievement of the objectives of the RAS (Schedule clause 7).

The specific forms of assistance a State may provide to those engaged in rural industries is similar to the 1984 RAS. However, subsidies paid under Part B shall not exceed 50% of the interest payable on loans, and the State is to bear half the cost of the subsidies out of its own funds (Schedule clause 10).

The Minister may determine guidelines as to the forms of assistance a State may provide. Determinations by the Minister are to be preceded by consultations with relevant State Ministers (Schedule clause 11).

The States will be authorised to determine the rate of interest and duration of loans advanced in providing Part A, B and C assistance, and have the right to review all the repayment terms with the objective of the borrower being encouraged to move to commercial credit as soon as possible (Schedule clause 12).

The Commonwealth, after consulting the States, is to determine separately the amounts of financial assistance to be made available to the States for Parts A and C of the RAS. Part B assistance is to be made available at the time the Commonwealth and a State agrees that it is warranted (Schedule clause 14).

Funds provided under the RAS for its operation, including money earned through funds advanced and money received by a State through loan repayments by farmers, may only be used for the purposes of the RAS (Schedule clause 18).

The Minister may request the States to provide information on the operation of the RAS. Where the information includes details of accounts of borrowers, the information is to be provided in a manner that protects the identity of borrowers (Schedule clause 20).
The States are to repay the Commonwealth, on a six-monthly basis, all funds recouped under Part C and any interest received on those funds (Schedule clause 21).

Clause 27 of the Schedule provides for review of RAS from time to time, while clause 30 provides for an annual report on the operation of RAS to be provided.

References

5. Ibid., pp. 61–63.
6. Ibid., p. 62.
7. Ibid.

For further information, if required, contact the Economics and Commerce Group.

1 November 1988

Bills Digest Service

Legislative Research Service

This Digest does not have any official legal status. Other sources should be consulted to determine the subsequent official status of the Bill.

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