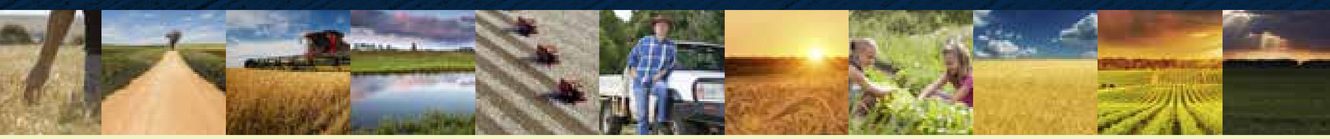
NRAC

NATIONAL RURAL ADVISORY COUNCIL

REPORT ON THE REVIEW OF THE RURAL FINANCIAL COUNSELLING SERVICE PROGRAM



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Glossary and acronyms

ABARES	Australian Bureau of Agricultural and Resource Economics and Sciences
Agriculture-reliant small rural businesses	For the purpose of determining eligibility, funding deeds stipulate that a 'small rural business' must 'provide the majority of its services to primary producers or fishing enterprise operators and be directly involved in primary production'.
ARC	Australian Rural Counselling
ARC Database	The data collection tool that collects information on Rural Financial Counselling Service (RFCS) clients for the purpose of managing and monitoring the service.
Department of Agriculture	The Australian Government Department formerly known as the Department of Agriculture, Fisheries and Forestry.
DHS	Department of Human Services is the Australian Government Department formally known as Centrelink.
DHS Farm Household Case Officers	Employees of the DHS who work with recipients of the Farm Household Allowance, to develop and implement Financial Improvement Agreements.
DHS Rural Services Officer	Equivalent to Farm Household Case Officers, but under the previous Farm Family Support payment.
EAP	Enterprise Action Plan is the case management and framework used by the RFCS.
FHA	Farm Household Allowance is the Australian Government's income support payment for farmers.
FIA	Financial Improvement Agreement is the case management framework used to ensure that FHA recipients are meeting their obligations for payment.
Funding deeds	Refers to the agreement for the delivery of rural financial counselling between service providers and the Australian Government.
NRAC	The National Rural Advisory Council is the independent advisory body that provides expert advice to the Minister for Agriculture.
RFCS	The Rural Financial Counselling Service is the national network of service providers.
Charter	The strategic statement, providing high-level guidance on the intended purpose, outcomes and outputs of the RFCS program.
RFCS program	The overarching government program, through which rural financial counselling is funded.
Resource Manual	The primary source of guidance material available to service providers, developed by the Department of Agriculture.
Service providers	The not-for-profit organisations funded to deliver the RFCS program.
Target client group	Farmers, fishers and agriculture-reliant small rural businesses experiencing financial hardship.

Terms of reference

Scope of assessment

The National Rural Advisory Council (NRAC) will conduct a review of the Rural Financial Counselling Service (RFCS) program to assess: the agricultural and fisheries sectors' need for, awareness and use of the service; its effectiveness in delivering core services and meeting objectives; the suitability of its current structure and governance arrangements; and its future role in improving the productivity, competiveness and sustainability of Australia's agriculture, fisheries and forestry industries.

In conducting the review, NRAC will assess:

Need for the service

- the current need for rural financial counselling services
- the agricultural and fisheries sectors' understanding, awareness and use of the RFCS program

Effectiveness

- whether the RFCS program is meeting its policy objectives in assisting primary producers, fishers and small rural businesses experiencing financial hardship to respond to challenges
- whether the aims, objectives and activities of the RFCS program are still relevant and consider how they align with the government's objectives and priorities

Efficiency

- the efficiency of the RFCS program's administration and if the current structure is still relevant
- what service delivery models and structural changes could improve the effectiveness of the current program beyond 30 June 2015
- the efficiency of the program's funding model

Potential future role

- what services are required by primary producers who are suffering financial hardship and can the RFCS continue to provide those services/take on new services
- what opportunities exist to alter the program's role to further improve the productivity, competeveness and sustainability of agriculture, fisheries and forestry industries
- the role of RFCS in supporting delivery of future income support payments for farmers

National Rural Advisory Council

The National Rural Advisory Council (NRAC) was established under the Australian Government's *Rural Adjustment Act 1992* to provide independent expert advice and information as requested by the Australian Government Minister for Agriculture, including on:

- rural adjustment
- regional issues
- training issues
- matters the Minister requests advice or information about.

NRAC comprises eight members—a chairperson, a state/territory government representative, an Australian Government representative, a National Farmers' Federation representative, and four members appointed to provide expertise in areas relevant to the operations of NRAC, such as economics, financial administration, banking, sustainable agriculture, regional adjustment, regional development, farm management or training.

NRAC members for this review included Mr Mick Keogh (Chair), Dr Regina Fogarty (state/territory government representative), Ms Julie Gaglia (acting Australian Government representative), Mr Mark King (National Farmers' Federation representative), Mr Andrew Locke, Ms Alexandra Gartmann, Dr Susan Brumby and Mr Kerry O'Brien.

Executive summary

Since 1986, the Rural Financial Counselling Service (RFCS) has provided assistance to primary producers experiencing financial hardship. Currently, there are 14 service providers employing approximately 125 counsellors and delivering financial counselling services to all states and territories.

In May 2014, the Hon. Barnaby Joyce MP, Minister for Agriculture, announced that the National Rural Advisory Council (NRAC) would be undertaking a review of the RFCS program. Given that a comprehensive evaluation has not been undertaken since 2004 and the current funding arrangement for service providers expires on 30 June 2015, the review comes at an important time.

This report covers three key themes of the review:

- need for the service (Chapter 2)
- efficiency and effectiveness (Chapter 3)
- potential future role (Chapter 4).

During May, June and July 2014, NRAC consulted with the boards and executive officers of service providers, rural financial counsellors, clients of the RFCS and key representatives from industry, including peak farming bodies, private-sector agricultural consultants, banking and finance sectors, community organisations, and Australian, state and territory government departments.

The prevailing view of those consulted is that there remains an ongoing need for the RFCS. Available financial data confirms that financial hardship is an ongoing issue in the primary industries. In addition, NRAC found sound justification for the provision of this service by the Australian, state and territory governments and recommends that the RFCS continues to be funded. While NRAC also considered need in additional related sectors, such as forestry and non-agriculture-reliant small rural businesses, it found that the current target client group is adequate at the present time.

In general, NRAC found the RFCS to be a well-respected service that was delivered by devoted, hardworking rural financial counsellors. Based on the evidence available, the RFCS is providing quality outcomes for both clients and rural communities. NRAC found that the specific types of assistance provided by the RFCS—such as crisis assistance, business improvement services, referrals to other professionals, debt mediation and pre-referral succession planning—are important for achieving the objectives of the service. In addition to the suite of activities currently undertaken, the potential for the RFCS to deliver personal counselling was also considered. While NRAC acknowledges that personal counselling can be important for RFCS clients, it has recommended that greater connection to existing services is the best way to improve outcomes.

While NRAC considers the RFCS program to be functional and well designed, improvements can be achieved in both administration and delivery of the service. Key recommendations include moving to a state-based delivery model; improving professionalism and quality of service provider boards; gaining greater clarity in the governance roles and responsibilities of the Australian Government and service providers; making funding arrangements more responsive to demand; increasing flexibility in the RFCS workforce; and introducing more robust eligibility criteria. To monitor the ongoing performance of the RFCS program and the success of changes implemented, NRAC recommends there be more structured monitoring and evaluation, supported by an improved data collection tool.

Throughout consultations, NRAC observed that some service providers currently have excess capacity. Taking this into consideration with the efficiencies possible from improvements to program structure and service delivery, there is potential for significant cost savings. As such, there should be a commensurate reduction in total RFCS program funding. While it is difficult to quantify efficiency gains achievable and the level of under-use of the service, NRAC's general observations suggest savings could be in the order of 20 per cent of total program funding. However, NRAC acknowledges it may take time to realise efficiency gains and there must be no significant, short-term impact on service delivery. Consideration must be given to providing the time and resources required to effectively manage change within service areas.

NRAC emphasises that a reduction in total program funding should not significantly affect New South Wales and Queensland, which are currently experiencing challenging climatic conditions. In recognition of the high demand for RFCS assistance in those states, additional resources would be provided under the needs-based funding model recommended by NRAC. In the case of Queensland, which has historically received a relatively low proportion of Australian Government funding, additional funding would be available from the start of a new funding period.

NRAC believes that rural financial counselling plays an important role in rural communities and has been an enduring policy success for Australia's primary industries. While the many benefits provided by the RFCS are often difficult to quantify, discontinuing this service would be detrimental to rural Australia. The changes recommended by NRAC should improve client outcomes and ensure that the RFCS continues to be efficient and cost-effective. Nonetheless, governments and service providers must drive ongoing innovation and improvement so that the RFCS remains a relevant and valuable service over the long term.

Findings and recommendations

Chapter 2: Need for the Rural Financial Counselling Service

Finding 1: Available farm financial performance and other data indicate that there is a cohort of farming businesses experiencing financial hardship.

Finding 2: Demand for the RFCS provides a useful approximation of need for the service. At present, while client numbers have dropped in some regions and increased in others, there remains strong demand for RFCS services.

Finding 3: The short-term assistance provided by the RFCS is often necessary for addressing financial hardship. However, this should only be the first step in implementing a strategy that improves a client's long-term financial position.

Finding 4: Sub-optimal adjustment is likely to be a significant cause of farm financial hardship. Improving business management skills or engaging agribusiness services are the most effective ways to address this issue over the longer term.

Finding 5: Available evidence suggests that longer-term RFCS assistance, which is focused on improving financial and business management skills, and encouraging the engagement of agribusiness services, is building clients' self-reliance and improving their ability to adjust.

Finding 6: While evidence is anecdotal, NRAC is satisfied that the assistance the RFCS provides to farmers exiting the industry results in positive benefits for both the client and the community.

Finding 7: Given there is no incentive for agribusinesses to service clients without the capacity to pay, the RFCS is not crowding out or competing with the private sector.

Finding 8: There is a strong rationale for the government to address the information market failure that is impeding farmers' access to services.

Finding 9: Given there is a broader public benefit to rural communities beyond that received by RFCS clients, there is a strong rationale for government to provide these services.

Recommendation 1: The Australian Government should continue to fund rural financial counselling services.

Chapter 3: Effectiveness and efficiency of the Rural Financial Counselling Service

Finding 10: There was a substantial variation in the skills-base, professionalism and operations of RFCS boards. It has been difficult for some boards to improve the skills and experience of members.

Finding 11: Approaches to recruitment and remuneration of RFCS board members are inconsistent. In general, NRAC observed that professionally recruited and remunerated boards were more skilled and aware of their governance responsibilities than volunteer boards.

Recommendation 2: All boards should be professional, skill-based, experienced and capable of providing an appropriate level of strategic direction and corporate governance. This should be achieved through:

- implementation of robust and transparent recruitment processes by all service providers
- time-limited tenure for all board members
- setting appropriate upper and lower limits to the number of members on a board
- consistent remuneration for board members, for example, in line with relevant Remuneration Tribunal determinations.

Finding 12: While the Department of Agriculture is responsible for the administration of the RFCS program and each board is responsible for the corporate governance of its organisation, these roles and responsibilities have become blurred in some instances.

Recommendation 3: The Department of Agriculture should be responsible for the management of funding deeds and the monitoring and evaluation of the RFCS program as a whole. RFCS boards should be responsible for the strategic direction and corporate governance of their organisation. The roles and responsibilities of each party should be underpinned by appropriate guidance documentation.

Issues relating to corporate governance, strategic direction and meeting funding deed requirements should be addressed directly through boards. Interactions with executive officers should be primarily limited to information provision.

Finding 13: While the Department of Agriculture has engaged in monitoring and evaluation of the RFCS program, there has not been a formalised monitoring and evaluation framework since 2008.

Recommendation 4: A robust monitoring and evaluation framework must be developed and formalised to support governance arrangements and ensure that RFCS program objectives are being met. This should include evaluating client outcomes and the impact of services delivered by the RFCS. Monitoring and evaluation should also be supported by periodic, external performance audits of service providers and the RFCS program as a whole.

Finding 14: The Australian Rural Counselling Database was designed primarily as a client management tool. As a result, it does not always provide an appropriate mechanism to monitor and evaluate the RFCS program and its outcomes.

Recommendation 5: The Department of Agriculture should prioritise the development of a new database to underpin governance arrangements and a monitoring and evaluation framework, as well as provide client management functions if practical. This new database must be user-friendly and capture relevant, consistent and reliable data.

Finding 15: In past funding rounds, unspecified service areas led to complex administrative processes to ensure complete service coverage.

Recommendation 6: Any future funding round should have pre-defined service areas to ensure Australia-wide coverage of services and facilitate a robust, transparent and practical approach to the selection of service providers.

Finding 16: In general, the model of having multiple service providers operating within some states does not appear to be the most cost-effective service delivery option.

Recommendation 7: A single service provider should be used to service each state or territory. This is likely to create service-wide efficiencies as well as help service providers recruit quality board members and implement stronger corporate governance arrangements.

Finding 17: The base funding for each service provider has not been reviewed since 2008. Due to changes in demand, this may mean that some services are currently over-resourced, while others are currently under-resourced.

Finding 18: While there has been some additional funding to address fluctuations in demand for the RFCS, this has not been provided on a consistent and transparent basis.

Recommendation 8: To account for fluctuations in demand, RFCS program funding should be divided into two components, with:

- 80 per cent to be fixed at the start of the funding period, based on the number of farm businesses per state or territory.
- 20 per cent to be contestable and allocated annually on a needs-basis that accounts for fluctuations in demand for individual service providers.

In addition:

- A standard amount should be allocated to each state or territory for board costs.
- One to two per cent of funding should be withheld and only distributed to service providers in the case of a natural disaster or major unforeseen circumstances.

All funding arrangements must be implemented in a consistent and transparent manner.

Finding 19: The Department of Agriculture has rarely requested that rural financial counsellors be relocated to address increases in demand for services as this places an unreasonable impost on rural financial counsellors and only provides a short-term solution.

Recommendation 9: Service providers should pursue innovative approaches to maintain a flexible workforce, which would increase the available options for meeting fluctuations in demand. In addition, greater focus on alternative communication platforms may increase service delivery options.

