

**SUBMISSION TO THE  
AGRICULTURAL COMPETITIVENESS  
WHITE PAPER**

**RURAL FINANCIAL COUNSELLING SERVICE  
VICTORIA – GIPPSLAND**

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## Introduction

Rural Financial Counselling Service Victoria – Gippsland (RFCSV-G) is one of fourteen rural financial counselling services that are funded mainly by the Australian Government with contributions from the State Governments and also some private contributions.

The Board of RFCSV-G welcomes the opportunity to make a submission to the Agricultural Competitiveness White Paper. The submission seeks to demonstrate the valuable contribution that rural financial counselling makes to the competitiveness of agriculture.

Rural financial counsellors work with farm families whose enterprise is in financial difficulty. In some cases the farm family will decide to sell the farm and hence free up the land and associated resources for more productive use in agriculture. In other cases the underlying barriers to farm financial viability are resolved and the productive capacity of the farm can then be improved.

The last review of the Rural Financial Counselling Program was conducted in 2004. This review gives good background to the rationale for and the evolution of governments funding rural financial counselling programs.<sup>1</sup>

The primary purpose of this submission is to draw on the experience of the RFCS Victoria – Gippsland and raise rural financial counselling issues we believe are of direct relevance to improving the competitiveness of agriculture in Australia.

### 1. What is Rural Financial Counselling?

Rural financial counsellors can:

- Help clients identify financial and business options
- Help clients negotiate with their lenders
- Help clients develop an action plan
- Help clients meet their mutual obligations under the Interim Farm Household Assistance program.
- Give clients information about government and other assistance schemes
- Refer clients to accountants, agricultural advisers and educational services
- Refer clients to Centrelink and to professionals for succession planning, family mediation and personal, emotional and social counselling.

Rural financial counsellors do not provide family, emotional or social counselling or financial advice - but they can provide referrals and information.

The client makes the decisions; it is up to the client to choose which option is right for them. The rural financial counsellor will help clients develop some options and will provide support with their decision-making using an action planning approach.

To support the client's decision-making process, an Enterprise Action Plan is used to assist clients to gain an improved understanding of their circumstances by reviewing their current financial situation and working through their available options.

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<sup>1</sup> DAFF (2004), *Report on the Review of the Rural Financial Counselling Service Program - 2004*

[http://www.daff.gov.au/\\_data/assets/pdf\\_file/0010/183277/rfcs\\_2004review\\_full\\_report.pdf](http://www.daff.gov.au/_data/assets/pdf_file/0010/183277/rfcs_2004review_full_report.pdf)

## **2. Why Does Government Provide Rural Financial Counselling Services?**

There is ongoing change within the agricultural sector. A key driver for structural adjustment is the ongoing decline in the farmer's "terms of trade", sometimes referred to as the "cost-price squeeze". The adjustment process is ongoing and relentless, exacerbated from time to time by rapid declines in commodity prices or weather events such as floods and droughts.

In recognizing the need for structural adjustment governments will from time to time intervene with policies, programs and funding in specific industry sectors (both within and outside agriculture) to assist the adjustment process.

Structural adjustment is an ongoing issue across the whole economy. For the farm sector there is case (on the grounds of economic benefits and social welfare) for government intervention to facilitate the rate of adjustment. Resources in the farm sector, especially at the level of the family farm, are relatively immobile and so impede the rate of adjustment. A substantial proportion of farm capital is tied up in the land asset which can be slow to sell. The family home is typically located on the farm and an integral part of the land asset. The labour of the family farm is often not readily relocated to other forms of employment.

At a broad level, using a case management approach, rural financial counselling plays two important roles in this adjustment process. Firstly, to assist eligible farmers to restructure and expand; and secondly to support other farm families to adjust out of agriculture with some degree of dignity. Without this adjustment process, sections of Australian agriculture are at risk of increased foreign ownership.

## **3. Benefits and Impacts**

Farmers who require more than two hours of assistance from the RFCS are required to develop an Enterprise Action Plan in consultation with a rural financial counsellor. This includes the collation of financial information and analysis; business description, structure and future strategy; a farm business risk analysis and finally an agreed series of actions that are aimed at addressing the problems identified during discussion and analysis.

