

Submission to Agricultural Competitiveness White Paper by Ted Gretgrix Executive Officer Rural Financial Counselling Service-Victoria-North Central.

Rural Financial Counselling Services (RFCS) are in the business of structural adjustment, both within agriculture and for some of our clients out of the industry. Generally these activities will lead to an increase in productivity. Farmers that decide to sell their land, or in some cases lease the farm, most often provide the opportunity for a neighbour to expand their operation and create extra scale. Scale or size of operation is an important determinant of profitability. Not in all cases but it usually provides the opportunity to spread overhead costs over more units of production.

Adjustment out of farming for a majority of our clients that choose that path is an agonising decision. Emotional ties to the property, often over generations, or fear of perceived failure in the eyes of peers, or concern or indecision about life after farming are all reasons the final decision can take years. Rural Financial Counsellors play an important role in rationalising these decisions and in most cases speeding up the process.

The RFCS program also has a role in improving farm productivity for ongoing farmer clients. Given that our clients all come from the sector within agriculture that struggles with their financial position, we assist farm families to better understand where they are financially, how they got there, and most importantly explore options of what can be done about it.

There are a huge proportion of Australian farmers that struggle with their finances. The often quoted saying that 10% of farmers make 50% of the profit is supported by ABARES regular Financial Performance reports that identify a majority of Australian broad acre farms sustain negative farm business profit every year. It is not surprising then that the RFCS program continues to attract plenty of customers. The programs clients come from the up to 70% of farmers that don't make a decent wage for themselves. Rural financial counsellors assist families by undertaking gross margin analysis of their enterprises and developing action plans, preparing cashflow budgets, assisting negotiations with financiers and creditors and talking through farm succession issues. All this helps the farmer understand what needs to be done to increase productivity but even more importantly, profitability. What it indirectly does is improve the farmers' level of financial literacy. But we could do so much more.

A few years ago the Department encouraged rural financial counsellors to assist clients in pre-succession planning. This has been a tremendous success. It means that when a farmer then goes to see their accountant or lawyer they already have the fundamentals of their succession plan clearly in their mind and probably written down with the help of their counsellor after facilitated sessions with the family members involved. This almost always results in a better outcome and considerably lower professional fees.

The need to improve financial literacy amongst farmers is the next big issue that should be addressed. RFCS have a respectful engagement with the sector most in need. We can identify the individuals and businesses that would most benefit. We already have or could easily recruit the expertise to deliver training to these clients.

There has been research, particularly in Western Australia through Uni of WA and the review of the pilot of drought reform measures that supports this proposition. Those reports identified the Managing Finances module as the "most highly valued" but also noted the varying levels of expertise had made even small group learning somewhat problematic. The research conducted by Professor Ross Kingwell also points to the benefits of training and enhancing human capital as the single most identifiable factor that enhances farm productivity. Financial literacy is a subject best delivered as business specific or in very small groups with recipients on the same page. RFCS are best placed to deliver such a service to those who will most benefit.

This submission suggests that a modest increase in funding to the RFCS program, of say 20%, (about \$3mill), with obligations to enhance financial literacy across farm businesses, via one-on-one tuition or in matched small groups, could within a short time, bring about a significant increase on farm productivity.