Recommendation 10: The Department of Agriculture must ensure that a mobility clause in future funding deeds is reasonable, well-designed and comprehensively outlines the conditions in which relocation would be expected to occur. The focus should be on short-term relocations responding to crisis situations and subsequent demand.

Finding 20: The rules for determining client eligibility are ambiguous and contradictory. This has resulted in eligibility assessments being inconsistently applied across the RFCS program and some service providers not always targeting those in financial hardship.

Recommendation 11: The Department of Agriculture must develop robust and concise criteria to determine client eligibility, comprising two parts:

- a brief, question-based preliminary assessment, enabling short-term assistance to be provided
- a financial risk assessment, enabling ongoing assistance to be provided.

The formal financial risk assessment should not be overly complex or onerous. Clients receiving income support should be considered as having automatically met the eligibility criteria.

Finding 21: Some service providers deliver RFCS services through a separate division of a larger organisation, which may also operate for-profit divisions that charge fees for related services.

Recommendation 12: Parent organisations of service providers should be allowed to charge for related services through an independent division of that organisation. However, stringent management of RFCS budgets, resources and real or perceived conflicts-of-interest must be demonstrated.

Finding 22: Rural financial counsellors are capable, dedicated and well-respected. They seek to provide a quality service that is valued by their clients.

Finding 23: The Diploma of Community Services (Financial Counselling) is adequate as a minimum training requirement. Service providers are active in providing specialised training to meet the needs of rural financial counsellors.

Recommendation 13: Service providers should continue to focus on providing tailored training for their rural financial counsellors, including the mentoring of new rural financial counsellors by experienced staff. In addition, all service providers should build the skills of their cohort of rural financial counsellors through targeted recruitment.

Finding 24: The restriction placed on rural financial counsellors' ability to provide 'financial advice' may have, in some instances, restricted their ability to provide important, generic financial recommendations, such as on superannuation and insurance.

Recommendation 14: In line with the appropriate licensing exemption provided by the Australian Securities and Investments Commission, rural financial counsellors should be permitted to provide generic advice on the benefits of using some types of financial products.

Finding 25: While there is limited evidence demonstrating the effectiveness of the Enterprise Action Plan (EAP), most service providers consider it a useful tool. In some instances, however, service providers are using additional business planning software, which suggests that the EAP may have some limitations.

Recommendation 15: The business planning function of the Enterprise Action Plan should be reviewed. While a case management framework should continue to support client outcomes, service providers could be given greater flexibility in business planning software.

Finding 26: Many RFCS clients are being assisted for extended periods, often five to six years or more. While NRAC acknowledges there are issues regarding available data on time spent assisting clients, over-servicing undermines the effectiveness and efficiency of the RFCS.

Finding 27: Key reasons for extended servicing of clients include the development of close personal relationships or lack of engagement from the client.

Recommendation 16: All RFCS clients should be reviewed annually by their rural financial counsellors and those who are not progressing due to lack of engagement should, in general, be exited from the service.

Recommendation 17: All clients should be reviewed after three years of continuous assistance and, in general, be exited from the service. If a legitimate need for ongoing assistance exists beyond this time, this should be left to the discretion of the executive officer and board.

Recommendation 18: The number of clients being serviced for more than three years should be used as a key performance indicator under a monitoring and evaluation framework. This will ensure that service providers are focused on delivering timely outcomes for clients.

Finding 28: While service providers are undertaking promotional activities, evidence suggests that awareness of the RFCS is varied across the agricultural sector.

Recommendation 19: Service providers should ensure that the RFCS is widely promoted in rural areas through various engagement platforms. Promotion should focus on core services and target eligible clients.

Finding 29: Most service providers appear to meet with clients on-farm as their primary means of engagement.

Recommendation 20: While initial RFCS client appointments should continue to take place on-farm, service providers should consider different options to service their ongoing clients. This would increase the efficiency of service delivery.

Chapter 4: Future role of the Rural Financial Counselling Service

Finding 30: The Charter does not provide effective high-level program guidance in a clear and accessible format.

Recommendation 21: The Charter should be replaced with a more concise document that presents service providers, rural financial counsellors and clients with a clear delineation of the objectives, services provided, referral pathways and service delivery principles of the RFCS.

Finding 31: Addressing the immediate welfare needs of clients is currently, and has previously been, a significant and appropriate part of the RFCS workload.

Recommendation 22: The RFCS has an important role in addressing the immediate welfare needs of clients, including assisting clients to navigate the forms required to access other government support. However, this should be limited to hardship-related assistance, such as income support and disaster relief.

Clients seeking support from rural financial counsellors with applications that deliver longer-term benefits should only be assisted if they need ongoing support, and the assistance sought delivers on part of their strategy to achieve long-term viability.

Finding 32: Business improvement-related activities form a significant and increasing part of the work undertaken by rural financial counsellors.

Recommendation 23: Business improvement-related activities should continue to form a major part of the work undertaken by the RFCS to achieve change and adjustment, as long as this does not create dependence on the service and clients are transitioned to the private sector when appropriate and as quickly as possible.

Finding 33: Available evidence suggests that relatively low levels of client referrals take place. Further, there is an inconsistent approach to referrals and a varying interpretation among rural financial counsellors of what they involve.

Recommendation 24: Renewed emphasis must be placed on the importance of referring clients to other professional services (including health and wellbeing professionals). There must be a consistent and documented formal approach to referrals and accurate reporting and monitoring, including whether referrals have been acted upon.

Finding 34: Farm debt mediation is a time consuming activity and is taking up an increasing amount of rural financial counsellors' time.

Recommendation 25: The RFCS should continue to provide assistance with farm debt mediation, regardless of variations in state arrangements, as this can be a critical service for improving the long-term financial position of farm businesses.

Recommendation 26: As institutional lenders benefit from the farm debt mediation assistance provided by the RFCS, mechanisms that enable industry contributions to the cost of funding this service, while maintaining the independence of the RFCS, should be explored further.

Finding 35: The role of the RFCS in pre-referral succession planning has increased since 2010–11, partly in response to previous Australian Government priorities.

Recommendation 27: Pre-referral succession planning services should only be provided to eligible clients and only when it is identified as a necessary part of a strategy for improving their financial position in the long term.

Finding 36: The specialised skills, knowledge and expertise of rural financial counsellors meet an identified need in the primary industries that is characterised by a unique set of circumstances. A decision to expand the RFCS client base should be consistent with these factors and recognise the strength rural financial counsellors have in responding to these circumstances.

Finding 37: Forestry businesses face similar circumstances to farming and fishing businesses, and rural financial counsellors are likely to have some of the appropriate skills needed to assist these businesses. The current eligibility criteria offer flexibility to provide some forestry related services.

Recommendation 28: In principle, small forestry businesses should be eligible clients. If there is evidence of demand in the future, criteria should be developed to underpin access to the RFCS where appropriate.

Finding 38: Mental health or personal issues can impede the progress of RFCS clients in addressing financial hardship. However, RFCS referral processes are inconsistent and not all clients are willing or able to act on referrals to address these issues.

Finding 39: Anecdotal evidence suggests that a personal counsellor funded through a trial in Victoria resulted in positive outcomes for clients; however, this is only one of several mechanisms that could be used to encourage better linkages with personal counselling services. There are already established programs through which the Australian, state and territory governments fund mental health and personal counselling services.

Finding 40: Developing stronger professional relationships between the RFCS and mental health and social services should improve the likelihood of client referrals and the success of these.

Recommendation 29: The RFCS should not deliver personal counselling services, as the program was not established for this purpose and other services are already funded through a number of government programs. However, to improve outcomes for RFCS clients, it is recommended that:

- Closer engagement with social services be pursued, as these have been demonstrated to improve the success of referrals.
- Systems be developed to ensure that referrals are provided in a consistent manner and rural financial counsellors take appropriate steps to encourage clients to act on these. This could include the use of 'co-signed' documents that reflect the referral/s recommended to clients.
- Processes be implemented to ensure emphasis on assessing whether referrals have been taken up by clients and evaluating the outcomes from these.

Recommendation 30: Due to the complexities associated with the RFCS servicing Farm Household Allowance recipients, monitoring and evaluation of service provider outcomes must distinguish between these clients and other clients of the service.

Recommendation 31: Since a large number of Farm Household Allowance (FHA) recipients are likely to also access the RFCS, practical steps should be taken as a matter of priority to minimise any risk of duplication, including:

- making FHA recipients automatically eligible for assistance from the RFCS, as it has already been established that they are experiencing financial hardship
- requiring Department of Human Services (DHS) Farm Household Case Officers to encourage FHA recipients who are also accessing the RFCS to provide their Financial Improvement Agreement to their rural financial counsellor
- ensuring rural financial counsellors and DHS Farm Household Case Officers work closely together to make sure their actions are complementary and their reporting is consistent
- reviewing the relationship between the two services regularly, starting within three months and at 12-month intervals after that.

Recommendation 32: The case management framework used by both the Department of Human Services and the RFCS should be complementary and coordinated.

Finding 41: The impact of the Farm Household Allowance delivery model on the workload of the RFCS is unknown; however, future funding models, including the use of contestable funding, will need to consider this impact once it can be quantified.

Recommendation 33: Total RFCS program funding should be reduced by approximately 20 per cent to account for excess capacity in some service providers and efficiency gains associated with:

- delivery of services by single, state-wide providers
- more robust client eligibility criteria
- appropriate management to ensure clients achieve timely outcomes
- greater innovation in delivery platforms
- a renewed focus of short-term assistance on hardship
- restricted delivery of succession planning services
- a greater focus on accurately determining client eligibility
- possible long-term reduction in RFCS case management workloads.

Funding reduction should be implemented so that there is no significant, short-term impact on service delivery, particularly in New South Wales and Queensland where seasonal conditions currently present significant challenges.

1 Introduction

The Australian Government has funded free financial counselling for primary producers since 1986. While the primary intent of this service has remained unchanged, the funding model and structure have evolved and the service has been delivered under various programs. Since 2006, it has been delivered through the Rural Financial Counselling Service (RFCS) program.

Under the RFCS program, the Australian Government, in partnership with co-funding state and territory governments, provides grants to not-for-profit organisations to employ rural financial counsellors. As set out in the Charter (Appendix A), rural financial counsellors provide free support to primary producers, fishers and small rural businesses that are suffering financial hardship and have no alternative source of impartial assistance to manage the challenges of change and adjustment.

In May 2014, the Hon. Barnaby Joyce MP, Minister for Agriculture, announced that the National Rural Advisory Council (NRAC) would undertake a review of the RFCS program. Given that a comprehensive evaluation of rural financial counselling services has not been undertaken since 2004 and funding deeds with current service providers expire on 30 June 2015, the review comes at an important time.

This report covers the three key themes of the review:

- need for the service (Chapter 2)
- efficiency and effectiveness (Chapter 3)
- potential future role (Chapter 4).

The review was informed by consultations with key stakeholders, including chairs, board members, executive officers and rural financial counsellors from the 14 service providers; current and former clients; Australian, state and territory government agencies; and other representatives from the agricultural, rural, health, financial and business sectors. A full list of the stakeholders NRAC consulted between May and July 2014 is provided in Appendix C.

NRAC also took into account previous reviews and audits of rural financial counselling services, information and statistics collected by service providers in the Australian Rural Counselling (ARC) Database, and a wide range of relevant research and data.

1.1 History of rural financial counselling services

From 1986 until 2000, the delivery structure for rural financial counselling services remained relatively consistent. Funding was provided to not-for-profit, community and regional groups, generally for the employment of a single rural financial counsellor. The Australian Government met up to 50 per cent of costs, with the remaining 50 per cent obtained through community contributions and funding from state governments.

In 2000, the Bureau of Rural Sciences reviewed rural financial counselling services and identified a number of issues with their delivery.[1] In response, from 2001 to 2004, changes were made to improve accountability and professionalism:

- rural financial counsellors were required to spend 75 per cent of their time on client-related activities
- the Department of Agriculture, where necessary, was given access to client files for audit purposes
- appropriate training on corporate governance and risk-management was developed
- agreed standards for service delivery were included in funding agreements, supported by reference tools and a comprehensive resource manual
- there was increased scrutiny of services through audits and evaluations, and more rigorous, regular and meaningful reporting required through a revamped client statistical database.

In October 2005, the Primary Industries Ministerial Council agreed to a national framework to deliver an enhanced RFCS program. This was supported by bilateral agreements with, and funding contributions from, all participating state and territory governments. The national framework, which incorporated recommendations from a 2003 performance audit[2] and a 2004 review[3], led to a number of significant changes to the RFCS program, which were rolled out from 1 August 2006. These changes built on earlier reforms and continued the evolution of the RFCS, from small, local projects run by community-based volunteer organisations, to a more professional and accountable service providing expert assistance.

The key changes introduced from 2006 included:

- reducing the number of service providers from 68 to 16 through a competitive grants process (many smaller service providers were consolidated into larger regional or state-based services)
- replacing volunteer management committees with a board of directors and each service provider employing an executive officer for day-to-day management of the service and monitoring the performance of rural financial counsellors
- amending the funding arrangement where service providers became entirely funded by government, rather than sourcing funding from the local community
- requiring service providers to meet improved corporate governance and risk management standards, as well as more stringent monitoring and reporting requirements
- providing additional training and support to executive officers and board members, with significant emphasis on corporate governance
- requiring all new rural financial counsellors to have (or obtain within six months of commencing employment) a Diploma of Community Services (Financial Counselling) as a minimum qualification.

1 HJ Alsin, TJ Webb, J Cary and K Brinkley (2000), *Evaluation of the Rural Communities Program,* Bureau of Rural Sciences, Canberra.

2 Acumen Alliance (2006), *A report* on *the 2003 Performance Review and Audit of Rural Financial Counselling Services,* Commonwealth of Australia, Canberra.

3 NRAC (2004), *Report on the Review of the Rural Financial Counselling Service Program*, Commonwealth of Australia, Canberra.

In October 2007, the Department of Agriculture undertook a competitive grants process for delivering the RFCS program from 1 July 2008 until 30 June 2011. Fourteen service providers secured grant funding, all of which had delivered rural financial counselling services since 1 August 2006. In 2011, funding deeds with these 14 service providers were extended by the then Minister for Agriculture for an additional four years, until 30 June 2015.

