

1985

THE PARLIAMENT OF THE COMMONWEALTH
OF AUSTRALIA

HOUSE OF REPRESENTATIVES

STATES AND NORTHERN TERRITORY GRANTS
(RURAL ADJUSTMENT) BILL 1985

EXPLANATORY MEMORANDUM

(Circulated by authority of the
Minister for Primary Industry,
the Hon. John Kerin, MP)

OUTLINE

The States and Northern Territory Grants (Rural Adjustment) Bill 1985 has the following main purposes:

- (1) to establish a new Rural Adjustment Scheme by providing for the execution by the Commonwealth of an Agreement between the Commonwealth and all or any of the States/Northern Territory which is set out in the Schedule to the Bill.
- (2) to provide funds by the Commonwealth to the participating States/Northern Territory to provide financial assistance to farmers on the terms and conditions contained in that Agreement.

The forms of assistance under the new Rural Adjustment Scheme will essentially be the same as under the present Scheme. The main change will be that Part A and Part B of the new Scheme will be funded by borrowings, either by a State or normal commercial institutions, with Commonwealth assistance provided by way of an interest rate subsidy. The Commonwealth will continue to fund Part C from the Budget.

Under the new arrangements, the interest subsidy for Part A assistance in 1985/86 is estimated to be around \$1.75 million. This figure is expected to increase gradually over seven years to peak at around \$12-\$13 million.

Under the present Scheme, Part A assistance in 1984/85 approximated \$30 million in the form of loan funds to the States for eligible applicants.

There is no Part B Scheme currently in operation.

Part C assistance for 1984/85 under the present RAS will approximate \$1.3 million. Assistance under Part C of the new Scheme is expected to exceed this amount in 1985/86.

The Commonwealth's contribution for administration expenses in 1985/86 is expected to be \$394,000.

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NOTES ON CLAUSES

Clause 1: Short Title

1. The Act is to be known as the States and Northern Territory Grants (Rural Adjustment) Act 1985

Clause 2: Commencement

2. The Act comes into operation when it receives Royal Assent.

Clause 3: Interpretation

3. The term State includes the Northern Territory.

Clause 4: Approval of execution of the Agreement

3. Provides for the execution on behalf of the Commonwealth of the Agreement between the Commonwealth and participating States/Northern Territory.

Clause 5: Appropriation of financial assistance

4. provides for Commonwealth payments to the participating States/Northern Territory for the provision of financial assistance to farmers under the Scheme on the terms and conditions set out in the Agreement.

THE SCHEDULE

I INTRODUCTION

Clause 1: Operation of Agreement

Sub-Clause 1(1)

6. The term "State" covers each participating State and the Northern Territory and the term "States" covers all participating States and the Northern Territory.

Sub-Clause 1(2)

6. The Agreement comes into force when it has been signed by the Commonwealth and the respective State.

Sub-Clause 1(3)

8. The Agreement will operate fully and effectively between the Commonwealth and each of the respective signatories to the Agreement.

Sub-Clause 1(4)

9. If a State withdraws from the Agreement, the Agreement continues to operate between the Commonwealth and the other States.

Clause 2: Performance of Agreement

10. The Commonwealth and each State will meet its respective responsibilities under the Agreement.

Clause 3: Interpretation

Sub-Clause 3(1)

11. Definitions of aquaculture, average outstanding loans, financial year, rural industries and the Rural Adjustment Scheme are provided.

Sub-Clause 3(2)

12. Reference to a Minister also covers an acting Minister or a Minister who has taken over the responsibilities for the Scheme.

Sub-Clause 3(3)

13. Reference to a State includes authorities which have responsibility for administration of the Scheme.

Sub-Clause 3(4)

14. References to clauses and sub-clauses mean the relevant clauses and sub-clauses in the Agreement. The schedule is an integral part of the Agreement.

