

Pastures under adverse conditions - Too expensive?

What to do and where to go for financial assistance for pasture development

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Summary: Planning is the essential ingredient for any pasture development program. Assistance is available for both formal and informal training and for professional advice, both on the technical and financial aspects relevant to increased production, financial capacity and the environmental sustainability of a proposed pasture development program. Financial assistance for the actual implementation of the program is primarily available via the NSW Rural Assistance Authority or from Landcare projects relevant to pasture development where sustainability is an issue.

Financial assistance for pasture development

Planning

Coming from a background of having seen many failed projects, I have a personal need to ask fundamental questions, prior to seeking finances on behalf of a client. An indication of the types of questions include:-

- What specifically is being proposed?
- How will the changes impact on the productive capacity of the property when integrated with existing practices, management ability, labour force, machinery *etc.*?
- Will the management team have the skills, strengths, labour, desire and the funding to realise the productive potential of the development program?
- What are the long term impacts on the soil, water, on feral, native and domestic flora and fauna?
- Has adequate knowledge or advice been obtained to ensure the methodology to be employed will give the best possible outcomes, while minimising the degree of risk and disruption to the remainder of the family or business unit?
- Are there other ways of achieving the ultimate goal without following the route initially envisaged - in other words has adequate attention been paid to alternative strategies and

technologies, or are you simply copying the neighbour?

The above questions are tips of the iceberg when it comes to assessing the merits of any development program, but the answers impact heavily on the finances required, the ease of accessing that finance, the cost of finance and the risks associated with the potential for things to go wrong.

The reason why I have touched on these issues, is that the planning and the forethought required, are essential for a sound development project and are integral parts of a well presented application for finance. In addition, the discipline needed to develop a co-ordinated, vigorous and creative application for assistance is likely to be equally, if not more beneficial, than the funds received.

A minimum standard for any application for either government assistance or commercial borrowings should include the following:-

- Clear identification of the proposed program and the beneficial impact.
- Identification of the total cost of proposed activity and the funds you need to borrow.
- Cashflow implications with specific details of the production program on which the cashflow is based.
- Historical performance - as an indicator of accuracy of cashflow and capacity to service the additional debt.
- Full list of assets and liabilities.

Government policy reflects a fundamental ac-

ceptance that the standard of farm management planning needs to be further improved in order to maintain an internationally competitive industry which is also socially and ecologically sustainable - hence the following packages:-

Assistance for planning

Farming For the Future

Workshops are conducted which reflect the local needs of producers; costs are subsidised to only \$30/family. Contact the staff of your local NSW Agriculture or Department of Land and Water Conservation.

Prime Pasture Program II

A unique association of the National Landcare Program, NSW Agriculture and Agribusiness in partnership with graziers who are keen to promote sustainable land use while raising productivity. There are 24 paired paddock management demonstration sites throughout the slopes and tablelands of NSW. At these sites district practice in one paddock is compared with another paddock's "improved" management, such as regular or high fertilizer inputs, liming, strategic grazing or various forms of rotational grazing. Full membership costs only \$35, giving a seasonal newsletter, the opportunity to attend field days and both the Pasture Establishment and Pasture Management Field Guides. Contact Mike Keys at NSW Agriculture Queanbeyan.

Grants for the Acquisition of Farm Management Skills and Professional Advice

These are provided under the Rural Adjustment Scheme and administered by the NSW Rural Assistance Authority. Grants of up to \$5,000 (with a maximum of \$3,000 in any given year). These are designed to increase the productivity of farm enterprises which will lead to improved sustainable long term profitability through improved managerial, husbandry, technical, financial or business knowledge and skills, by undertaking appropriate training or obtaining professional advice in these areas. Applications must be lodged prior to engaging the advisory service or training. Many producers have used such grants for soil nutrient testing and fertilizer management advice on both cropping and pasture developments. Others have used the grants to fund both formal and informal training programs which will develop the skills necessary for managing the integrated business needs of their production unit.

Contact the NSW Rural Assistance Authority by telephone on 1800 678 593, your farm consultant, your accountant or rural counsellor.