1.2 Structure and delivery

A brief description of the current administration and delivery of the RFCS program is provided in the following sections. While financial and human resourcing for the program has varied over time, the current structure and operational arrangements have been in place since the start of the 2008 funding round.

1.2.1 Service providers

The RFCS program is delivered by 14 service providers, employing about 125 predominantly full-time counsellors (Table 1). All service providers are non-government, not-for-profit organisations and are typically incorporated associations. Each must have a board of directors, responsible for corporate governance, setting strategic goals and priorities, and monitoring the performance of the executive officer.

TABLE 1: Distribution of Rural Financial Counselling Service service providers and rural financial counsellors

State or territory	Number of service providers	Number of rural financial counsellors	Number of full-time equivalents
NSW	4	38	34.9
Vic	5	35	31.1
Qld	2	24	21.7
WA	1	12	8.3
SA	1	12	11.4
Tas	1	5	3.6
NT	0	0	0
ACT	0	0	0
Total	**14**	**126**	**111.0**

Source: ARC Database (as at 31 July 2014)

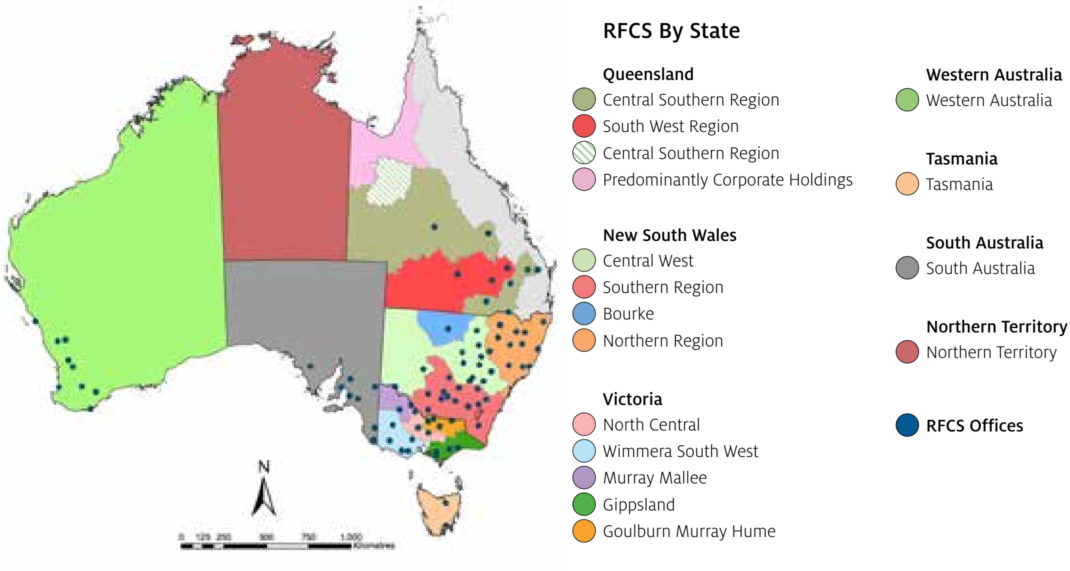
The executive officer is responsible for the day-to-day running of their organisation and cannot be a member of the board. The executive officer is required to report to the board on business operations and the delivery of services as well as develop and implement policies and procedures. Under the direction of the executive officer, rural financial counsellors are responsible for providing assistance to clients.

Some service providers also employ additional staff in roles not common to the entire service. Since July 2008, the Victorian Government has funded an additional senior coordinator position in each of the Victorian service providers. As well as assisting their own clients, senior coordinators provide mentoring and support, identify rural financial counsellor training needs and foster referral networks with other professional services. Service providers also employ administrative staff, to support rural financial counsellors, depending on the needs of their organisation.

Primary producers in all states and territories have access to rural financial counselling services; however, service providers cover discrete geographical areas, which vary from smaller regions to entire states (Figure 1). Current service delivery areas were determined through the 2007 competitive grants process. While the Australian Capital Territory does not have a dedicated service provider, primary producers are able to access rural financial counselling services through RFCS NSW Southern Region. Since March 2013, RFCS South Australia has provided on-ground services to primary producers in the Northern Territory on a trial basis. Before this, RFCS South Australia provided telephone services to Northern Territory primary producers. Under the trial, a rural financial counsellor from RFCS South Australia travels to the Northern Territory for roughly two weeks every two months. This trial is due to end on 31 December 2014 and a review of its performance will guide options for the future delivery of the RFCS program in the Northern Territory.

Prior to December 2012, the coastal region of Queensland was serviced by the Queensland Government funded Farm Financial Counselling Service. Under a long-standing agreement between the Australian and Queensland Governments, to avoid duplication of services, rural financial counsellors did not deliver services in the coastal region. Since the withdrawal of the Farm Financial Counselling Service, rural financial counsellors have become increasingly engaged in providing services in this area, particularly associated with providing natural disaster-related assistance.

FIGURE 1: Rural Financial Counselling Service provider boundaries



Source: ABARES, December 2013

1.2.2 Government administration

At present, the RFCS program is administered by the Department of Agriculture. It has responsibility for managing the program's funding; monitoring the bilateral agreements with state and territory governments; and executing funding deeds with service providers.

To fulfil its responsibilities, the department develops policies and resources that enable service providers to meet their obligations under their funding deeds; ensures that pre-determined reporting requirements are met by each service provider; and acquits funding in accordance with funding deeds. It also periodically engages external accounting firms to undertake performance audits of all service providers. Performance audits were undertaken by PricewaterhouseCoopers in 2012, Walter Turnbull in 2007 and Acumen Alliance in 2003.

1.2.3 Funding

Service providers receive annual allocations of core funding from the Australian Government and their relevant state government. These funding amounts are outlined at the start of their funding deeds. During the current funding period, service providers have received extra funding from the Australian or state governments on a number of occasions. This has been to meet additional need for assistance associated with the implementation of new programs, natural disasters or unforeseen increases in demand.

Since 2006, the Australian Government has, on average, contributed approximately 85 per cent of the program's core funding. State and territory governments have contributed between seven and 24 per cent in their respective jurisdictions. A table detailing Australian, state and territory government funding amounts, from 2011–12 to 2014–15, is provided in Appendix D.

Current funding allocations for service providers are proportionally based on the funding amounts allocated to them in 2008. These amounts were determined by using historical data on key variables such as hours spent servicing clients and client numbers. In addition, a limited number of external factors were taken into account, including numbers of drought assistance recipients and reliance on irrigation.

1.2.4 Cost of rural financial counselling services

According to the ARC Database, and funding deeds, the average cost of providing rural financial counselling services to clients and funding deeds varies widely across service providers. In 2013–14, the cost of providing face-to-face services to clients ranged from $124 to $286 per hour. In that same financial year, the cost of employing a full-time rural financial counsellor (including overhead costs) ranged from $60 to $115 per hour.

1.2.5 Assistance provided by the Rural Financial Counselling Service

As set out in the Charter (Appendix A), the assistance provided by the RFCS is intended to:

- provide clients with access to financial information, options, decision support and referrals to other sources of industry, professional and government assistance
- empower clients to make their own decisions on how to most effectively manage change and adjustment issues
- deliver effective, flexible and responsive services to those in need of assistance.

Specifically, the tasks undertaken by rural financial counsellors can include:[4]

- assessing a client's financial situation, cash flow and viability circumstances
- reviewing a client's contracts and loan applications with lending institutions; providing information to help a client prepare loan applications; and organising meetings (and other communications) with lending institutions and other creditors
- supporting and preparing a client for farm debt mediation processes and assisting them in non-legal appeals processes
- providing information and referrals to government or industry programs, including for specific events (for example, drought, fire, flood or industry reform)
- supporting and preparing a client for succession planning, including preparing statements of a client's current financial position, referring them to relevant experts and training, and compiling relevant questions
- providing proof of identification certification on behalf of the Department of Human Services (DHS)
- referring a client to professional service providers, including accountants, lawyers, agricultural advisers, farm succession planners, financial planners, social counsellors and personal or family mediators
- providing information to aid a client's business decision-making in relation to their enterprise and helping identify financial and business options for the future of their enterprise, including potentially moving out of enterprise ownership
- using the case management framework developed for the RFCS program, including the Enterprise Action Plan (EAP), to provide a client with a holistic outcome.

Two key activities that rural financial counsellors cannot undertake involve providing:

- advice on any financial, accounting or taxation aspects of a client's enterprise, or in any way influencing their decision on a particular financial product or strategy
- family, social or emotional counselling.

In the majority of cases, rural financial counsellors meet in person with their clients either on-farm, or in an RFCS office. Where distance or other circumstances require, rural financial counsellors consult with their clients over the phone or through web-based communication platforms.

1.2.6 Case management

If a client requires more than two hours of assistance, a rural financial counsellor must develop an EAP with that client. The EAP is a case management tool that supports clients through a structured decision-making process, similar to a farm business or risk management plan. The EAP was developed by the Department of Agriculture, in consultation with rural financial counsellors, accountants and banking experts. It was introduced in 2008 in an attempt to re-focus the RFCS on adjustment issues, as opposed to the short-term, often reactive assistance they were providing.

4 Department of Agriculture (2011), *RFCS Resource Manual Factsheets*.

From 16 June 2008 to 30 June 2014, the RFCS also provided case management services for recipients of Australian Government income support payments available to farmers. Under the case management requirements for these payments, rural financial counsellors had to develop action plans with clients so they could demonstrate they were meeting their mutual obligations. With the commencement of the new income support payment, the Farm Household Allowance (FHA), on 1 July 2014, the responsibility for all income support case management services, including both compliance and the development of action plans, was transferred to DHS. However, recipients of the FHA can still access RFCS assistance. The interaction between the RFCS and the FHA is considered further in Chapter 4.

1.3 Client characteristics

Information on the distribution, numbers and demographics of RFCS clients is provided in the following sections.

1.3.1 Client numbers

From 2008–09 to 2013–14, client numbers declined nationally from 11 863 to 7 776 (Table 2).[5] The most significant drop was in the south-eastern states and appears to correlate with improving seasonal conditions across many regions. In addition, the removal of Exceptional Circumstances (EC) declarations[6] resulted in a smaller number of farmers using the RFCS for assistance with accessing drought support. As a result, rural financial counsellors now provide services to fewer clients and spend more time with these clients. The amount of EC assistance provided by rural financial counsellors was highest in 2008–09 at 43 739 client hours.

Conversely, client numbers in Western Australia increased substantially from 2008–09 to 2013–14. This increase was partly associated with referrals to the RFCS from programs delivered under the Pilot of Drought Reform Measures, the majority of which ran between 1 July 2010 and 30 June 2012. Under the drought pilot, DHS rural services officers and rural social workers contacted rural financial counsellors on 956 occasions, made 646 referrals to RFCS Western Australia and promoted the RFCS to their clients on 2 227 occasions.

Client numbers in Queensland remained relatively stable over the same period. The easing of drought conditions should have resulted in a reduction of client numbers. However, this was largely offset by an increase in demand for RFCS assistance following significant flooding in that state between 2009–10 and 2010–11.[7] A more recent increase in client numbers, in both Queensland and New South Wales, reflects a return to drought conditions in some regions since mid-2012, with significantly increased uptake of the Interim Farm Household Allowance and the FHA.

5 Part of the apparent decline in client numbers between 2008–09 and 2009–10 may be due to an anomaly in the ARC Database being rectified, which resulted in the removal of a number of duplicated client records.

6 An Exceptional Circumstances declaration made farmers in the declared area eligible to apply for Australian Government drought assistance in the form of income support payments and interest rate subsidies.

7 Part of the increase in client numbers in Queensland may relate to clients who had previously accessed the Queensland Government-funded Farm Financial Counselling Service seeking the services of the RFCS. The Farm Financial Counselling Service was terminated by the Queensland Government in December 2012.

TABLE 2: Number of Rural Financial Counselling Service clients in each state and territory (2008–09 to 2013–14)

State or territory	2008–09	2009–10	2010–11	2011–12	2012–13	2013–14
ACT	9	10	10	7	2	5
NSW	5 193	3 939	4 423	3 558	2 501	3 181
NT	4	1	0	38	7	26
Qld	792	958	930	798	804	1 338
SA	1 727	1 210	860	671	534	710
Tas	320	275	196	138	194	151
Vic	3 365	2 816	2 577	1 963	1 569	1 654
WA	202	266	386	446	539	597
State or territory not recorded	0	0	0	0	45	114
Total	**11 612**	**9 475**	**9 382**	**7 619**	**6 195**	**7 776**

Source: ARC Database

The distribution of clients in different states and territories, in some circumstances, is disproportionate to the respective number of farm businesses in those states and territories. There is a higher proportion of RFCS clients in New South Wales and Victoria relative to their respective number of farm businesses. Queensland has a lower proportion of clients relative to the total number of farm businesses in that state. The proportion of clients in the other states and territories is relatively consistent with their respective share of the total number of farm businesses (Table 3).

TABLE 3: Comparison of client numbers between states and territories (2012–13)

State	Number of RFCS clients[1]	Percentage of national RFCS clients[1]	Number of farm businesses[2]	Percentage of national farm businesses[2]
NSW	2 501	40.7	38 565	31.9
Vic	1 569	25.5	28 937	24.0
Qld	804	13.1	25 572	21.2
WA	539	8.8	11 168	9.2
SA	534	8.7	12 608	10.4
Tas	194	3.2	3 462	2.9
NT	7	0.1	436	0.4
ACT	2	0.0	59	<0.1

Source 1: ARC Database
Source 2: Australian Bureau of Statistics, *Agricultural Commodities, 2010–11*.
Note: Total client numbers in this table differs by 45 compared to Table 2. This is because there was no state or territory recorded for 45 clients in 2012–13.

Some primary production industries appear to proportionally use the RFCS more than others (Table 4). This is to be expected given the industry and adjustment pressures that occur at different times and for various reasons. For example, in 2012–13, while nearly 22 per cent of RFCS clients were beef cattle farmers, they were actually under-represented as users of the service given that more than 35 per cent of Australian agricultural businesses identified themselves principally as beef cattle producers.[8] Conversely, while dairy cattle businesses only made up 6.3 per cent of Australian farm businesses, 11.4 per cent of 2012–13 RFCS clients came from that sector. Similarly, grape growers made up only 4.3 per cent of Australian farm businesses, yet represented more than 7 per cent of RFCS clients in 2012–13.