### **3.1 Client Outcomes**

Clients may work with a rural financial counsellor for a few weeks or in some cases 2 or 3 years depending on their issues and the time it takes to resolve them. At the end of the process the client's file is closed and an 'outcome' recorded.

The following table shows the outcomes of the 104 RFCS clients in Gippsland whose files were closed between July 2013 and February 2014. Of the 104 clients, only 20 have left agriculture, either voluntarily or forced; the remainder (84), through adjustments made both with and without government assistance, are still farming, contributing to their industries and community. Data from earlier years shows similar trends.

This data highlights the important role rural financial counseling plays in returning farms to financial viability with the potential to improve the productive capacity of the agricultural sector.

Outcome Type	Adjusted Outcome Type	Total
Adjusted out of agriculture - forced	By Creditor Action	6
	Primary enterprise or specific industry unviable	3
Adjusted out of agriculture - voluntarily	Not specified	11
Adjusting within primary production	Not specified	1
	Action Plan successfully completed, no further assistance required	23
	Diversification	1
	Improved business enterprise	4
	Improved farm operation and management	9
	Improved financial management	5
	Off farm income	6
Govt assistance (EC) application completed – no further assistance required	Not specified	7
No outcome - Closed by RFCS	Not specified	10
Other Govt. assistance completed - no further assistance required	Not specified	18
<b>Total</b>		<b>104</b>

(Source: Department of Agriculture, Australian Rural Counselling database).

### 3.2 Client Case Studies

The case studies below demonstrate the role of rural financial counselling in supporting farm business viability and succession planning.

(a) *Farm Debt Mediation (FDM):*

*Farmer in denial regarding the seriousness of his debt position. Was not going to do anything to prepare for the mediation other than telling the bank what he thought of them. The rural financial counsellor was able to work with him to explain the process and prepare him (mentally & practically) for the FDM session which then enabled the farmer to develop a proposal to put forward to the bank. The FDM allowed for a compromise to be reached and the farmer felt that he had some control over his situation and the way forward.*

(b) *Business Debt Mediation:*

*Communication had broken down between bank and farmer, plus personal issues had effectively brought the business to a standstill. The rural financial counsellor was able to assess the whole situation with impartiality and “common sense approach” which when presented in a logical and detailed report assisted the partners agreeing on common ground; which then enabled a recovery plan to be developed. The rural financial counsellor initiated contact with bank and formed a communication channel that the farmer was willing to comply with. Re-structuring of loan was arranged and the rural financial counsellor to continue support as required whilst new arrangement tested.*

(c) Business Viability:

*The rural financial counsellor assisted a young farmer to develop and analyse his business plan prior to committing taking over family farm. Government and industry incentives offered were investigated and a risk assessment developed with the young farmer. First idea was proven to be too high a risk for his capabilities but second opportunity (smaller acreage, less capital improvements required) was presenting as a more realistic and manageable option once both were presented side by side. Young farmer was able to take plan to financier with confidence in his decision.*

(d) Succession Planning and Labour Mobility

*The son of a farmer had been working on the family farm for a number of years and was keen to see how he might start to take a more active role in the management of the farm with a view to building up his own farm assets. The rural financial counsellor provided the son with a number of options to raise with his parents. After a series of meetings the son realized his parents were unwilling to consider issues of succession planning; subsequently the son left the farm to work as a well paid farm manager on a large property in another district ensuring a skilled labour resource remained in agriculture.*

## **4. Issues and Challenges**

### **4.1. A National Approach to Farm Debt Mediation (FDM)**

Farm debt mediation is a method of facilitating discussion between a farmer and their financier so that they can better negotiate their financial position. There are currently farm debt mediation services available in a number of states with the arrangements varying from state to state.

The Australian Government has indicated that a consistent approach to FDM is desirable and aims to pursue this objective with the State Governments.