Group Activity Grants for the Acquisition of Skills and Professional Advice

These are provided under the Rural Adjustment

Scheme and administered by the NSW Rural Assistance Authority. They require a minimum of five farmers jointly applying for group training and/or professional advice activities to improve the financial, technical, management or business knowledge and skills of groups of farmers. Grants cover up to 75% of costs, with the producer providing the remaining 25%. A maximum limit of \$50,000 per group activity per training recipient in any one year, of which the cost per group member is not to exceed \$3,000, with a maximum limit of \$150,000 per group activity per training recipient. An interesting point is that there currently appears to be no restrictions on the composition of groups, or on how many different groups a specific individual can belong to. Experience shows that when such a significant amount of money is made available, it is highly likely that sufficient numbers of farmers will unite to access the training or advice relevant to your pasture development aspirations.

Contact the NSW Rural Assistance Authority by telephone on 1800 678 593, your farm consultant, your accountant or rural counsellor.

From my perspective, the availability of funding is often the trigger which stimulates a farmer's desire to evaluate their current position, their goals and the means of achieving those goals.

Imagination - An essential ingredient

Many people come from the perception that they cannot afford to engage in major development programs and therefore it cannot be done.

Such a framework or mind set, severely limits the potential for growth and tends to be the reason why much development is done on an ad hoc basis. Imagine using a different perspective whereby you:-

- critically analyse the system blockages in your operations
- identify how to minimise the impact of limiting factors
- evaluate the benefits of the program on long term profits, labour requirements, sustainability, managerial complexity and life style
- identify risks and benefits of the proposal and plan the implementation of risk management strategies
- source funding and assistance packages.

Financial assistance for implementing a pasture development program

The Rural Adjustment Scheme (RAS)

This is a Federal Government scheme administered by the respective states. In NSW the role falls to the Rural Assistance Authority. RAS is designed to promote and enhance industry viability via

improved productivity and training, so as to improve international competitiveness.

Unfortunately, many producers who could access the scheme to facilitate major enhancements to their business, discount the Rural Adjustment Scheme as only being there to "prop up the losers" or conversely to "adjust people out of the industry". Both are invalid perceptions as many producers have found it to be a highly effective tool in taking the next step towards ensuring viability well into the future.

Case study

A 60 year old farmer had purchased an underdeveloped property in 1985 with the intention of ensuring a sound economic base for his son's farming future, whilst providing sufficient resources for a comfortable retirement for himself and his wife. Development and productivity enhancement came to a grinding halt with the wool market collapse and high interest rates of the early 90's. He was exploring ways to achieve his goals but assumed he could not fund the program envisaged.

We attempted to reverse the decision making process to get away from the perception of not being able to afford development. We explored a "wish list" of those things which most limited production, restricted profits and complicated management/labour requirements.

Although the "wish list" does not 100% correlate to grasslands development, the parallels can provide an insight into the process. Those items identified as having the greatest impact were:-

- fencing, stock water supply and sowing of pastures on 280 hectares, after initially cropping for two years as a weed control strategy
- the extension and improvement of the shearing shed to allow handling, storage and use of clip care strategies
- a grain warehouse for marketing flexibility.

To save money we explored the idea of amalgamating the shearing shed development with the grain storage facility, as shearing occurred in late September - well after deferred grain sales strategies had been completed. The farmer drew up plans to accommodate the dual role and got independent advice on work patterns and structural considerations to ensure it could operate efficiently, given the cost savings achieved.

The use of their own labour and on-hand materials limited the projected cost of the wish list to approximately \$60,000 and once again the farmer assumed he could not finance the project, so was about to give up.

The next step was to identify the impact of the changes on income, expenses and management,

with the clear indication that the pasture development and grain storage strategies would have the greatest impact on profits, while the wool shed improvements would reduce stress levels on the owners, shearers and sheep.

Once the long term benefits were identified, we then explored ways of funding what could be a potential debt increase of \$60,000 for a family who already had Term Loans totalling \$255,000.

The strategy employed was to develop a three stage program, which could be accommodated in the normal overdraft limit, should the bank accept a three year interest only provision and we accessed the Rural Adjustment Scheme's Productivity Enhancement Interest Subsidy Grant.

Because we restructured the \$255,000 in bank debts to accommodate the development, the producer became eligible for a 50% Interest Subsidy Grant to a maximum of \$20,000.