TABLE 4: Proportion of Rural Financial Counselling Service clients and primary production businesses by sector (2012–13)[3]

Sector	Percentage of RFCS clients[1]	Percentage of Australian agricultural businesses[2]
Beef cattle	21.6	35.1
Cropping (wheat and other grains)	19.9	20.4
Sheep (wool, meat and sales)	13.9	12.1
Dairy cattle	11.4	6.3
Fruit, vegetables and other horticulture	9.1	10.2
Grape growing	7.2	4.3
Other	6.9	5.1
Small rural business	4.4	*
Cropping (cotton and other)	3.8	2.2
Aquaculture and fishing	0.8	*
Pigs	0.6	0.6
Poultry and eggs	0.3	0.9
Sugar	0.2	2.9

Source 1: ARC Database
Source 2: Australian Bureau of Statistics, *Agricultural Commodities, 2012–13*
* Not included in dataset
[3] As this data has been extracted from different data sources, there may be some discrepancies between categories. Data is provided as an indication only.

8 The apparent low percentage of beef cattle farms using the RFCS may be partly due to Australian Bureau of Statistics definitions, which include farm businesses with an 'estimated value of agricultural operations' of $5 000 or more. For many smaller beef cattle farms, the main source of income is off-farm income and therefore they would not be eligible for RFCS assistance.

1.3.2 Age demographics

The age profile of RFCS clients is largely consistent with the average age of Australian farmers (Table 5). Approximately 74 per cent of RFCS clients are in the 41 to 70 year age range and approximately 12 per cent are aged 71 and above. Farmers in the 21 to 30 year age range are less likely to access the service, with only 1.6 per cent of RFCS clients falling in this age range, even though this group represents 6.5 per cent of all Australian farmers.

TABLE 5: Average age of Rural Financial Counselling Service clients compared to Australian farmers (2012–13)

Age range	Number of RFCS clients[1]	Percentage of RFCS clients	Number of farmers[2]	Percentage of farmers
0 to 20	72	1.2	1 465	0.9
21 to 30	98	1.6	10 263	6.5
31 to 40	709	11.4	20 125	12.8
41 to 50	1 502	24.1	31 789	20.2
51 to 60	1 713	27.4	38 395	24.4
61 to 70	1 392	22.3	35 289	22.5
71 and above	760	12.2	19 818	12.6

Source 1: ARC Database
Source 2: Australian Bureau of Statistics, *Census of Housing and Population* (2006–11)
Note: Total number of RFCS clients listed in this table differs by 51 clients compared with Table 2. This is due to anomalies in the ARC Database.

1.3.3 Reasons for clients seeking Rural Financial Counselling Service assistance

Clients seek assistance from the RFCS on the basis of recommendations or referrals from a range of sources (Table 6) and for a number of reasons (Table 7). In 2013–14, while most people contacted the RFCS on their own initiative (28.1 per cent), DHS accounted for 16.2 per cent of referrals, business associates 10.1 per cent and banks 6.9 per cent.

TABLE 6: Sources of referrals to the Rural Financial Counselling Service (for new clients in 2013–14)

Referral type	Number of referrals	Percentage of referrals
Self	699	28.1
Centrelink (now DHS)	403	16.2
Business associates	252	10.1
Bank	172	6.9
Government agency (not DHS)	159	6.4
Newsletter or newspaper	150	6.0
Accountant	100	4.0
Another rural financial counsellor	98	3.9
Presentations	92	3.7
Industry organisation	83	3.3
Department of Agriculture	55	2.2
Field days	53	2.1
Health or welfare organisation	37	1.5
Solicitor	33	1.3
Community group	30	1.2
Rural consultant	26	1.0
Financial planner or advisor	12	0.5
Member of Parliament	9	0.4
Stock agents	9	0.4
Real estate agent	4	0.2
Training organisation	5	0.2
Doctor	2	0.1
Transition support service	3	0.1
Water authority	3	0.1
Insolvency agency	1	0.0
Total	**2 490**	**100.0**

Source: ARC Database

The reasons for people contacting the RFCS are recorded in the ARC Database by allocating a 'cause of difficulty'. In 2013, the majority (56.2 per cent) visited the service due to climatic issues. Other reasons included debt levels (15.4 per cent), personal factors (7.1 per cent), low sales and/or commodity prices (6.2 per cent), and enterprise size (4.7 per cent).

TABLE 7: Reasons for seeking Rural Financial Counselling Service assistance (2013)

Cause of difficulty	**Number of times recorded for clients**	**Percentage of total times recorded**
Climatic variation	2 469	56.2
Debt levels	674	15.4
Personal factors	312	7.1
Low sales and/or commodity prices	272	6.2
Enterprise size	206	4.7
Enterprise management skills	159	3.6
Financial management skills	101	2.3
Increased operating costs	45	1.0
Declining asset values	27	0.6
Regulation and/or legislation	15	0.3
Labour and/or skills shortage	9	0.2
Quarantine	3	0.1
Unknown	1	0.0
Total	**4 393**	**100.0**

Source: ARC Database

The information and data provided throughout Chapter 1 indicates a *prima facie* need for the RFCS. In Chapter 2 NRAC has considered need in the context of financial hardship within the target client group, the extent to which the assistance provided by the RFCS addresses this and the appropriateness of addressing this need with a government funded service.

2 Need for the Rural Financial Counselling Service

As described in Chapter 1, the purpose of the RFCS is to provide support to primary producers suffering financial hardship. To assess the need for this assistance, NRAC has considered three key issues:

- financial hardship within the target client group
- the extent to which assistance provided by the RFCS addresses financial hardship
- the appropriateness of a government-funded service.

Throughout NRAC's consultations, service providers and their clients consistently communicated a compelling need for the RFCS. Reasons presented to NRAC ranged from 'it's as tough for farmers as it has ever been' to 'you never know when the next crisis will hit'. The view that the RFCS is needed was reinforced by other stakeholders consulted by NRAC, including peak farming bodies, private-sector agricultural consultants, and representatives from the banking and finance industries. However, NRAC found that verifying this view quantitatively was difficult.

2.1 Financial hardship within the target client group

With the exception of anecdotal accounts, direct evidence for financial hardship in the primary industries is limited and some level of inference is required from available data. NRAC has relied on financial performance data for farm businesses to develop a broad picture of financial hardship in the target client group. Although the RFCS also services fishing and agriculture-reliant small rural businesses, stand-alone data for these client groups is not readily available. As these groups make up a relatively small proportion of the client base, NRAC has focused on the data relating to farming businesses.

NRAC recognises that personal circumstances, such as mental and physical health and relationship breakdowns, can contribute significantly to financial hardship. NRAC also recognises that financial hardship is multifaceted and, while business performance data can provide an important indication of financial hardship, it does not allow an unqualified assessment.

2.1.1 Farm financial performance data

The Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) collects detailed farm financial data and publishes key performance indicators for Australian farm businesses. These include farm cash income (net cash flow), equity ratio (assets compared to liabilities) and interest to receipts ratio (debt servicing costs compared to income). Together, these measures provide an indication of financial hardship in the agriculture sector. As observed by

ABARES, institutional lenders generally continue to service a farm business with an equity ratio of less than 70 per cent if it generates high farm cash income.[9] Similarly, if a farm business experiences negative cash income while retaining a strong equity ratio (greater than 70 per cent), it may be able to increase its working capital and make structural changes to increase profitability. In general, for a farm business to be in financial hardship, it must have low equity, consistently low farm cash income and no significant source of off-farm income.

According to ABARES, financial pressure increased on farm businesses in several industries and regions in 2012–13 due to the combination of low commodity prices, dry seasonal conditions, high farm debts and erosion of equity through reductions in land values. This continued into 2013–14, particularly in areas suffering from drought conditions. In spite of increasing financial pressures, however, average farm equity ratios remained relatively strong in 2013–14.[10]

At 30 June 2013, the average equity ratio of Australian broadacre farms was 87 per cent, with 10 per cent of farms recording an equity ratio of less than 70 per cent. In 2013–14, broadacre farms with high debt servicing commitments (interest to receipts ratio exceeding 15 per cent) totalled 15 per cent (Table 8).

TABLE 8: Financial performance of broadacre farms (2011–12 to 2013–14)

	2011–12 (%)	2012–13[1] (%)	2013–14[2] (%)
Average equity ratio	87	87	N/A
Farms recording negative farm cash income	24	24	28
Farms with equity less than 70%	10	10	10
Farms with interest to receipts greater than 15%	17	16	15
Farms with equity ratio less than 70% and negative farm cash income	4	4	4
Farms with equity ratio less than 70% and interest to receipts ratio greater than 15%	6	6	6

Source: ABARES, *Australian farm survey results 2011–12 to 2013–14*
1 ABARES preliminary estimate
2 ABARES provisional estimate

At 30 June 2013, the average equity ratio of Australian dairy farms was 79 per cent, with 23 per cent of farms recording an equity ratio of less than 70 per cent. In 2013–14, dairy farms with high debt servicing commitments totalled 12 per cent (Table 9).

9 ABARES (2014), *Australian farm survey results 2011–12 to 2013–14, Commonwealth of Australia, Canberra.*
10 *Ibid.*

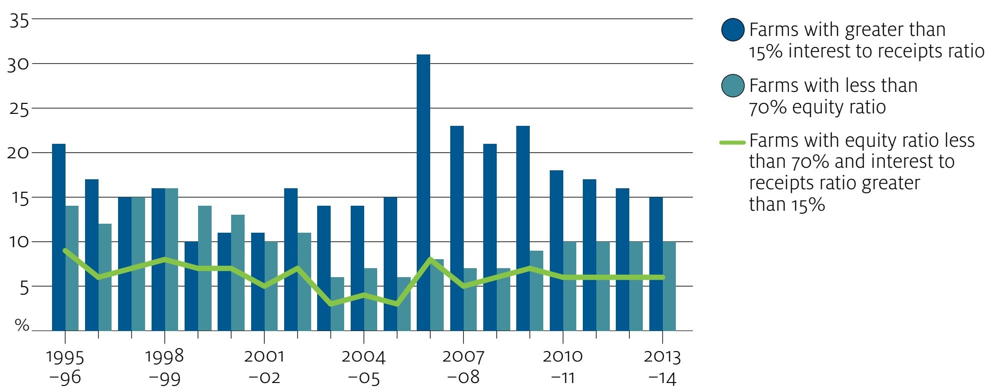
TABLE 9: Financial performance of dairy farms (2011–12 to 2013–14)

	2011–12 (%)	2012–13[1] (%)	2013–14[2] (%)
Average equity ratio	80	79	79
Farms recording negative farm cash income	14	33	17
Farms with equity ratio less than 70%	28	21	23
Farms with interest to receipts greater than 15%	16	20	12
Farms with equity ratio less than 70% and negative farm cash income	8	11	8
Farms with equity ratio less than 70% and interest to receipts ratio greater than 15%	14	13	11

Source: ABARES, *Australian farm survey results 2011–12 to 2013–14*
1 ABARES preliminary estimate
2 ABARES provisional estimate

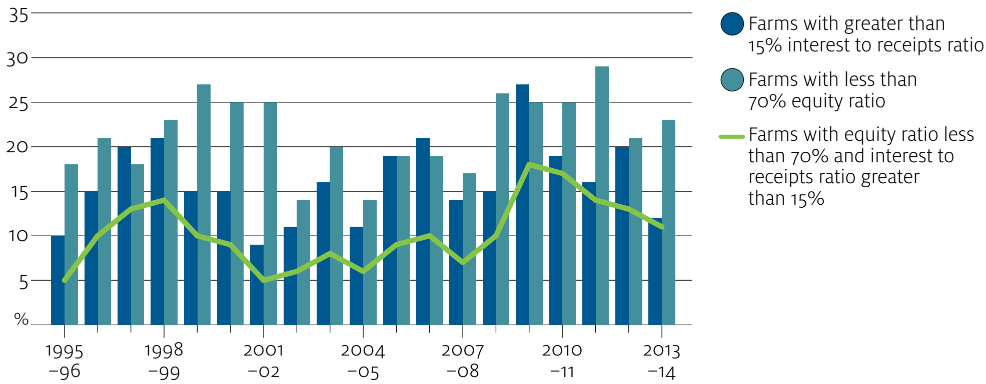
The proportion of broadacre farms with equity ratios of less than 70 per cent and high debt servicing commitments was 6 per cent in 2013–14 (Figure 2). This was below the 8 per cent peak in 2006–07 and well below the 12 per cent recorded in the early 1990s, when interest rates were high and farm cash incomes uniformly low across all industries.

FIGURE 2: Debt servicing and borrowing capacity, Australian broadacre farms



The proportion of dairy farms with equity ratios of less than 70 per cent and high debt servicing commitments was 13 per cent in 2012–13 as a result of reduced milk prices and drier seasonal conditions. In 2013–14, due to higher milk prices in southern dairy regions, this figure has declined to 11 per cent (Figure 3).

FIGURE 3: Debt servicing and borrowing capacity, Australian dairy farms



Some regions and states are experiencing relatively high levels of financial hardship. For 2013–14, the proportion of Queensland broadacre farms with low additional borrowing capacity and high debt servicing commitments was estimated to be 11 per cent. This is the highest recorded since 1997–98 when beef cattle prices were at record lows and interest rates were 60 per cent higher. This is primarily due to dry conditions in the grazing regions of the state over the last two financial years. However, there should be little change at the national level, mainly as a result of expected reductions in debt in Western Australia and South Australia.

The current level of financial hardship in rural communities is also reflected by the number of applications for Australian Government income support payments for farmers. The FHA, which commenced on 1 July 2014, provides payments to farmers and their families, subject to them meeting income and assets tests and activity requirements. More than 2 250 farm families were granted the Interim Farm Household Allowance (between 1 March 2014 and 30 June 2014) and more than 4 080 applications had been received for the FHA by 12 September 2014. While this equates to a relatively small percentage of Australian farm businesses, it is a clear indication that a proportion of farming families are experiencing financial hardship.

Finding 1: Available farm financial performance and other data indicate that there is a cohort of farming businesses experiencing financial hardship.

2.1.2 Current demand for the Rural Financial Counselling Service

NRAC notes that only a proportion of people in financial hardship will access RFCS assistance. However, current demand for such assistance provides an indication of financial hardship in the target client group. This conclusion, relies on the premise that, in line with the program's guidance documentation, service providers are only assisting clients who are genuinely experiencing financial hardship.