The RFCS has proven to be of great assistance to farmers in the states where FDM is legislated. FDM can be a daunting process for a humble farmer as he/she is confronted by bank officials and sometimes the bank's legal representatives. Rural financial counsellors are able to assist the farmer prepare for mediation; support them during the mediation and then assist them to implement the agreed outcomes from the mediation. In all jurisdictions where FDM is legislated, rural financial counsellors' involvement in the process is highly commended.

### **4.2. The Role of Rural Financial Counsellors in Signposting Services**

There are a number of things that a RFC cannot do – these include:

- represent farmers in legal processes or act as a mediator in farm debt mediation;
- provide advice on any financial, accounting or taxation aspects of an enterprise, or in any way influence a decision on a particular financial product;
- provide social or family counselling;
- recommend particular or best options;
- complete tax returns or business activity statements;
- provide technical or agronomic advice for businesses;

- complete the sections of succession plans where legal, financial, accounting or taxation advice is required.

Experience shows that as the rural financial counselling process with a client evolves, these issues will emerge as critical issues the client needs to address. A central role of the rural financial counsellors is to sign post the client to specialist service providers and where necessary prepare the client to engage with those providers.

### **4.3. Rural Financial Counselling Capacity**

Over the years RFCS have developed specialist skills and capacity that is available to governments to deal with ongoing structural adjustment in the farm sector as well as being available to meet shorter term crisis's such as responding to floods, fires, droughts and industry downturns.

This capacity has a number of elements:

- The specialist skills of rural financial counsellors,
- The governance capacity of individual rural financial counseling services,
- The networks of both the services and individual counsellors,
- Strong connections to local rural communities.

This resource has been progressively built and enhanced over the years the program has been funded by both the federal and state governments and represents critical social capacity to not just regional and rural communities but also government. Should funding for rural financial counseling be dramatically reduced (or ceased) this capacity would not be readily replaced.

### **4.4. Proactive Building of Farmer Capacity**

Rural financial counsellors typically interact with farmers at a time of financial crisis for the farm and farm family. The rural financial counsellor develops both a good rapport with the farmer and a good understanding of the capacity of the farmer. There would appear to be a good opportunity to proactively use this relationship to assist farmers to develop skills and resilience in dealing with future challenges and change. The RFCS Victoria – Gippsland has recently undertaken two pilot projects that appear to have potential to aid the adjustment process

#### (a) The financial literacy project.

The aim of the project is to identify farmer clients where record keeping is a key impediment to farm viability and then to coach the farmer in financial literacy to the point where they:

- Are able to maintain either a manual or electronic cash book.
- Are able to create a realistic month by month, annual cash flow budget for their enterprise in either electronic or manual form.
- Are able to monitor their budget – income & expense, budget versus actual.
- Are able to interpret their tax return [Statement of Financial Performance (P&L); Statement of Financial Position (Balance Sheet)].
- Are sufficiently confident to seek higher levels of training from Registered Training Authorities.

Evaluation of the pilot project has demonstrated farmers have significantly improved their capacity **and confidence** in financial management.

(b) The succession planning seminar series.

RFCS Vic-Gippsland has conducted a series of succession planning seminars to explain to farmers what the RFCS and Centrelink can do to assist them in their succession planning processes. The series was attended by just over 200 people and led to a substantial amount of follow-up enquiry to both the RFCS and Centrelink resulting in several farming families developing succession plans. Again, where appropriate, referrals were made to professionals such as accountants, financial planners and solicitors for specialist advice and guidance.

**4.5. Accessing finance, farm debt levels and debt sustainability**

Rural financial counsellors often find a key contributor to compromised farm viability is a farm debt structure that is not appropriate to the current situation of the farm. Often alternative options for the debt structure can be suggested by the rural financial counsellor that has the potential to return the farm to viability with consequent savings that can be directed towards improved productive capacity.

**5. Conclusion**

**The Board of RFCS Victoria -Gippsland recommends that the Commonwealth Government with the support of State Governments continues to fund the Rural Financial Counselling Service Program, at least at the current levels, to enhance Australia's agricultural competitiveness through its valuable work in facilitating adjustment within the agricultural sector.**