Interest Costs

$$\$255,000 \times 12.5\% = \$31,875$$

Average overdraft balance

$$\$20,000 \times 13.5\% = \$ 2,700$$

$$\text{Total Interest Cost} \quad \$34,575$$

50% Subsidy (maximum)

$$\$ 34,575 \times 0.5 = \$17,287$$

The NSW Rural Assistance Authority approved \$17,000 p.a. for 2 years to contribute a total of \$34,000 towards an initial project cost of \$60,000.

The farmer now attributes the development program as being a primary reason for his current strength and improved lifestyle. He managed to achieve the following:-

- Control the movement of feral animals by adequate fencing of the boundary along the developed 280 hectares.
- Eradicate a severe infestation of galvanised burr on the 280 hectares.
- In the first two years achieve a 1.6 tonne/hectare prime wheat crop average from a paddock which previously had minimal productive value.
- Defer grain sales to improve net prices received by a two year average of \$35/tonne x 600 tonnes to improve profits by \$21,000 p.a.
- Sow down the 280 hectares to high quality pastures.
- Use profits to further develop the management ease and profits of the property.
- Learn a different way to look at development problems.

- Being significantly closer to realising his plans of having a sound economic base for the son's family and his retirement.

His greatest lament is that he now regularly pays tax.

The lesson to be learnt from the above case study is that the right approach can dramatically impact on the effectiveness of any financial assistance.

In this particular case it was likely that nothing was going to be done at all. Had the farmer simply borrowed the \$20,000 he assumed was the minimum needed, without restructuring the other debts, he would have had an inadequate production enhancement program and only accessed approximately \$1,200 interest subsidy for one year, compared to the \$17,000 for two years.

Productivity Enhancement Interest Subsidy Grants

Properly constructed pasture development programs clearly fall under the guidelines for the Productivity Enhancement Interest Subsidy Grants. Such grants can be up to 50% of the interest cost of loans, with the maximum subsidies being capped to \$20,000.

This support can assist with:-

- changing farm programs
- adopting technological developments
- increasing resource intensity (including capital, labour and/or land)
- debt restructuring
- capital restructuring

NB: Support for debt and/or capital restructuring can only be provided where it is necessary to allow the farmer to undertake productivity enhancement measures.

Any productivity enhancement measures to be undertaken must be accompanied by new borrowings and/or restructuring of existing borrowings to fund the measure.

Assessment Criteria

Applicants must satisfy the following criteria:

- the provision of support under the scheme is needed to enable the farmer to undertake the farm productivity improvements in accordance with an established program.
- the measures to be undertaken, either in isolation or as part of an integrated package of measures, will improve the productivity of the farming enterprise, leading to improved prospects for the sustainable long term

profitability of the enterprise. In assessing sustainable long term profitability, the following factors will be taken into account:-

⇒the past and expected future profitability and performance of the farming enterprise and its ability to meet financial commitments relating to:

- cost of operation of the farm enterprise
- living cost of the farm family
- investment in sustainable farming systems
- allowance for depreciation of capital and future capital requirements
- servicing and repayment of debt of the farm enterprise
- the long-term economic trends which impact on the farm enterprise.

⇒the provision of financial support for the farming enterprise by commercial lenders, or "at arms length" private loans at commercial terms and interest rates.

⇒the demonstrated technical and financial management competence of the applicant (the applicant may be eligible to acquire this competence through the provision of a grant to undertake training and/or obtain professional advice).

⇒the extent to which the Rural Adjustment Scheme support is likely to contribute to, or facilitate productivity increases for the farming enterprise through:-

- a reduction in average farm operating costs and/or
- a sustainable increase in the value of the farm enterprise's production which leads to increased profitability

- The applicant has the capacity to become financially independent of support provided under the scheme within a reasonable period.
- The applicant contributes a significant proportion of his or her labour to the farm enterprise.
- The non-farm assets and income are not deemed to be in excess of those needed for prudent risk management of the farm enterprise, taking into consideration the current and future cash flow expected from the activities of the farm enterprise and other sources.

NB *Gross income* is used in all cases when assessing applications for assistance.

Unspoken Criteria

The specified criteria, outlined above, does not indicate the actual benchmarks, ratios or absolute

references used by the RAA to assess an application. Knowledge of the unspoken criteria will significantly increase a given applications chance of success. Some farm consultants, some accountants and all rural counsellors have a intimate working knowledge of preparing applications to reflect the producers needs, while complying with both the spoken and unspoken criteria. In the event of an application being rejected, it is advisable to immediately approach such a person to investigate the feasibility and structure of an appeal, which must be lodged within 90 days.