As recorded in the ARC Database, each business is regarded as a single client, regardless of whether it comprises more than one person. While an eligible business is initially classified as a general enquiry when it first contacts the RFCS, after one hour of assistance it automatically becomes a full client. This is irrespective of the reason for contacting the RFCS, which may be for a non-ongoing reason, such as assistance with obtaining drought support. As a result, there may be a number of businesses listed as clients, even though they may not be receiving ongoing assistance for reasons of financial hardship.

NRAC also notes there is limited guidance for rural financial counsellors on refusing services to clients who are not in financial hardship. The Resource Manual[11] states that these three questions should be asked to decide if someone is a client:

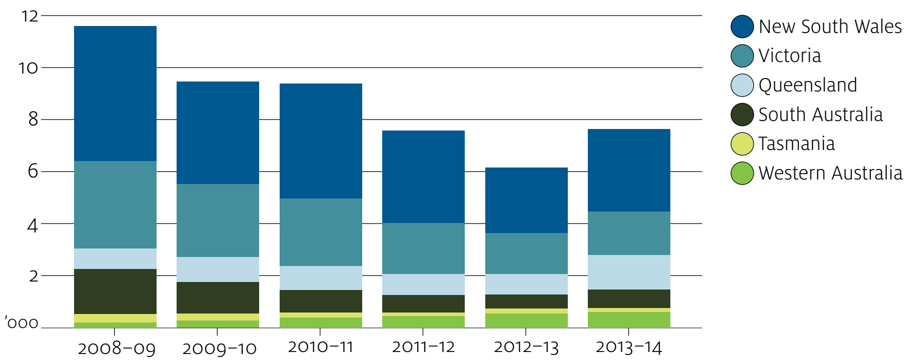
- Are they devoting most of their labour to primary production, fishing or to operating a small rural business?
- What are they seeking from the service and is it something that is covered by the RFCS program?
- What is their financial situation? For example, do they have enough income to meet their needs?

NRAC considers that this allows considerable flexibility for service providers to determine client eligibility. During consultations, the executive officers from several service providers indicated that refusing to service clients on this basis was left to the professional judgement of their counsellors. It was generally stated by rural financial counsellors that they did not believe the service was misused and that most who used the RFCS genuinely needed assistance. Conversely, it was made clear by some executive officers that clients were not refused service for any reason, including their financial position. Anecdotally, NRAC heard that at least a proportion of RFCS clients were not experiencing financial hardship. This is supported by ARC Database statistics, which provide a snapshot on the financial performance of clients. These statistics suggest that some may be in a relatively strong financial position. As such, criteria for assessing eligibility should be reviewed, which NRAC has considered (with related ARC Database statistics) in Section 3.1.8.

The ARC Database also indicates that a significant percentage of clients are experiencing financial difficulties and receiving ongoing support for issues related to financial hardship. Therefore, total number of clients and changes in those numbers can provide a useful measure of the financial hardship being experienced in the target client group. Client numbers have dropped progressively since 2007–08 on a nation-wide basis. Declining client numbers could imply a proportional reduction in need for the assistance offered by the RFCS. However, several service providers stated that, while client numbers were now lower than in previous years, the issues that rural financial counsellors were dealing with were now more complex and required more time to address. This is illustrated by a concurrent increase in average hours spent with each client, alongside a decrease in total client numbers from 2008–09 to 2012–13, before a rise in 2013–14 (Figure 4 and Figure 5).

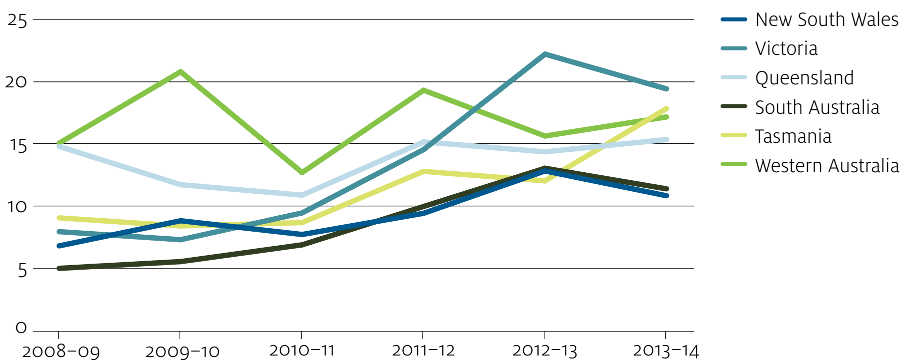
11 Department of Agriculture (2011), *RFCS Resource Manual Factsheets.*

FIGURE 4: Total client numbers by state (2008–09 to 2013–14)



Source: ARC Database

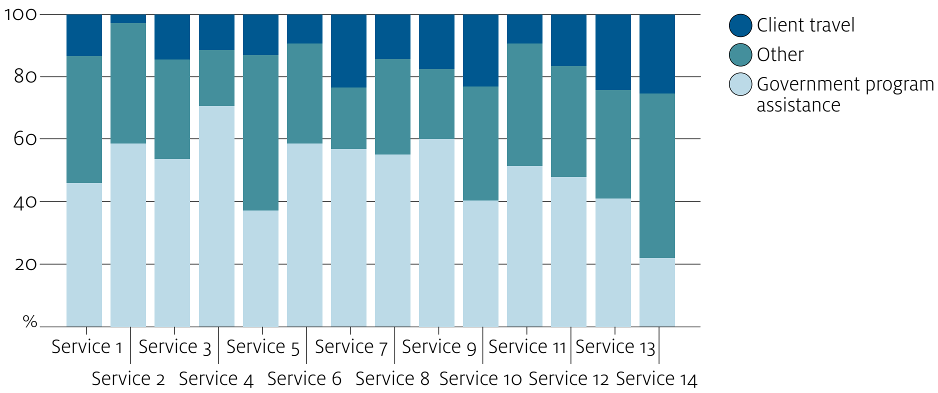
FIGURE 5: Average hours per client (2008–09 to 2013–14)



Source: ARC Database

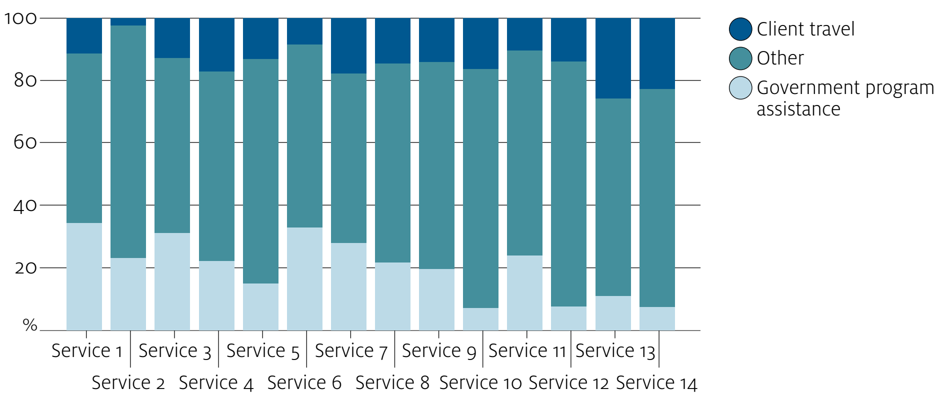
Some service providers reported that rural financial counsellors had stopped being a 'form-filling' service and were back to fulfilling their core financial counselling role. ARC Database information supports this, showing that across the entire service there has been a notable decrease in helping clients deal with short-term issues, such as accessing government assistance, and an increase in more time-consuming activities, such as business planning and farm debt mediation (Figure 6 and Figure 7). While client numbers have declined in some regions, there is strong demand for the more resource-intensive services also provided by the RFCS.

FIGURE 6: Types of Rural Financial Counselling Service assistance (2008–09)



Source: ARC Database

FIGURE 7: Types of Rural Financial Counselling Service assistance (2013–14)



Source: ARC Database

By comparison, in some regions of New South Wales and Queensland, client numbers have increased significantly. This growth in demand is correlated with below average rainfall experienced since mid-2012[12] and, in some regions, the occurrence of natural disasters. Service providers in these regions reported that increased demand was placing considerable strain on resources, with a large number of new clients being serviced. As a result, service providers were being required to place greater focus on addressing the immediate or 'critical' needs of clients. This included a significant increase in workload associated with helping farmers to apply for the new Australian Government income support payment, the FHA.

Finding 2: Demand for the RFCS provides a useful approximation of need for the service. At present, while client numbers have dropped in some regions and increased in others, there remains strong demand for RFCS services.

12 Bureau of Meteorology, www.bom.gov.au/climate/drought/archive/20140604.3.deciles.gif

2.2 The extent to which assistance provided by the Rural Financial Counselling Service addresses financial hardship

There is evidence to indicate that a proportion of target clients are experiencing financial hardship. To demonstrate need for the service, NRAC has considered the extent to which assistance provided by the RFCS addresses this hardship. In analysing need, only the appropriateness of the types of assistance provided by the RFCS has been considered. The efficiency and effectiveness of the RFCS in delivering services is investigated further in Chapter 3.

The funding deeds, the Charter (Appendix A) and the Resource Manual establish the assistance rural financial counsellors are permitted to provide.[13] To assess need, however, NRAC has focused on the assistance that the RFCS provides, as reported in stakeholder consultations. Whether the RFCS is adhering to allowable activities is addressed in Chapter 3. For this analysis, assistance has been broadly categorised as providing short-term assistance (responding to immediate need) or supporting the development of longer-term strategies (building self-reliance).

2.2.1 Short-term assistance: responding to immediate need

The first broad category of assistance provided by the RFCS involves responding to a client's financial 'crisis'. NRAC heard that when clients first contacted the RFCS, often the priority was to address their immediate needs. This practical approach serves three purposes:

- providing what was described to NRAC as 'breathing space' to address the decision paralysis that can affect clients in dire financial circumstances
- addressing immediate need can highlight the necessity for change
- providing the first steps towards adjustment—before a longer-term strategy can be implemented, whether exiting from the industry or returning to viability, a client must have the resources to undertake business and household sustaining functions.

While the degree of financial hardship of clients varies, the necessity of immediate assistance was reiterated through many client testimonials. NRAC heard that a reluctance to access income support had, in some circumstances, affected a client's ability to 'put food on the table' or had contributed to a decline in mental or physical health. Intervention by a rural financial counsellor had been the catalyst for many clients taking control of their situation and developing a more lasting solution for their circumstances.

While NRAC is satisfied that this type of immediate assistance performs a critical function, it is important that this becomes the basis for clients developing a longer-term strategy. The more sustainable a solution, the less likely a client will require ongoing RFCS assistance or return to the service in the future. There may be a perverse outcome if clients are only using the RFCS intermittently for short-term assistance, such as filling out forms for other government services and assistance measures. If farm businesses become reliant on the RFCS for addressing short-term needs, there may be no incentive for them to improve farm profitability or take control of their circumstances. This may result in the long-term improvement of a client's financial situation being delayed or otherwise inhibited.

13 The types of assistance the RFCS is allowed to provide are listed in Section 1.2.5.

Finding 3: The short-term assistance provided by the RFCS is often necessary for addressing financial hardship. However, this should only be the first step in implementing a strategy that improves a client's long-term financial position.

2.2.2 Developing longer-term strategies: building self-reliance

The second broad category of assistance provided by the RFCS occurs after immediate need is addressed. This may involve improving the long-term financial position of clients by increasing the profitability of their farm business or supplementing farm income with off-farm income. Rural financial counsellors work to increase a client's capacity to manage change and adjustment thereby building self-reliance. Service providers described this type of assistance to NRAC as the 'core business' of the RFCS.

In the case of returning a farm business to profitability, a long-term strategy should involve responding to the fundamental causes of financial hardship. While there is limited research in establishing a causal link to farm financial hardship,[14] the prevailing consensus is that a strong link exists between sub-optimal adjustment and deteriorating economic circumstances.[15] Acknowledging the complexity of financial hardship, there is strong logic to this proposition; the Australian agricultural industry faces continuous and significant adjustment pressures. It is easily the most volatile sector in the Australian economy and is almost two and a half times as volatile as the average for all sectors of the economy.[16] Australian agriculture is heavily trade exposed and individual farmers must respond to continuing changes in demand for products, competition from other countries, the cost or availability of inputs, and technological advances. In addition to economic factors, farmers must deal with uncertainty in climatic and other environmental conditions.

Australia's primary producers must be able to manage these highly complex environmental, production and market-related risks. Flexible management strategies underpinning constant change and adjustment at the farm level are critical for maintaining profitability. Farmers must have a high level of competency in business and financial management or employ external services, such as agri-business consultants, to provide this expertise. The most successful 20 per cent of farms typically demonstrate a sound understanding of this aspect of their business and/or draw heavily on professionals for information to support their decision making.[17]

Finding 4: Sub-optimal adjustment is likely to be a significant cause of farm financial hardship. Improving business management skills or engaging agribusiness services are the most effective ways to address this issue over the longer term.

There is evidence to suggest that the RFCS is increasing the capability and self-reliance of its clients. A 2009 evaluation[18] found that, as a result of RFCS assistance, most respondents had increased confidence in their ability to financially manage their enterprise. Respondents reported an increased

14 L Botterill (2007), 'Responding to Farm Poverty in Australia', *Australian Journal of Political Science, vol. 42, pp. 33–46.*

15 R Henderson (1975), *Poverty in Australia, Australian Government Commission of Inquiry into Poverty: First Main Report*, Commonwealth of Australia, Canberra.

16 M Keogh (2012), 'Including Risk in Enterprise Decisions in Australia's Riskiest Business', *Farm Policy Journal, vol.* 9, pp. 11–21.

17 G Stone (2005), *Agribusiness Role in Extension, Education and Training: A Case Study,* Rural Industries Research and Development Corporation, Canberra.

18 S Glyde, I Gray, L Howard and T Dunn (2009), *The Rural Financial Counselling Service: an Evaluation,* Charles Sturt University, Wagga Wagga.

awareness in the importance of financial management and business planning; an improved ability to develop a business plan and undertake financial management; and the implementation of changes to improve their financial position. In addition to developing their own skills, acting on RFCS referrals to professional services was found to correlate closely with positive outcomes related to increased self-reliance.

