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House: House of Representatives  
Presented by: Hon. John Kerin, M.P., Minister for Primary Industry

Short Digest of Bill

Purpose

To provide for an agreement between the Commonwealth and the States as well as the Northern Territory regarding the establishment of a new Rural Adjustment Scheme, through which financial assistance may 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 certain farmers to adjust in particular agricultural industries.

In 1974 the Dairy Adjustment Programme (DAP) provided relocation assistance and interest-free loans for farmers to convert their equipment to refrigerated bulk milk handling.

The Rural Reconstruction Scheme was introduced in the early 70's to counter depressed conditions in the sheep and wool industries. It provided the States with funds to enable farmers in financial difficulties to restructure their debts and some farmers to add to their farms by purchasing neighbouring properties which were too small to be economically viable.

The Fruitgrowing Reconstruction Scheme was introduced in response to major over-supply problems faced by some fruitgrowing industries.

In 1975 carry-on loans were introduced following a sharp fall in beef prices. Funds for the loans were provided by the Commonwealth on a matching dollar for dollar basis with the States. Similar loans for dairy farmers were
introduced into the DAP in 1976 during the time of low market prices and drought conditions.

The RAS was introduced on 1 January 1977 following an Industries Assistance Commission (IAC) 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. However, many of the assistance measures under those schemes were incorporated into the RAS.

The overriding objective of the RAS is the restoration to economic viability of those farms and farmers with the capacity to maintain viability under normal market conditions. The Scheme is also designed to encourage the efficient use of resources by farmers as well as the redistribution of resources and income to farmers in need of special assistance.

The RAS operates under the States Grants (Rural Adjustment) Act 1976 and the States and Northern Territory Grants (Rural Adjustment) Act 1979. It covers all agricultural, pastoral, dairying and horticultural industries as well as the apicultural industry which came under the RAS in 1979.

The RAS provides six measures of assistance which are funded in three separate parts. Measures available under Part A include farm build-up, farm improvement, debt reconstruction; and rehabilitation. Part B involves carry-on finance and Part C devotes itself to household support. Measures available under Parts A and C are generally available to all farmers on a continuing basis, provided they farm in any of the agricultural industries covered by the Acts. Carry-on finance under Part B is available to farmers in those industries agreed between the Commonwealth and the States to be experiencing a severe market downturn of similar situation.

The farm build-up provision is 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 would help farmers who face the prospect of losing their properties because they have
insufficient cash and credit resources to meet their financial commitments. This is achieved by lengthening the terms of a farmer's debt or reducing the rate of interest.

Under rehabilitation provisions, advances up to $5000 are made available to farmers whose properties have been assessed as not viable. Applicants for this assistance must show that they are leaving the land and that they will suffer financial hardship even after they have sold their properties.

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 prospective viable producers to meet expenses incurred in operating their properties through short-term difficulties.

Under Part C of the RAS a farmer receives assistance for up to one year which is equivalent to his entitlement under Unemployment Benefits (if he were eligible for such benefits) while he considers whether to continue farming or not.

Figure 1 offers a helpful illustration of how the RAS operates.

Figure 1: RAS Finance for farms in difficulty

The majority of funding under RAS has been provided by the Commonwealth under Part A. Up to 31 December 1983, $188m had been provided. The Commonwealth funds Part A on an annual basis with 85% as loans repayable over 20 years and 15% as grants to cover loan losses, asset write-offs and loans converted to grants. The funding of Part B is determined by agreement between the Commonwealth and States. There is no Part B Scheme currently in operation. To date, it has been funded equally by the Commonwealth and States. Commonwealth finance under Part B amounted to $22m to 31 December 1983. Part C is also funded by the Commonwealth ($1.7m to 31 December 1983). The Commonwealth contributes an additional 1% of Part A and Part C allocations towards the cost of administering the RAS. The balance of administrative costs are covered by the States.

Commonwealth expenditure on Rural Adjustment has fluctuated over the years. Funding amounted to $30m in 1975-76, but was more than halved to $15.6m in the 1979-80 period.[1] Commonwealth funding for the 1984/85 period is expected to be around $31.3m.

The RAS is administered by State rural reconstruction authorities which may also provide some adjustment assistance outside the RAS using State funds.