II ADMINISTRATION OF THE SCHEME

Clause 4: State to operate Scheme

Sub-Clause 4(1)

15. States will operate the Rural Adjustment Scheme using the financial assistance provided by the Commonwealth.

Sub-Clause 4(2)

16. The maximum interest rate and other charges for borrowings under the Scheme will be no greater than those set by a lender or lenders nominated by the Minister and agreed to by State Ministers.

Sub-Clause 4(3)

17. The Scheme consists of the forms of assistance specified in clause 5 of the Agreement and is to be operated according to the general principles and provisions set out in the Outline of the Scheme in the Schedule to the Agreement.

Sub-Clause 4(4)

18. The Scheme shall be deemed to have commenced on 1 July 1985 unless the Commonwealth and a State agree otherwise.

Clause 5: Forms of Assistance

19. The forms of assistance covered by the Agreement are specified and a cross reference to the relevant part of the Schedule to the Agreement, where they are described, is provided. The forms of assistance are:

- Part A: debt reconstruction
farm build-up
farm improvement
- Part B: carry-on
- Part C: household support
rehabilitation

Clause 6: Financial Assistance to be Provided

20. The financial assistance to be provided by the Commonwealth for the 3 Parts of the Scheme are:

- Part A An interest subsidy over seven years equal to half of the interest payable on, and half the associated costs of, either borrowings by the State or new borrowings other than from the State under the Scheme by an eligible person.
- Part B An interest subsidy over seven years equal to one quarter of the interest payable on, and one quarter of the associated costs of borrowings by a State or new borrowings other than from the

State under the Scheme by an eligible person provided that the State also provides at least one quarter.

Part C Funding of all assistance approved by States.

Clause 7: Allocation of Borrowings by a State and Amounts of Interest Subsidy Provided by the Commonwealth

Sub-Clause 7(1)

21. The Commonwealth will, after consultation with the States, determine the allocation of assistance between debt reconstruction, farm build-up and farm improvement.

Sub-Clause 7(2)

22. The Commonwealth determination is to specify a target percentage for commitments for farm build-up and farm improvement and a maximum percentage for commitments for debt reconstruction.

Sub-Clause 7(3)

23. The Commonwealth may vary the determination of assistance for a particular State following consultation with the State.

Clause 8: Terms of Loans by a State

Sub-Clause 8(1)

24. States determine the rates of interest on loans made by them to applicants under the Scheme.

Sub-Clause 8(2)

25. States determine the length of loans and the period during which an interest subsidy applies.

Sub-Clause 8(3)

26. States are to review the terms and conditions of loans regularly with the objective of encouraging borrowers to transfer to commercial credit as soon as circumstances permit.

Sub-Clause 8(4)

27. States may convert any loans made under Household Support or Rehabilitation to grants at any time.

Clause 9: Payment by State of Interest Only

Sub-Clause 9(1)

28. In respect of new borrowings by an eligible person, the State can either pay the interest subsidy to the lender (where the person has paid a concessional interest rate) or to the borrower (ie. where the person has paid full interest rate).

Sub-Clause 9(2)

29. In respect of new borrowings by an eligible person, the State sets the interest subsidy for each individual taking into account the provisions of the loan offered by the lender.

Clause 10: Administration Expenses

30. The Commonwealth will contribute towards the State administration expenses, payable half yearly, at the rate of 1% of the loans outstanding for Parts A and B and 2% of the assistance provided for Part C.

Clause 11: Amendment of Schedule

Sub-Clause 11(1)

31. The provisions of the Schedule to the Agreement may be amended by agreement between the responsible Commonwealth and State Ministers.

Sub-Clause 11(2)

32. Where it is agreed to amend the provisions of the Schedule in respect of one or more States the amendments will not affect the operation of the Agreement between the Commonwealth and the other States.

III FINANCIAL ASSISTANCE

Clause 12: Provision of Financial Assistance

33. The Commonwealth will make financial assistance available to States for the purposes of the Scheme, subject to the Agreement and the States meeting the provisions of the Agreement.