Finding 5: Available evidence suggests that longer-term RFCS assistance, which is focused on improving financial and business management skills, and encouraging the engagement of agribusiness services, is building clients' self-reliance and improving their ability to adjust.

2.2.3 Developing longer-term strategies: exiting from the industry

In some circumstances, exit from the industry may be the best or only option for an RFCS client. If this course of action is decided upon, early and effective intervention will likely improve outcomes. Expediting an exit should prevent continued deterioration of a client's financial position and enable them to retain as much of the remaining value of their asset base as possible. In addition, an 'orderly' exit may provide benefits for a number of other parties and the local community. During consultations, NRAC heard that large amounts of unsecured debt exist in rural communities. As such, the exit of a farmer from the industry without settling unsecured debts could have flow-on effects for the local economy. In the case where a foreclosure is the only option, effective debt mediation is likely to benefit the client, the institutional lender and possibly other parties.

There is limited evidence quantifying the extent to which the RFCS has improved the financial position of clients by assisting with their exit from the industry. During consultations, however, NRAC heard many examples of the RFCS playing a positive and valuable role. In most circumstances, the key role for rural financial counsellors was getting a client to acknowledge that an exit was the best option before any further deterioration in their asset base; that is, 'managing to get the best outcome from a bad situation'. In a specific example, among many, RFCS intervention had enabled a client to repay all their unsecured debts in the local community. In general, NRAC is satisfied that the role of the RFCS in facilitating exit from primary production, where this is the best available option, is likely to improve long-term outcomes for clients.

Finding 6: While evidence is anecdotal, NRAC is satisfied that the assistance the RFCS provides to farmers exiting the industry results in positive benefits for both the client and the community.

2.3 Should the government be addressing financial hardship in the primary industries?

NRAC believes there is sufficient evidence to suggest that financial hardship exists in the primary industries and the services provided by the RFCS are appropriate for addressing this issue. However, this does not necessarily indicate a strong rationale for government to fund this type of assistance. To assess the rationale for government support, NRAC has considered the different types of assistance that the RFCS provides in relation to their various objectives.

2.3.1 Business support

While responding to the wellbeing of clients and their families in the short term has a strong community service focus, a significant part of the assistance provided by the RFCS is related to business and financial support services. In contrast to social security and community services, the provision of business services is less commonly viewed as a legitimate role for government. The basis of this rationale is that in a well-functioning market the private sector provides these types of services most efficiently. The recent National Commission of Audit report[19] and a 2009 Productivity Commission inquiry report[20] both questioned RFCS funding for business-related services on this basis.

Service providers generally found it difficult to differentiate the business support services offered by the RFCS from those provided by the private sector. When asked if the RFCS could charge a fee for their services, the response was often that this was possible although it would make service providers no different to the private consultants operating in many larger rural centres. This suggests there is no compelling evidence of a market failure in relation to the business services provided by the RFCS.

When NRAC investigated this further, however, it became apparent that the private sector does not, in general, service farmers in financial difficulty. Service providers and private-sector consultants confirmed that the RFCS was not competing with, or crowding out, agribusinesses. While the private sector does take on some clients where recouping costs is unlikely, this was described as essentially *pro bono* work. There is neither the capacity nor the economic incentive for agribusinesses to provide ongoing services to the RFCS target client group.

Regardless of whether there is a market failure in the strictest sense of the term, NRAC considers that, were government funding discontinued, many farmers would not have access to the types of assistance provided by the RFCS. It is ultimately a decision for government and the community as to whether these services should be publicly funded. However, as discussed in Section 2.2.2, agribusiness services and professional advice are key to the profitability of farm businesses. Therefore, if these services are not provided by the private sector, NRAC believes that government funding is justified.

Finding 7: Given there is no incentive for agribusinesses to service clients without the capacity to pay, the RFCS is not crowding out or competing with the private sector.

2.3.2 Provision of information

The RFCS serves as an information source in rural communities and a referral point to other professional services. This role was identified by the Productivity Commission as a likely means of addressing an information market failure. For primary producers, information market failure relating to agribusiness services may prevent them from making economically efficient business decisions.

19 National Commission of Audit (2014), *Towards Responsible Government*, Commonwealth of Australia, Canberra.

20 Productivity Commission (2009), *Government Drought Support*, Commonwealth of Australia, Canberra.

In the first instance, the dispersed nature of farm businesses makes it challenging for agribusinesses to deliver adequate information on the services they provide. As a result, it is difficult for primary producers to identify the services that can meet their business needs.[21] Further, it has been recognised that, given the complexity of identifying the benefits associated with agribusiness services, it is difficult for primary producers to value these services. For example, the volatility of agricultural markets may make it very difficult for a producer to determine the value of a new marketing technique until several years after it has been introduced.[22] Finally, these issues are accentuated by a perceived lack of independence of private sector agricultural consultants from products; that is, concerns about the honesty and accuracy of information.[23]

The information market failure associated with business services available to primary producers was reinforced during consultations. NRAC repeatedly heard from clients that the RFCS is a trusted source of independent information. This places the RFCS in a unique position to address this market failure both through information provision and referrals. In addition, through the process of returning a farm to profitability, the value of professional services is demonstrated to the client. This may increase the willingness of farmers to pay for these services once they can afford them.

Finding 8: There is a strong rationale for the government to address the information market failure that is impeding farmers' access to services.

2.3.3 Benefits to the community

The rationale for government funding of the RFCS should also be considered in terms of public benefit; in the market failure paradigm, this is referred to as 'positive externalities'. It is understood that the private sector will generally under-provide services where the benefits of those services extend beyond the client to whom they are provided. This may mean that the highest possible level of community wellbeing is not achieved. As identified by the Productivity Commission in 2009, while the free service provided by the RFCS results in largely private benefits, there are also likely to be significant public benefits.

Public benefits are less tangible than private benefits and therefore can be difficult to measure. Nevertheless, throughout its consultations, a range of stakeholders advised NRAC that the community is a substantial beneficiary of the services the RFCS provides. Positive externalities created by the RFCS are likely to include: the flow of information and basic knowledge capabilities to primary producers and small businesses in the community; the health benefits resulting from reduced stress and improved mental wellbeing; and improvements to social capital, cohesion and unity.

21 J C Hanson and R E Just (2001), 'The Potential for Transition to Paid Extension: Some Guiding Economic Principles', *American Journal of Agricultural Economics*, vol. 83, pp. 777–784.

22 *Ibid*.

23 G Stone (2005), *Agribusiness Role in Extension, Education and Training: A Case Study,* Rural Industries Research and Development Corporation, Canberra; J Coutts, K Roberts and A Samson (2007). *Making the most of Agricultural Consultants in your Farm Business,* Rural Industries Research and Development Corporation, Canberra.

The effect of the RFCS on social capital may be of the greatest significance. Research suggests that factors such as population decline, removal of services and financial hardship are eroding social capital in rural communities.[24] By returning target clients to viability or facilitating their orderly exit from rural industries, the RFCS almost certainly has a positive impact on maintaining, or at least reducing the further decline of, the social capital of rural communities.

In addition, there is likely to be a direct economic 'flow on' effect of the assistance provided by the RFCS. As previously discussed, NRAC heard there are large amounts of unsecured debt in rural communities. Therefore the effect of farming and rural businesses foreclosing without paying unsecured debts would have a significant negative financial impact on local economies. Similarly, the ability of the RFCS to improve the profitability of farmers is likely to increase local spending and prevent the further decline in the number of farming families. This supports local businesses, increases employment opportunities and reduces further rural depopulation.[25]

The network of RFCS service providers also forms a valuable source of information and on-the-ground insight for governments and policy makers. NRAC heard that the Department of Agriculture had established strong relationships with executive officers, based on the two-way provision of information. The RFCS provides direct links to rural communities, an important communication channel in relation to government programs (such as income support payments) and feedback to better inform policy development. Although difficult to quantify, this is of value to government and, in turn, the broader Australian community.

Finding 9: Given there is a broader public benefit to rural communities beyond that received by RFCS clients, there is a strong rationale for government to provide these services.

Based on ABARES data, uptake of Australian Government income support for farmers, and information contained in the ARC Database, there is demonstrable financial hardship within the target client group. Further, available evidence suggests that the assistance provided by the RFCS is appropriate for addressing the challenges associated with financial hardship. Finally, as the benefits of the service extend beyond the target client groups to rural communities and government policy makers, there is sound justification for the Australian Government to continue to fund the assistance provided by the RFCS.

Recommendation 1: The Australian Government should continue to fund rural financial counselling services.

While NRAC considers it is justifiable for government to fund rural financial counselling services, these services must be provided efficiently and effectively. In Chapter 3, NRAC has considered the efficiency and effectiveness of the program and of individual service providers. This includes delivery mechanisms, governance arrangements and monitoring and evaluation.

24 M Tonts (2005), Competitive sport and social capital in rural Australia, *Journal of Rural Studies*, vol. 21, pp. *137–149*.

25 G Hugo (2005), 'The state of rural populations' in: C Cocklin and J Dibdin (Eds.), *Sustainability and Change in Rural Australia*, University of New South Wales Press, Sydney, pp. 56–79.

3 Efficiency and effectiveness of the Rural Financial Counselling Service

To assess the efficiency and effectiveness of the RFCS, NRAC has primarily relied on observations made during consultations and information available in the ARC Database. However, NRAC found assessing efficiency and effectiveness to be problematic due to the lack of a formal monitoring and evaluation framework for the program and problems with inconsistency of data available from the ARC Database. While the structure and function of the RFCS are clearly interconnected, the analysis in this chapter considers efficiency and effectiveness issues under two broad areas: governance and administration; and service delivery.

3.1 Governance and administration

The Australian, state and territory governments provide funding to a national network of individual service providers through an Australian Government competitive grants process. With a budget of more than $73 million for the 2011–15 grants funding period, robust governance and administrative arrangements are essential to ensure full accountability for expenditure of public funds. In addition, appropriate skills and expertise are required to effectively manage, monitor and deliver the program. To assess the efficacy of current arrangements, NRAC has reviewed the key structures, mechanisms and parties involved in the governance and administration of the program.

3.1.1 Boards

As set out in current funding deeds, the board of each service provider has primary responsibility for the governance of their organisation. The duties of a board include responsibility for corporate governance; setting strategic directions and developing business plans; performance management of executive officers and of the board itself; and reporting to government on client-related activities. All boards must adhere to relevant legislation of Australian, state and territory governments, which set out the fundamental principles and duties of board members.

During the review, NRAC met with representatives from the boards of all service providers—in most instances the chair. Based on comparisons made with the 2004 review of the RFCS[26] and the performance audit undertaken by PricewaterhouseCoopers (PwC) in 2012[27], NRAC notes ongoing improvement in the professionalism of boards. This likely reflects the greater emphasis placed on skill-based boards and higher standards of corporate governance by governments since that time. Despite the apparent improvement, NRAC notes that the PwC performance audit found that:

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26 NRAC (2004), *Report on the Review of the Rural Financial Counselling Service Program*, Commonwealth of Australia, Canberra.

27 PricewaterhouseCoopers (2012), *Performance Assessment of Rural Financial Counselling Service Providers*, Commonwealth of Australia, Canberra.

> *... most of the organisations (10 out of 14) are performing at a "Medium" level or above (six "Medium" and four "High"), meaning they prompt few or no major concerns in relation to their corporate governance, financial management and service delivery frameworks. However, four organisations had more serious risks for the program's delivery and were assessed as performing at a "Low" level.*

Consultations confirmed variance in the skills-base, professionalism and operating procedures of boards. When asked about their organisation's strategic directions, it was clear that some boards were fulfilling only a limited role in this area of their governance responsibilities. Some board members failed to demonstrate strong awareness of RFCS program objectives, the obligations and duties of board members, or issues related to budgets and staffing. This suggests that, in some cases, boards may not be providing strong strategic direction or adequately monitoring the performance of their organisation.

Funding deeds specify that board members must have suitable qualifications and knowledge of corporate governance. They must also have relevant experience in at least one of the following areas: law; business management; accountancy or finance; social welfare or community development; human resources management; corporate governance; or rural issues. During the review, NRAC asked each service provider to submit documents detailing the skills and experience of all board members. The information tendered indicates that some boards do not have the full suite of required skills.

Under funding deeds, the Department of Agriculture can direct boards to improve the qualifications and skills of members. However, NRAC heard that the department has been reluctant to do this, given the limited ability of smaller service providers, particularly those in remote areas, to recruit appropriately skilled board members. There may also be some sensitivity around perceived criticism of the dedicated volunteers who have provided their time for free so that the maximum amount of funding could be used directly for servicing clients. In some instances, NRAC heard that volunteer boards have found it extremely difficult to recruit and retain experienced and skilled individuals. Further, some boards have lacked adequate funding to send board members to corporate governance courses, which can be costly. As such, these boards would have limited capacity to rectify specific deficiencies in expertise.

Finding 10: There was a substantial variation in the skills-base, professionalism and operations of RFCS boards. It has been difficult for some boards to improve the skills and experience of members.

During consultations, NRAC heard that the recruitment process for board members varied widely across service providers. Some boards were implementing a robust recruitment process that relied on advertising vacant positions and recruiting members based on their skills, knowledge and experience. Others would select members without formal advertising of vacant positions. In some cases, membership was automatically delegated to local shire councillors or members of local support groups. While some boards engage members on a fixed term, others have no defined tenure, with board members sitting for significant periods without review. NRAC found that boards that applied greater rigour to recruitment—such as undertaking skill-based appointments with fixed-term tenures—generally exercised a greater degree of strategic oversight and active governance.

Under current funding deeds, service providers may use up to 5 per cent of their annual operational budget to fund board costs, including remuneration, allowances, meeting costs, travel, accommodation, meals, secretariat costs, training and recruitment. As service providers have flexibility around the payment of boards, remuneration varies widely between service providers. Board costs were between $0 and $70 575 per board, with an average of $24 540 in 2013–14. Some service providers paid their board members salaries, whereas others paid *per diem* rates consistent with the Australian Government's Remuneration Tribunal determinations.

NRAC was advised by the Department of Agriculture that board costs were limited to 5 per cent in an attempt to ensure an appropriate balance between funding management structures and on-the-ground services. While some service providers make use of the provision of funding for boards, other boards continue to operate on a volunteer basis to enable maximum funds for direct service delivery. However, NRAC observed that service providers with remunerated boards were more likely to have members who were better skilled, engaged and aware of their governance responsibilities.