The number of farmers applying for or receiving RAS assistance has been small when compared with the total number of farmers. From the inception of the scheme to 31 December 1983, applications received numbered 13,992 of which 7,758 (55%) were approved. Over this period there were an average around 177,000 farm enterprises operating in Australia.

The Bill established a new RAS which has been developed in the light of the Industries Assistance Commission's (IAC) report on Rural Adjustment of March 1984. The IAC stated that it had difficulty in determining the effectiveness of the RAS but that the Scheme did have its deficiencies. The Commission recommended that:

the RAS be discontinued as a generally available scheme but that the measures of the scheme be available for farmers in a specified industry, region or such other appropriate group as may be determined after independent public inquiry. Such assistance should be for a specified time and then be terminated or publicly reviewed.[2]

After considering the IAC Report, the Government has decided to maintain the RAS as a generally available scheme but with revised funding arrangements. Thus Parts A
and B of the Scheme will now be funded by borrowings with Government assistance provided through an interest rate subsidy. Part C will continue to be funded by the Commonwealth. The new arrangements for the funding of the RAS were extensively discussed between Commonwealth and State officials in July 1984 and more recently in February, March and April 1985. A meeting at the Ministerial level was also held in late April 1985.

The Government was greatly influenced by a desire to see that benefit derived under the RAS were clearly visible. Under the present system, the Commonwealth provides the States and the Northern Territory with funds over a long term and under highly concessional conditions. However, the IAC discovered that the full concession was not being passed onto farmers, as a result of deficiencies in the design of the present Scheme. In particular, it is a requirement of the 1976 Act that interest rates and conditions on loans to farmers be raised towards commercial terms as soon as possible. Consequently, repayments from farmers to the state authorities that administer the Scheme occur sooner and at higher rates of interest than repayments from the state authorities to the Commonwealth. The IAC noted that as a result of this arrangement, the state authorities which administer the Scheme have accumulated surpluses. The use of these surpluses is currently at the discretion of the states. Typically, surplus funds are revolved, for the benefit of industry, though the IAC was not able to determine precisely the extent to which surplus funds were revolved. However, surplus funds have been credited to consolidated revenue, and then used for a variety of purposes. For example, the Rural Reconstruction Board of Queensland advised the IAC that in 1982-83 it credited $2m to consolidated revenue to provide special Treasury loans to co-operative sugar mills. However, surplus funds credited to consolidated revenue may be used for any purpose considered appropriate by each state. The new Scheme has been designed so that all assistance provided by the Commonwealth will be actually received by industry.

It is hoped overall, that the new arrangements will provide adequate flexibility in the administration of the RAS and will be an effective way of providing adjustment assistance for agricultural industries.

Outline and Main Provisions

For a detailed explanation of the provisions of the Bill, refer to the Explanatory Memorandum.

In brief, the Bill is composed of an agreement between the Commonwealth and the States including the
Northern Territory. The agreement and its accompanying schedule, as contained in the Schedule to the Bill, sets up the new RAS.

All payments by the Commonwealth to a State by way of financial assistance will be made on the terms and conditions in that agreement (clause 5).

Apart from several important changes, the new RAS will largely be similar in structure and function to the Scheme currently in operation.

The Rehabilitation provision - currently a component within Part A of the RAS - will be included in Part C of the new Scheme (Schedule, clause 5).

The States will have two options available to them in obtaining finance under the new Scheme. They may either borrow funds from the Commonwealth or they may provide the assistance through normal commercial channels (Schedule, clause 6).

The Commonwealth interest subsidy will amount to 50% of the costs of, and interest on, borrowings under Part A of the Scheme. There will be a 25% subsidy payable in respect of borrowings under Part B (Schedule, clause 6).

Although the States will be at liberty to determine the terms and rates of interest for loans they grant to farmers under the Scheme (Schedule, clause 8), the Bill requires the States to ensure that all funds received by it, go towards the Scheme (Schedule, sub-clause 15(1) and (2)). Moreover, any money earned by a State under the Scheme must be used for the operation of the RAS or refunded to the Commonwealth (Schedule, sub-clause 15(3)). This important provision effectively rules out any opportunity for the States to generate surplus revenue under the RAS.

The Bill also requires the Minister to submit an annual report to the Parliament, relating to the operations and effectiveness of the Scheme (Schedule, clause 25).

For further information, if required, contact:
Footnotes


References