Clause 13: Amount of Financial Assistance

Sub-Clause 13(1)

34. The Commonwealth will determine the amount of financial assistance to be made available for Parts A and C assistance in a financial year after consultation with the States and the amount of borrowings the Commonwealth considers feasible to subsidise. Matters which should be taken into consideration in the consultations are stated.

Sub-Clause 13(2)

35. The Commonwealth may increase the amount made available to a State in a financial year after consultation with the other States.

Sub-Clause 13(3)

36. The amount of financial assistance for Part B is to be determined at the time the Commonwealth and State agree that Part B assistance is warranted.

Sub-Clause 13(4)

37. If a State does not require the whole of the financial assistance offered, the Commonwealth, with the consent of that State, may allocate the whole or part of the financial assistance to another State.

Sub-Clause 13(5)

38. If a State certifies that, net of administration expenses, it is incurring losses in meeting interest repayments on borrowings for Parts A and B assistance from circumstances beyond its control the Commonwealth will review the position and make supplementary payments to the extent of such losses.

Sub-Clause 13(6)

39. The Commonwealth may consider making supplementary payments where States certify other losses from circumstances beyond their control.

Sub-Clause 13(7)

40. The Commonwealth will share bad debts equally with the States up to 10 per cent of the borrowings and interest owing by a State at the end of a financial year and will pay all bad debts in excess of that amount.

Clause 14: Advances

Sub-Clause 14(1)

41. The Commonwealth may make advances for Parts A, B and C assistance.

Sub-Clause 14(2)

42. Any advances made may be deducted from amounts that subsequently become payable by the Commonwealth for Parts A, B and C assistance or refunded to the Commonwealth.

Clause 15: Use of Advances and Other Moneys

Sub-Clause 15(1)

43. Any funds advanced to the State are to be applied to the operation of the Scheme.

Sub-Clause 15(2)

44. Any financial assistance paid by the Commonwealth under the Scheme is to be applied to the operation of the Scheme or refunded.

Sub-Clause 15(3)

45. A State shall ensure that any money earned by it under the agreement is used or applied for the operation of the Scheme or refunded.

Sub-Clause 15(4)

46. Any amount held by a State and determined by the Minister after consultation with the States to be in excess of the amount needed by a State in the operation of the Scheme shall be refunded to the Commonwealth at the Minister's request.

Sub-Clause 15(5)

47. For the purpose of the clause, reimbursement by a State of its share of administration expenses and of non-recoverable amounts from individuals is not taken as part of the operation of the Scheme.

Clause 16: Pre-commitment of Assistance

Sub-Clause 16(1)

48. A State may commit for the following year assistance under the Scheme to the extent of amounts the Minister has authorised.

Sub-Clause 16(2)

49. Such amounts committed by a State shall be included in the amount of financial assistance determined by the Commonwealth for that year.

Clause 17: Payments of Financial Assistance

Sub-Clause 17(1)(a)

50. The Commonwealth, on request from a State and subject to the provisions of the agreement, will make payments to the State for Parts A and B assistance in amounts equal to the subsidy payable for borrowings for Parts A and B.

Sub-Clause 17(1)(b)

51. The Commonwealth will make payments to the State for Part C assistance equal to the amount of expenditure by the State (net of administration expenses).

Sub-Clause 17(2) (a)

52. The Commonwealth will make payments of interest subsidy in respect of borrowings by a State at least seven days before the State is liable to pay interest on the borrowings.

Sub-Clause 17(2) (b)

53. The Commonwealth will make payments of interest subsidy in respect of borrowings by an eligible person under the Scheme at times which will facilitate the person's discharge of the liability to pay interest.

Sub-Clause 17(3)

54. The Commonwealth will make payments in respect of Part C assistance to a State quarterly in advance on the basis of State estimates with adjustments against actual expenditure in subsequent quarters.

Clause 18: Supporting Financial Evidence

Sub-Clause 18(1)

55. A State shall provide evidence which may be requested by the Minister to justify payment of any money.

Sub-Clause 18(2)

56. Information provided by a State shall include details of borrowers' accounts in a format agreed to by Commonwealth and State Ministers.

