The Rural Reconstruction Scheme

J Ripley

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THE RURAL RECONSTRUCTION SCHEME

By J. Ripley, Rural Economist

In 1971 the Commonwealth Government passed the "State Grants (Rural Reconstruction) Act" to provide $100m to assist rural industry to adjust itself to the severe downturn in income. The money was to be divided amongst the States to enable State Governments to make loans to farmers and pastoralists for two main purposes:

(1) Re-arrangement of debt. This is in the main to pay out short term commitments and give the applicant more time in which to pay.

(2) Farm build-up. To make loans for the purchase of additional land, stock or plant, or to effect improvements, with the object of increasing net income.

In Western Australia the Government passed the "Rural Reconstruction Scheme Act, 1971", to implement the Scheme and appointed the Rural Reconstruction Authority to administer it. To accomplish this task the Authority has the $16.83m which is this State's share of the $100m, plus $0.430m carried forward from Rural Relief Funds previously made available.

The Authority is created to help those in need of help and is not in competition with conventional lending sources. Applicants must show that they have exhausted these sources before they will be considered by the Authority. For this reason the Authority's terms, interest rates, and conditions of approval are not to be compared with those of other rural credit sources.

The Authority lends for debt reconstruction at rates averaging 4 per cent and for farm build-up at not less than 6½ per cent. Repayments are by equal half yearly amounts calculated to cover both principal and interest.
Within that limit, terms are tailored to fit the needs of the case. If a loan could not be repaid within the time allowable in the Scheme, the proposal is regarded as non-viable.

### Eligibility

To be eligible for loans from the Authority, applicants must—

1. Be dependent on rural industry for a living. A content of off-farm earning may be allowed but farmers are advised to obtain clarification from the Authority before making a formal application.

2. Have exhausted all other sources of finance and have used all resources and assets to obtain...
finance. For example, assets other than those concerned with the farm have to be fully utilised to alleviate problems. Applicants are required to declare all assets so that compliance with this requirement can be established.

(3) Be living on or undertake to live on the property.

(4) Have conducted their farming operations with reasonable efficiency.

The Authority welcomes enquiry as to eligibility from potential applicants who are in doubt.

**Administration and assessment**

The Rural Reconstruction Scheme is administered by an Authority which comprises a Board of four members and an administrative staff. The Authority is responsible for lending policy, decisions upon individual applications and administration of the scheme and loans are made available through the agency of the Rural and Industries Bank. Applications are processed for viability by Department of Agriculture Rural Economists with assistance as required from local Department of Agriculture Advisers.

Information about Rural Reconstruction is available from: The Administrator, Rural Reconstruction Authority, Central Government Buildings, Barrack Street, Perth, W.A. 6000. Information can also be obtained by telephoning the Rural Reconstruction Authority (23 0151). A rural economist from the Department of Agriculture is available to the Authority to deal with questions relating to economic aspects of applications.

Completed forms are sent through applicants' bankers to the Authority where they are coded and forwarded to the Department of Agriculture for processing. The applications are then returned to the Authority and go before the Board for a decision. Applications take varying times to process, according to circumstances and their complexity.

Farmers may be visited during processing if a visit is considered necessary.

**Viability**

Assessment of applications is made on the future earning capacity or viability of the farm. Earning capacity is based on present on the following estimates for the major commodities:

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Price Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wool (av. quality)</td>
<td>66c per kilo</td>
</tr>
<tr>
<td>Fat Lambs</td>
<td>$3.60 to $4.00</td>
</tr>
<tr>
<td>Culled sheep</td>
<td>$1.00</td>
</tr>
<tr>
<td>Mutton</td>
<td>$3.00</td>
</tr>
<tr>
<td>Baby beef</td>
<td>$65 to $75</td>
</tr>
<tr>
<td>Steers</td>
<td>$110.00</td>
</tr>
<tr>
<td>Culled cows</td>
<td>$100.00</td>
</tr>
<tr>
<td>Wheat</td>
<td>75% base quota</td>
</tr>
<tr>
<td>Barley</td>
<td>45c per bu depending on grade</td>
</tr>
</tbody>
</table>

These prices are subject to review but there has to be a strong indication for change before an alteration is made. Normal running and other expenses are deducted plus a capital expenditure allowance which covers plant repayments and normal capital expenditure. A cost allowance for inflation is also deducted.

The assessment of income and expenditure allows the calculation of the surplus which is available for debt repayment and servicing. The calculation of income, although based on the above prices, is influenced by the applicant's management ability and past performance. For example, allowance is made where a wool grower has consistently sold wool for above average prices. Subject to these personal factors, the Board will lend if it is satisfied that there is sufficient surplus to service an applicant's debts after the debts have been reconstructed with Rural Reconstruction finance. Where the surplus proves sufficient to service applicant's debts under existing financial arrangements no Rural Reconstruction loan is made.

**Protection orders**

The Authority can issue protection orders to prevent creditors taking action while the Rural Reconstruction application is being considered. These orders are only issued when the assessment indicates possible viability, and usually only on the request of the applicant.

**Types of finance**

Farmers may apply for reconstruction of any part of their debts and/or for additional funds to assist with farm running costs. However, Rural Reconstruction funds may not be lent to cover debts due to the Crown, such as for War Service Land Settlement debts, State and Federal Probate or Taxation and Crown Rents.

Applicants are not rejected because they apply for the wrong amount or type of finance. The assessment is of the amount and type of finance required to put the applicant in a viable position. The loan approved often does not coincide with the amount requested.