Finding 11: Approaches to recruitment and remuneration of RFCS board members are inconsistent. In general, NRAC observed that professionally recruited and remunerated boards were more skilled and aware of their governance responsibilities than volunteer boards.

Considering the sizeable budgets and variety of issues service providers need to manage, board members must have appropriate qualifications and knowledge of corporate governance processes. It is vital that all boards have a clear understanding of their obligations under their funding deed and relevant legislation, and that they effectively execute their governance responsibilities. While corporate governance standards may have improved since the 2012 PwC performance audit, NRAC believes all service providers must demonstrate a 'high' standard of corporate governance, financial management and service delivery standards. NRAC considers it is unacceptable for any service provider to perform at a 'low' level, as determined by the 2012 PwC audit.

While NRAC appreciates that some boards volunteer their time so that the majority of government funding is used for service delivery, volunteers still need to be aware of their governance responsibilities and hold appropriate skills and experience. To achieve the highest possible level of competency and consistency of boards, NRAC considers that more transparent and robust recruiting processes are required of all service providers. This should include fixed-term tenures, advertising vacant positions, skill-based selection criteria and competitive selection processes. NRAC notes that attracting appropriately skilled board members may have been difficult for some of the smaller and more remote service providers.

Consideration should be given to implementing standard remuneration fees for all board members. While NRAC does not suggest volunteer board members necessarily lack skills or experience, in general, this would assist service providers with attracting highly skilled board members and ensure a consistent approach to board remuneration across service providers. As opposed to a percentage of each service provider's budget, it would be more appropriate for board member remuneration to be consistent with Remuneration Tribunal determinations. Standard remuneration will require providing board funding separately to the allocation of funds for service delivery, so that smaller service providers are not unfairly impacted. This is discussed further in Section 3.1.6. NRAC also believes limits should be placed on the number of board members so that funding is not unreasonably diverted from direct service delivery and unnecessarily top-heavy management structures are avoided.

Recommendation 2: All boards should be professional, skill-based, experienced and capable of providing an appropriate level of strategic direction and corporate governance. This should be achieved through:

- **implementation of robust and transparent recruitment processes by all service providers**
- **time-limited tenure for all board members**
- **setting appropriate upper and lower limits to the number of board members on a single board**
- **consistent remuneration benchmark for board members, for example, in line with relevant Remuneration Tribunal determinations.**

3.1.2 Government administration

While funding is provided by Australian, state and territory governments, the RFCS program is administered by the Department of Agriculture. Its primary responsibility is to ensure appropriate use of public funding in line with the Commonwealth Grant Guidelines and the principles in the *Public Governance, Performance and Accountability Act 2013* (these principles were formerly contained in the *Financial Management and Accountability Act 1997*). The department's performance in administering grants programs is outlined in its annual financial and reporting processes, as well as regular assessments by the Australian National Audit Office.

In administering the RFCS program, the department is responsible for the payment and acquittal of grant funding, the management of funding deeds, and monitoring and evaluation. This is achieved through reporting arrangements with service providers, including: six monthly financial reports; quarterly administrative compliance reports; annual budgets; annual planning documents (strategic business plans, risk management plans, communications plans); and annual reports.[28]

The department also uses the RFCS network as an information conduit, particularly for informing government policy development (as described in Section 2.3.3). Similarly, the department regularly contacts executive officers for regionally specific feedback and updates on the implementation of relevant government programs. NRAC also heard that the ARC Database was regularly accessed to provide information for a range of government reports and briefings.

While the department has responsibility for administering the RFCS program as a whole and the boards have responsibility for governance of their organisation, there has been some blurring of roles and responsibilities. NRAC heard that the department has at times engaged in aspects of the governance and day-to-day operations of individual service providers. NRAC heard that, particularly where it had received information on specific lapses in governance, the department has worked with service providers, primarily through executive officers, to address issues. These have related to areas such as staff management, allocation or location of staff resources, expenditure issues and fulfilling requirements of funding deeds.

NRAC also notes that while, under their funding deeds, boards are responsible for the strategic direction and performance of their organisation, the department's primary interaction with service providers occurs through the executive officers rather than directly with the boards. This may flow from the existing relationship between the department and the executive officers for the purpose of information exchange.

28 Department of Agriculture (2011), *Funding Deed for Rural Financial Counselling Services.*

Finding 12: While the Department of Agriculture is responsible for the administration of the RFCS program and each board is responsible for the corporate governance of its organisation, these roles and responsibilities have become blurred in some instances.

NRAC notes that the department's involvement in areas that should be the responsibility of RFCS boards has been an attempt to ensure Australian Government funding was expended appropriately. While the department is required to meet its obligations under the *Public Governance, Performance and Accountability Act 2013* to ensure the appropriate use of public funds, this should not include direct engagement in the governance arrangements of service providers. Under legislation, each board is ultimately accountable for the actions of the organisation it governs, and each board must be aware of funding deed requirements. Therefore, the policies determining how RFCS program objectives and key performance indicators are met should be the responsibility of boards. In addition, boards are well positioned to develop strategies and deliver services reflecting the needs of their area.

The responsibilities and duties of service providers, including their boards and executive officers, are adequately outlined in funding deeds and the Resource Manual. However, there is no specific guidance on the department's role and responsibilities in administering the RFCS program. The legislative framework outlined earlier, funding deeds, the Resource Manual, and departmental policies provide relevant, but only general direction. NRAC considers that appropriate guidance documentation should be developed to more clearly delineate the department's responsibilities and duties in the administration of the RFCS program.

Recommendation 3: The Department of Agriculture should be responsible for the management of funding deeds and the monitoring and evaluation of the RFCS program as a whole. RFCS boards should be responsible for the strategic and corporate governance of their organisation. The roles and responsibilities of each party should be underpinned by appropriate guidance documentation.

Issues relating to corporate governance, strategic direction and meeting funding deed requirements should be addressed directly through boards. Interactions with executive officers should be primarily limited to information provision.

3.1.3 Monitoring and evaluation

While funding deeds list key performance indicators, criteria are high level. This makes it difficult to monitor trends, evaluate client outcomes and evaluate the efficiency and effectiveness of the program. NRAC heard from the Department of Agriculture that the last formalised monitoring and evaluation framework was developed for the 2006–08 funding round. The department has attempted to develop new frameworks to address a number of changes to the program over time, including the:

- newly developed ARC Database, adopted by service providers in 2008
- implementation of the new case management framework and associated EAP in 2008
- additional reporting modules added to the ARC Database over time, including those capturing case management of income support programs.

Despite the absence of a defined monitoring and evaluation framework, the department has used various information sources to review and assess RFCS performance. This includes ARC Database reports, financial reports and other documents submitted by service providers, as well as external evaluations, such as national client surveys and performance audits. This has enabled the department to meet its reporting requirements and key performance indicators as listed in its annual reports and portfolio budget statements. The department also has access to client surveys undertaken by service providers. However, client surveys have been *ad hoc*, not based on consistent measures and feedback is largely qualitative. As such, their use in evaluating the RFCS program is somewhat limited.

Finding 13: While the Department of Agriculture has engaged in monitoring and evaluation of the RFCS program, there has not been a formalised monitoring and evaluation framework since 2008.

A clear delineation of governance and administrative responsibilities must be underpinned by a well-designed monitoring and evaluation framework. Service providers must have a mechanism to monitor their performance and have clearly-defined reporting structures. Through these reporting structures, the department must be able to quantitatively and comparatively assess the performance of individual service providers and of the RFCS program as a whole. An effective monitoring and evaluation framework would also help articulate administrative and governance responsibilities for the department and boards.

The development of such a framework must be guided by concise RFCS program objectives, which NRAC has considered in Section 4.1. Measureable and relevant key performance indicators must be directly linked to these objectives and underpinned by reporting structures for service providers and the department. Reporting requirements should not be excessive or complex to ensure data collected is accurate and timely.

NRAC recommends that new a monitoring and evaluation framework should comprise the following principles:

- establishment of baseline indicators from which to measure changes in the RFCS
- measurement of key activities delivered by service providers
- measurement of outputs from service providers
- measurement of outcomes that achieve program objectives
- comparison of efficiency and value for money of services
- comparison of delivery standards
- enhancement of services and continuous improvement.

It is also important that a new monitoring and evaluation framework supports and encourages: improved client outcomes; timely service delivery; enhanced promotion of the service; client eligibility assessments; and a robust needs analysis to underpin funding arrangements. This should include clear links to the annual review and assessment process for applications for contestable funding (as discussed in Section 3.1.6).

To measure the long-term impact of the service, client outcomes should be assessed one to five years after a client exits from the RFCS. Further, NRAC believes the practice of periodic external performance audits should continue. This will add additional robustness to program delivery, ensure the department meets its administrative responsibilities and ensure service providers maintain sufficiently high corporate governance standards.

Recommendation 4: A robust monitoring and evaluation framework must be developed and formalised to support governance arrangements and ensure that RFCS program objectives are being met. This should include evaluating client outcomes and the impact of services delivered by the RFCS. Monitoring and evaluation should also be supported by periodic, external performance audits of service providers and the RFCS program as a whole.

3.1.4 The Australian Rural Counselling Database

The Department of Agriculture monitors the RFCS program by relying on reports produced by the ARC Database. This is somewhat problematic as this database was originally designed as a client management tool and has been adapted over time for monitoring and evaluation purposes. Although valuable data for client management purposes are collected, this was not intended for monitoring and evaluating client outcomes or measuring program effectiveness.

Statistics available from the ARC Database can be difficult to analyse and compare for monitoring and evaluation. Information in reports can be difficult to interpret; several reports purport to provide the same information, yet data is presented inconsistently, has different caveats and/or appears to report different figures for the same indicator. The department indicated this is the result of the *ad hoc* development of ARC reports over a number of years within a constrained fiscal environment. Often there was limited funding to maintain the database, develop new reports or improve the database. As a result, there is no complete, consistent set of reports to monitor and evaluate the program as a whole. NRAC heard that even for departmental staff with advanced knowledge of the ARC Database, analysing and synthesising reports from it could still be complicated and time consuming.

Based on consultation feedback, NRAC is concerned that data is not always entered into the ARC Database consistently or in a timely manner, jeopardising the integrity of reports being produced. This is because some users find the software difficult to operate and struggle with the amount of data entry required. NRAC heard that while the department undertakes monthly checks to ensure mandatory ARC Database reporting is complete, many rural financial counsellors only input data shortly before departmental deadlines. Further, many rural financial counsellors fail to appreciate the reasons or necessity for accurate data collection. In consultations, some counsellors stated they found it difficult to use the ARC Database and did not always input data accurately.

Finding 14: The Australian Rural Counselling Database was designed primarily as a client management tool. As a result, it does not always provide an appropriate mechanism to monitor and evaluate the RFCS program and its outcomes.

Data integrity is essential for a robust monitoring and evaluation framework. Reliable information and effective and consistent reporting must underpin measurable criteria and key performance indicators. Given the inadequacy of the ARC Database, NRAC recommends that the department prioritise the development of a new database and ensure adequate and ongoing funding to maintain and update it.

NRAC stresses that the purpose and function of a new database must be carefully considered. Primarily, it must support boards and executive officers to provide effective governance for service providers. It must also collect the data that enables boards to report on key performance indicators to the department. As such, the database should be designed after a monitoring and evaluation framework has been finalised. Also, data collected must be relevant and appropriately detailed. In addition, the dual purpose of the ARC Database, which includes client management capabilities, could be replicated in a new system, if practical. This will prevent unnecessary duplication where data is applicable to both client management and monitoring and evaluation.

NRAC acknowledges that operating such a database may require specialist knowledge and training. However, a new database should be designed to support consistent data collection. It must also be user-friendly and present data in an easy-to-interpret and consistent manner. This will prevent staff turnover within service providers from affecting the quality and usability of data inputted. In addition, only data that is integral to monitoring and evaluation should be collected (beyond that required for client management). This will minimise onerous data entry requirements for rural financial counsellors.

Recommendation 5: The Department of Agriculture should prioritise the development of a new database to underpin governance arrangements and a monitoring and evaluation framework, as well as provide client management functions if practical. This new database must be user-friendly and capture relevant, consistent and reliable data.

3.1.5 Service areas

In assessing the effectiveness and efficiency of the RFCS program, NRAC has reflected on the advantages and disadvantages of different models of service delivery. NRAC believes the size and structure of service providers, and the regions they cover, has a significant impact on their governance and administration arrangements.

The current regional or state/territory boundaries for each service provider were mostly defined during the major consolidation of service providers for the 2006–08 funding period. In the 2008 competitive funding round, service providers were able to propose the area in which they would deliver services. This resulted in large disparities in service area sizes, partial cross-over of some proposed boundaries and gaps in service provision for some areas. Consequently, the Department of Agriculture had to liaise with successful applicants, and their relevant state government, to define geographical boundaries and funding amounts before each service provider could sign their funding deed.

Finding 15: In past funding rounds, unspecified service areas led to complex administrative processes to ensure complete service coverage.

In future funding rounds, pre-defined service area boundaries would ensure Australia-wide coverage and provide administrative efficiencies in the competitive grants process by avoiding unnecessarily complex funding negotiations. In addition, having potential service providers submit applications for the same service area would facilitate a rigorous, transparent and consistent assessment process.

Recommendation 6: Any future funding round should have pre-defined service areas to ensure Australia-wide coverage of services and facilitate a robust, transparent and practical approach to the selection of service providers.

As discussed in Chapter 1, Western Australia, South Australia and Tasmania are each covered by a single RFCS provider; New South Wales, Victoria and Queensland are each covered by multiple service providers. During its consultations, NRAC heard that single state-based service providers may have a number of advantages with ease of service delivery and relationship management. Representatives from state-based service providers affirmed that being the sole service provider facilitated a direct relationship with its respective state government and industry organisations. Through this direct relationship, service providers found it easier to liaise with representatives, discuss issues and provide on-the-ground feedback. State-based service providers also advised they could easily move rural financial counsellors around the state to service areas experiencing increased demand.