Clause 19: Repayments of Part C Assistance

57. States shall pay to the Commonwealth on 15 January and 15 July all funds recouped and interest received under Part C.

Clause 20: Audit

Sub-Clause 20(1)

58. A State's records relating to the operation of the Scheme shall be subject to audit by that State's Auditor-General.

Sub-Clause 20(2)

59. State Auditor-Generals shall furnish their reports for each financial year on the Scheme to the Minister in a form approved by the Minister by no later than 31 December of the succeeding financial year.

Clause 21: Other Financial Arrangements

60. Financial arrangements connected with the Scheme and not covered by the Agreement shall be carried out as agreed between relevant Commonwealth and State Ministers.

IV GENERAL

Clause 22: Review

61. Periodic reviews of the operation of the Scheme will be carried out by the Commonwealth and States as appropriate.

Clause 23: Exchange of Information

62. Relevant Commonwealth and State officials will meet at least annually and exchange information on pertinent matters including trends in rural adjustment assistance.

Clause 24: Provision of Information and Review

63. The States will provide the Commonwealth with information agreed to by the Commonwealth and States at review meetings for purposes of monitoring and accountability.

Clause 25: Report to Parliament

64. The Minister shall report to Parliament on the operation and effectiveness of the Scheme on the basis of information supplied by the States no later than 31 December.

Clause 26: Loan Council

65. If State borrowings for Parts A and B are brought within Loan Council control or oversight on terms unacceptable to a State, consultations shall be held between the Commonwealth and States to decide whether any amendments should be made to the Agreement.

Clause 27: Cessation of Agreement by a State

66. A State may withdraw from the Scheme at the end of a financial year, subject to its performance of any outstanding obligations, on giving six months notice to the Commonwealth.

SUMMARY OF SCHEDULE TO THE AGREEMENT

Part 1 - General Principles

This part defines the rural industries which are included in the Scheme and recognises that in particular circumstances some industries may need special consideration. It also defines the general principles and overriding objectives of the Scheme. In short, eligible applicants must be individual farmers who have been unable to obtain funds on reasonable terms and conditions from normal commercial sources, available resources must be distributed as widely as possible with the objectives of providing structural adjustment assistance and returning farmers to long term commercial viability.

This part also sets the parameters for States' administration, including financial supervision of farmers (para f), security of loans (para g), property transfers (para h), review of arrangements with farmers and termination of such arrangements (para i), eligibility for more than one form of assistance (para j) and the rate of interest payable by farmers (para k).

Part 2 - Debt Reconstruction

This part defines debt reconstruction assistance, establishes the eligibility criteria for applicants, defines the nature of the assistance and the method of its operation and sets the parameters for State administration.

Essentially, debt reconstruction assistance is available to applicants who are commercially sound in the long term, have used all their cash and credit resources and who cannot meet their financial commitments.

The eligibility criteria ensure that the Scheme is a lender of last resort; that the assistance is merited and likely to return the borrower to long term commercial viability within a reasonable time.

The nature of the assistance and the method of operation include rearrangements of debts, negotiations with existing creditors, advances for carry-on purposes and protection orders.

States have discretion to determine the terms and conditions of loans made by the State, the proportion of debts paid off by advances, the total advances which may be made in any one case and the level of interest subsidy in respect of borrowings, otherwise than from the State, under the Scheme.

Part 3 - Farm Build-up

This part defines farm build-up assistance, establishes the eligibility criteria for applicants, defines the nature of the assistance and its operation and sets parameters for State administration.

Essentially, farm build-up seeks to increase the size of properties which are too small to be commercially viable by either amalgamating them with adjoining properties or subdividing them and amalgamating the subdivisions with adjoining properties.

The eligibility criteria ensure that the Scheme is a lender of last resort, that the built-up property will offer sound prospects of commercial viability and defines the term "adjoining holding".

Under these provisions assistance may be granted to assist the purchase of an adjoining holding and to assist with carry-on expenses, plant, stock and property development in respect of the additional land. The assistance may be granted only when arrangements have been made for amalgamation, although a State may purchase such properties in advance of the arrangements being made. States may also dispose of properties on commercial terms.