No matter what application you are completing, it is advisable to learn all you can about how applications are assessed, prior to filling in the form. This may sound like simplistic advice, but it is amazing how many people are rejected because they filled in the application using the first set of numbers they thought of. An equally valid set of numbers which reflects the expectations and needs of the business, from a slightly different perspective, may well meet both the published and unspoken criteria and see a successful outcome being achieved.

Enhanced assistance under Rural Adjustment Scheme Regional Initiatives are currently being developed, so should you produce in such areas, you need to become aware of specific assistance measures which may apply to your circumstances.

Special Conservation Scheme

This scheme is a NSW government initiative administered by the NSW Rural Assistance Authority. Low interest rate loans are made available to qualifying applicants for the purpose of:

- Soil Conservation, including woody weed control
- Stock and domestic water supply
- Upgrading existing irrigation systems
- Tile drainage
- Serrated tussock control

The proposed works must have a beneficial impact on the land, the community and the environment and cannot be based purely or even primarily on productivity.

Loans can be up to \$100,000 to 90% of the reasonable cost of works, repayable over 10 years. Interest rates are locked in at the date of initial draw-down, being set at 25% below the NSW Treasury Corporation 10 year bond rate applicable at the time. (For example at 28th Feb 1997 the loan interest rate was 6%).

Applicants must be in working occupation of the land, have adequate security, capacity to repay and have net assets less than \$800,000 to qualify.

Once again, imagination, research and an understanding of both the formal and unspoken criteria will improve the chances of success. The Soil Conservation aspect of the scheme overlaps many aspects of pasture development, but the proposed work must be essential for and integrated with the soil conservation needs of the property - any productivity enhancement must be purely secondary in nature. Technical reports from Department of Land and Water Conservation staff are necessary for approvals of both the technical merits of any Soil Conservation program and for evaluation of the beneficial impact on the land, the community and the environment.

National Landcare Program

Many of the goals of a pasture development program and Landcare are complementary, to the point that it becomes difficult to segregate them into practical administrative areas. Landcare cannot fund productivity based programs, but where a well presented and integrated project includes pasture development work as an integral part of the project, then funding may be available.

The Dilly Landcare group has been provided with \$300,000 over three years for work on the Bidden Creek subcatchment in the Gilgandra district. The project covers 4,840 hectares and eight properties. With a well drawn up strategy to control both gully and sheet erosion, they are constructing earth works, fencing to land classes, planting trees and providing remedial soil work to establish vigorous perennial pastures and reduce the reliance on cropping.

Precise figures on the proportion of funds being spent directly on pastures or works having specific benefit to pastures has been estimated at approximately \$70,000 across the eight properties.

Landcare should not be thought of as a source of funds for pasture development, but the experience of the Dilly Landcare group demonstrates the advantage of an integrated project which can significantly increase productivity as a secondary consequence of environment protection.

A changing scene

Continual changes are being made to funding packages and their availability. The only way to become conversant with what is available and how it may apply to your circumstances, is by continually keeping in contact with a broad cross section of other producers, government departments and advisers. Remember the unspoken criteria are as important as the spoken criteria.

Programs to pay future attention to include announcements relating to Regional Initiatives such as West 2000, the National Heritage Trust and specific initiatives such as the Salt Action Funding

Task Force and the National Vegetation initiative.

Occasionally funds become available from the Environmental Protection Authorities Trusts and from the Catchment Committees using Total Catchment Management's Discretionary Funds. Both sources are irregular, highly restricted, and require careful thought so that you can ensure the productive aspects of the development are purely coincidental to the environmental reasons for the development.

Conclusion

Imagination, advice, training and integrated

planning are essential for successful pasture development projects. When seeking financial assistance, first look at the support available for advice and training prior to developing specific plans. Ensure you thoroughly explore both the written and unwritten criteria relating to any application for assistance, ensuring that the imagination, forethought and management skills is reflected in the application.

Once you have reached the stage of expertise that you have soundly developed technical skills and sound financial plans, you are then in a position to access assistance measures to help implement the practical phase of the pasture development project.