**Filling in the form**

Care and attention to detail are essential when filling in the application form. The form clearly and correctly filled in makes the assessor's job easier and reduces the time taken for processing. Queries relating to unanswered sections or information poorly presented take time to clarify. The cash flow and budget page of the application form contains a section for estimates of income and expenditure for the past 12 months and the next 12 months.

An indication should also be given of future likely changes in the income and expenditure situation. The future earning capacity is based to an extent on the information supplied in this part of an application. Care must be exercised to ensure that information is correctly filled in on the application. A number of cases have been seen where the amount of liability stated is significantly incorrect. This is particularly likely in contract of sales debts where unpaid interest and other charges are often left out of the statement.

**Sharefarming and lease agreements**

In cases where there is a lease or sharefarming agreement the income from such sources is not included in the assessment. Such contracts are usually short term, one to five years. If the sharefarming or lease is such that it can contribute sufficient to alter the long term situation then it will be included in the assessment but this is not normally the case. Agreements over long periods, say over five to 15 years are abnormal
and as such should be documented and signed as evidence of their validity.

Farm build-up

Applications for property purchase are made on the same form as those for debt reconstruction and are processed in the same manner. Property purchase applications must be accompanied by a written confirmation that the vendor agrees to sell, including conditions. The application should include details of property to be purchased, including area cleared, location, improvements etc. Such information is used to determine the earning capacity of the property to be purchased.

In some cases it helps to include income and expenditure budgets for the built-up property. Stock and crop programmes for the built-up property should be given, and if additional stock are required details of how these are to be obtained should be stated.

In addition to property purchase, application can also be made for finance to purchase stock or plant, or to develop or lease. Such applications can be for a combination of the above requirements. For example, an application can be for debt reconstruction and farm purchase, or farm purchase and plant purchase, or debt reconstruction and stock purchase. The Authority is critical of proposals which depend for their success on massive cattle purchases.

An important aspect of farm purchase finance is that applicants can be ruled ineligible for a Rural Reconstruction loan if their existing farm is viable. However, Rural Reconstruction Authority funds may be lent to a viable applicant for farm purchase when the vendor is a rejected Rural Reconstruction Authority applicant and cannot find a buyer.

Redundant buildings

Buildings which are redundant as a result of a farm purchase proposition can have their value written off when a loan is made. In such cases the applicant states the nature and value of buildings which are not required. The need is gauged by the Authority and write-off approval is applied when making the loan.

This provision is applied sparingly and only where a very good case is made out. The Authority reserves the right to dispose of written-off structures.

Re-application

Unsuccessful applicants can request reconsideration of their cases, but this will be given only where the applicant can show that his situation has changed significantly; for example, he has been able to obtain a significant reduction in a contract of sale pay out, increased wheat quota etc. Applicants who consider they have not been fairly treated are invited to make an appointment to discuss their assessment.

Results of applications processed to May 31, 1972.

<table>
<thead>
<tr>
<th>Debt reconstruction</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Applications received</td>
<td>1,084</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Applications rejected</td>
<td>664</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Applications approved</td>
<td>336</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance approved</td>
<td>$7,960,059</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance approved per case</td>
<td>$23,691</td>
<td></td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Farm build-up</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Applications received</td>
<td>225</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Applications rejected</td>
<td>117</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Applications approved</td>
<td>81</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance approved</td>
<td>$2,163,310</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance approved per case</td>
<td>$26,707</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Rehabilitation and employment training scheme

The Rural Reconstruction Employment Training Scheme is aimed at helping farmers transfer to alternative employment away from their farms. The Scheme is administered through the Department of Labour and National Service upon certification of eligibility by the Rural Reconstruction Authority and is available to the following—

1. Farmers whose farms have been assessed as being not viable, and who do in fact leave their farms.

2. Farmers whose properties have been purchased under farm build-up provisions of the Rural Reconstruction programme.

3. Members of families of those farmers eligible in (1) and (2) who have been working full time other than in a domestic capacity for at least 6 months before applications and those who have been primarily dependent for a livelihood on the income earned by the farm.

4. Farm workers who are employed by eligible farmers for at least 6 months immediately before being dismissed, are also eligible. Further information can be obtained from the Authority or the Department of Labour and National Service.

5. Farmers’ sons who have to leave their family property for economic reasons are eligible in some circumstances.

Rehabilitation loans

Farmers who have left their farms are also eligible for rehabilitation loans up to $3,000 from the Authority, with interest and repayment terms at the Authority’s discretion. Eligibility for these loans depends on the proof of economic non-viability and the applicant’s personal financial situation justifying assistance.

Conclusion

The Rural Reconstruction Scheme is not the answer to all rural problems but is a measure to assist some farmers to solve their viability problems. The scheme is most helpful to those farmers in the moderate debt situation who can become viable by restructuring their debts so that these are repayable over longer periods. A smaller percentage of farmers can be helped to achieve viability by loans to increase farm size, for development, or for the purchase of plant, stock, etc. So far, most requests have been for reconstruction finance but it is thought that requests for farm purchase finance will increase in the future.

Many applicants can save time and frustration by discussing the generalities of their cases with someone at the Authority or the Department of Agriculture before making formal application. In cases of doubt, discussion can save much time and possible misunderstanding. Forward planning is necessary when applying for Rural Reconstruction. Applications are dealt with in order of receipt and applications which have immediate debt repayments will not be given earlier consideration than others unless there are special circumstances.