States have discretion in setting the terms and conditions of loans made by the State and the total of advances which may be made in any one case, and the level of interest subsidy in respect of borrowings, otherwise than from the State, under the Scheme.

Part 4 - Farm Improvement

This part defines farm improvement assistance, establishes the eligibility criteria for applicants, defines the nature of the assistance and its operation and sets parameters for State administration.

Essentially, the farm improvement provision aims to assist the attainment of commercial viability of farmers by providing financial assistance to applicants to improve a farm's effective use without adding to its physical size.

The eligibility criteria ensure that the Scheme is a lender of last resort. In addition a farm must be non-viable but must be assessed as having sound prospects of long term commercial viability should assistance be granted.

Advances on interest subsidy in respect of borrowings otherwise than from the State may be made for the purchase of plant and livestock, for carry-on expenses and property development, including a change in production.

States have discretion in setting the terms and conditions of loans made by the State under the Scheme, the total advances by the State which may be made in individual cases, and the level of interest subsidy in respect of borrowings otherwise than from the State under the Scheme.

Part 5 - Carry-on Finance

This part defines carry-on assistance (Part B) of the Scheme, establishes the eligibility criteria, and defines the nature of assistance and its method of operation.

Carry-on finance is not provided on a continuing basis but only by agreement between the Commonwealth and a State when a particular rural industry is suffering a severe market downturn or similar situation (excluding drought or any other natural disaster).

The eligibility criteria ensure that the Scheme is a lender of last resort and that applicants must have sound prospects of long term commercial viability on the assumption of a market recovery to the long term trend. Assistance must be merited and the reasons for its need must be substantially beyond the control of the applicant.

Advances are for essential carry-on purposes or an interest subsidy in respect of borrowings, otherwise than from the State under the Scheme for the same purpose. Assistance will be made available at the discretion of States. However, the terms and conditions of assistance will be determined at the time it is agreed by the Commonwealth and States that this assistance is needed and published in the Commonwealth Gazette. Assistance is made available at the discretion of States.

Part 6 - Household Support

This part defines household support, provided under Part C of the Scheme, establishes the eligibility criteria and defines the nature of the assistance and its method of operation.

Basically, this is a welfare type measure which aims to provide limited assistance to applicants facing conditions of financial hardship and who are considering adjusting out of farming.

The eligibility criteria stipulate that applicants be ineligible for Parts A and B assistance and do not have prospects of long term commercial viability.

The amount of assistance provided in a year is equivalent to the amount an applicant would have received had he been eligible for unemployment benefits. In the first instance, assistance is provided to an eligible applicant for a year. An extension for a further 2 years may be made if the applicant has made a genuine attempt to sell his productive assets at a market value acceptable to the State. At the end of 12 months, advances made to an applicant may be converted to a grant. However, if an applicant does not adjust out of farming within 3 years after first receiving assistance any advances not converted to a grant must be repaid with interest to the State in 7 years. This assistance is provided at the discretion of a State.

Safeguards have also been included. For example, payments are at 3 month intervals, States must conduct regular reviews, and excess payments, in relation to income earned by the applicant which has increased must be repaid.

Part 7 - Rehabilitation

This part defines rehabilitation assistance, provided under Part C of the Scheme, establishes the eligibility criteria and defines the nature of the assistance and its method of operation.

Basically, this is a welfare type measure aimed at assisting adjustment out of farming. Assistance is limited to applicants who are facing conditions of hardship; who are obliged to leave farming and who face financial hardship.

The eligibility criteria stipulate that applicants must be ineligible for assistance under Parts A and B of the Scheme and have no prospects of long term commercial viability. The maximum advance has been set at \$8000 as at 1 July 1985. This ceiling will, however, increase according to the rate of increase in the Consumer Price Index.

The assistance and conditions (if any) will be determined by States. Initially, assistance will be made in the form of loans, but States have the discretion to convert them to grants.