Some chairs and executive officers from regionally-based service providers in New South Wales, Victoria and Queensland, indicated that efficiencies could be gained by consolidating regional service providers into a state-wide service. Some of the efficiencies mentioned included:

- reduced remuneration costs associated with a single board
- operational savings for service providers due to lower costs in some areas, such as administrative staff, information technology, office supplies and fleet management
- time and resource savings for the Department of Agriculture in administering the program.

The view that efficiencies could be gained through consolidation was not universal. Some service providers in multi-service states believed cost savings would be limited. They indicated that there are already lean administrative structures in place and, therefore, consolidation was unlikely to reduce the number of management positions required to effectively run the service. In addition, representatives from the Victorian Government did not believe reducing the number of providers in that state would provide administrative or other efficiencies.

Finding 16: In general, the model of having multiple service providers operating within some states does not appear to be the most cost-effective service delivery option.

On balance, NRAC is satisfied that some economies of scale would naturally be achieved by consolidating service providers in New South Wales, Victoria and Queensland. However, it was difficult for NRAC to support this conclusion with available quantitative data. The ARC Database and other available information, such as annual budgets, contained little evidence to indicate greater efficiencies were being achieved by single-state service providers. NRAC believes this could partly be related to some of the problems with the ARC Database discussed earlier. It may also partly be related to differences in funding availability and service delivery models, which limits NRAC's ability to make meaningful comparisons.

While implementing larger service areas is likely to produce net efficiency and effectiveness gains, NRAC acknowledges that some gains will partially be offset by new, additional costs. For example, larger service providers may need a more complex management structure, as there is a limit to the number of employees a single executive officer can effectively manage. If consolidation occurs, a single executive officer may need the support of additional management positions.

NRAC also acknowledges that, if larger organisations are funded, it remains important for service providers to maintain a strong connection with the rural communities they service. Despite the move from community-based organisations to regional and state-based organisations in 2006, service providers appear to have maintained strong links with their local communities. While the forums used to maintain this connection varied, NRAC observed that the level of community engagement was generally related to the priorities of a board, not the size of service areas. NRAC is confident that local community connection can be maintained through carefully considered engagement platforms, which should not be restricted by service area size.

In addition to possible efficiency gains, NRAC considers that consolidating some regional services will be likely to improve overall performance through better governance, stronger leadership and more strategic direction setting. Increasing the size of service delivery areas will be likely to facilitate the implementation of Recommendation 2, which relates to developing high-quality boards. Board members would be drawn from a larger pool of potential applicants, as larger, higher-profile organisations should be able to attract more highly-skilled board members.

Recommendation 7: A single service provider should be used to service each state or territory. This is likely to create service-wide efficiencies as well as help service providers recruit quality board members and implement stronger corporate governance arrangements.

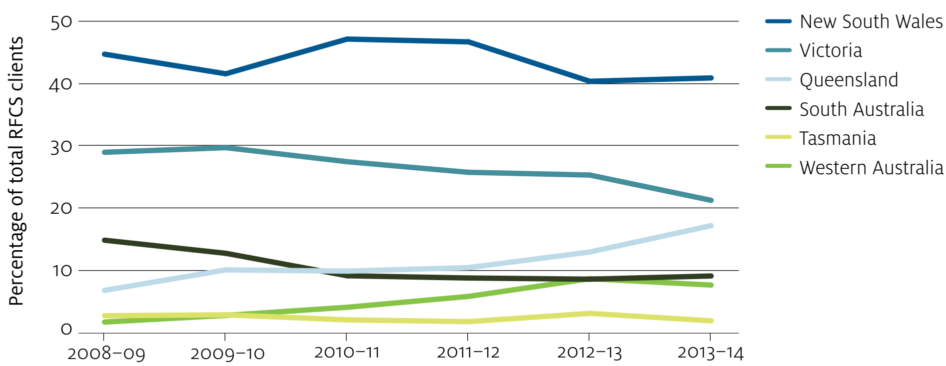
3.1.6 Funding model

The RFCS program is one of relatively few programs within the agriculture portfolio under which Australian Government appropriations are allocated on an ongoing basis; that is, appropriations for the forthcoming financial year, as well as the four forward years, are allocated in each annual Federal Budget on a rolling basis. While appropriations for the RFCS program may vary in forward years due to indexation, the amounts available to each service provider during a funding round are fixed at the start of their funding deed. NRAC notes that state and territory governments also contribute funding to the program to varying extents (Appendix D). However, the funding arrangement between the Australian Government and state and territory governments has not been considered in the following analysis.

The distribution of Australian Government funding for each service provider was last determined in 2011. At that time, no formal process was undertaken to analyse the need for rural financial counselling services across different jurisdictions. Funding was instead allocated in the same proportions as the previous grant funding round, which began in 2008. The Department of Agriculture advised this was primarily due to the lack of time available between confirmation of funding availability through the 2011 Federal Budget and the start of new funding deeds on 1 July 2011.

In 2008, funding distribution was primarily calculated using the 'total number of clients' and 'total number of client assistance hours' recorded by each service provider in previous years, as discussed in Section 3.1.5. While NRAC has noted some reliability issues with the ARC Database, Figure 8 provides a general impression of changes in state-wide client loads since funding was last allocated on a needs basis in 2008.

FIGURE 8: Change in client load by state (2008–09 to 2013–14)



Source: ARC Database

Finding 17: The base funding for each service provider has not been reviewed since 2008. Due to changes in demand, this may mean that some services are currently over-resourced, while others are currently under-resourced.

NRAC was informed that the department has been able to maintain a small contingency fund due to the ongoing funding for the program and the indexing process it undergoes. During periods of natural disasters or exceptionally high increases in client numbers, some service providers submitted business cases seeking additional funding. With approval from the Minister for Agriculture, the department has distributed small amounts of contingency funding to service providers based on need. However, NRAC notes there does not appear to have been a standard approach to this process; there has not been a clear set of criteria for assessing additional demand, and the amount and availability of contingency funding has not been made known to service providers as it varies from year to year. As such, NRAC believes the current method for providing additional funding lacks consistency and transparency.

Finding 18: While there has been some additional funding to address fluctuations in demand for the RFCS, this has not been provided on a consistent and transparent basis.

Over any funding period, the need for RFCS assistance may fluctuate, particularly due to climatic events, market trends, industry adjustment, or other sector and community trends. It is therefore important that any future funding model be flexible so it can adjust the funding available to service providers based on demand. To account for fluctuations in demand, NRAC recommends that funding available to each service provider under the RFCS program be broken down into two categories:

1. **Fixed funding:** The majority of funding should be fixed at the start of the funding period. This would enable each service provider to maintain a baseline level of expertise and capacity. It would also enable funding certainty for longer-term budgeting and business planning. NRAC recommends that 80 per cent of total funding may be an appropriate level for this purpose.

   With the implementation of Recommendation 2, board costs will be relatively similar across service providers. Out of the fixed funding, each service provider should initially receive a standard allocation to remunerate the board (rather than a percentage of their budget). This would prevent smaller service providers, which may otherwise receive a relatively smaller amount of funding, from being unfairly impacted.

   To distribute the remaining fixed funding, the amount received by each service provider should be based on the number of farm businesses in each state/territory. The number of farm businesses per state/territory provides a relatively straightforward and equitable way to distribute funding. With regional variables that affect demand excluded, the number of farm businesses should be highly correlated with base-level demand for the service.

2. **Contestable funding**: A proportion of funding should be a contestable amount allocated annually. NRAC recommends that 20 per cent of total funding may be an appropriate level for this purpose.

   The mechanism for allocating the contestable component of funding could be based on a business case, submitted annually by each service provider. Service providers would need to demonstrate excess demand for their service, which would be likely to continue for the following 12 months. The department should retain some flexibility to consider client numbers in the context of each service provider's operating environment, long-term climatic conditions and emerging issues. However, additional criteria should be transparent and clearly articulated to service providers.

NRAC recommends a business case as the mechanism for obtaining contestable funding, in preference to using information from the ARC Database. At present, this database may not be reliable enough to accurately reflect changes in demand. However, as data reliability improves—as should occur with the implementation of Recommendation 5—client numbers and client assistance hours should become the primary mechanism for determining fluctuations in demand. NRAC also notes that the number of 'clients' and 'assistance hours' will only be a reliable measure if service providers are not assisting ineligible clients or unnecessarily keeping clients on their books. As such, a demands-based funding model must be supported by the development of robust criteria for both client eligibility (Recommendation 11) and the provision of a time-limited service (Recommendation 16), as considered in the following sections of this report.

NRAC also considers the department should keep around 1 to 2 per cent of annual total program funding in reserve as an emergency contingency fund. This would be allocated for unforeseen and significant natural disasters or major industry upheavals. The emergency contingency fund should be withheld from the contestable portion of funding before additional demand-based distribution occurs. It would be allocated automatically if clear and consistent thresholds were exceeded. The approach to allocating the emergency contingency fund should be transparent and clearly articulated to service providers.

All funding, with the exception of the emergency contingency funding, should continue to be paid to service providers quarterly, as is the current arrangement. In addition, NRAC notes that the usual grants management processes would need to continue, in that quarterly payments could be reduced if a service provider had significant surplus funds (whether these had been paid through fixed or contestable funding allocations), and excess funds would be returned to governments at the end of funding rounds.

Recommendation 8: To account for fluctuations in demand, RFCS program funding should be divided into two components, with:

- **80 per cent to be fixed at the start of the funding period, based on the number of farm businesses per state or territory.**
- **20 per cent to be contestable and allocated annually on a needs-basis that accounts for fluctuations in demand for individual service providers.**

In addition:

- **A standard amount should be allocated to each state or territory for board costs.**
- **One to two per cent of funding should be withheld and only distributed to service providers in the case of a natural disaster or major unforeseen circumstances.**

All funding arrangements must be implemented in a consistent and transparent manner.

3.1.7 Mobility of counsellors

While Recommendation 8 should address some issues related to fluctuations in client numbers, NRAC considers that demand-based funding needs to be supported by other options that increase the flexibility of human resource allocation. Under the provisions of current funding deeds, the Department of Agriculture may direct service providers to deploy a rural financial counsellor to a particular geographical location. This provision is designed to address short-term fluctuations in demand by relocating human resources to areas experiencing increased need for services.

While, historically, there have been some short-term relocations, both within and between states, the department has rarely enacted this clause. Partly, this has been because some service providers have willingly moved rural financial counsellors to service areas in the wake of natural disasters; this has mostly occurred when the rural financial counsellor had previous connections to the affected areas. NRAC also heard that formal mobilisations have occurred infrequently because this places an unreasonable expectation on rural financial counsellors. Most have strong ties to the communities they service and would be, understandably, hesitant or unwilling to relocate to another region or state/territory for an undefined period. Moving rural financial counsellors between service providers also raises issues around budget allocations, employment contracts and travel expenses.

Finding 19: The Department of Agriculture has rarely requested that rural financial counsellors be relocated to address increases in demand for services as this places an unreasonable impost on rural financial counsellors and only provides a short-term solution.

During consultations, NRAC heard that some service providers employ rural financial counsellors part-time to cope with peaks and troughs in demand. As a result, there is less need to rely on short-term relocation of rural financial counsellors from other regions. Instead, service providers can increase working hours of part-time counsellors to meet demand. Other service providers address the need for additional staff through an ongoing relationship with former or retired rural financial counsellors, who can be contracted when needed. NRAC recognises the benefits of both methods, as they require no negotiation between service providers, do not rely on the willingness of rural financial counsellors to relocate, reduce additional administrative costs, and ensure rural financial counsellors can 'hit the ground running'. However, NRAC acknowledges that while contracting former or part-time rural financial counsellors has many benefits, it may not always be practical or facilitate the employment of the most suitably qualified workforce.

NRAC noted that very few service providers engage with clients through the internet or through other telecommunications technologies. NRAC believes increased use of these platforms would help more efficiently service clients, particularly those located in remote areas. Servicing clients using newer information technologies may also enable allocation of human resources to areas experiencing increased need, without physically relocating rural financial counsellors. NRAC recognises that a proportion of RFCS clients may have limited computer skills and access to internet services. However, there may be many clients who would be willing to engage with the RFCS through alternative communication platforms.

Recommendation 9: Service providers should pursue innovative approaches to maintain a flexible workforce, which would increase the available options for meeting fluctuations in demand. In addition, greater focus on alternative communication platforms may increase service delivery options.

While workforce flexibility should provide a sound basis for addressing short-term fluctuations in need, NRAC recognises this may not always be possible or adequate. As such, it may be appropriate to maintain a mobility clause in future funding deeds. If this were to occur, the issues that have historically resulted in infrequent mobilisation of rural financial counsellors must be addressed. NRAC heard that rural financial counsellors would be willing to relocate for short periods to assist clients. In some cases, they could continue servicing these clients remotely on return to their original location. Therefore, NRAC considers that mobility arrangements would still be effective, and are more likely to be implemented, if rural financial counsellors were only required to relocate for short periods.

A future mobility clause should stipulate the circumstances under which the department could direct a service provider to relocate staff; an acceptable period of time for a relocation; and responsibility for costs associated with relocating. Potentially such costs could be met from the new emergency contingency funding arrangement outlined in Recommendation 8.

Recommendation 10: The Department of Agriculture must ensure that a mobility clause in future funding deeds is reasonable, well-designed and comprehensively outlines the conditions in which relocation would be expected to occur. The focus should be on short-term relocations responding to crisis situations and subsequent demand.

3.1.8 Eligibility of clients

As discussed in Chapter 2, NRAC believes the rules for client eligibility are ambiguous. The Charter, the Resource Manual and funding deeds contain a number of contradictory statements on target clients and client eligibility. This has resulted in client eligibility assessments being implemented inconsistently across the RFCS program.

Funding deeds state that an 'eligible client' must be 'experiencing financial hardship'. Additional guidance in the Resource Manual states that a person can only become a client if 'they are suffering financial hardship'. Further, it states that 'people or businesses who are not in financial hardship but who seek information about their business options should not become RFCS clients.' However, the Resource Manual also notes that a rural financial counsellor can service those not yet in financial hardship, if they consider that 'the financial position of an eligible enterprise could deteriorate without assistance from a rural financial counsellor.' This statement reflects the medium and short-term outcomes listed in the Charter, under which service providers are encouraged to improve the awareness and understanding of 'the benefits of early access to the service'.

While there is some confusion around the eligibility of enterprises not yet technically in financial difficulty, it was generally accepted that RFCS assistance should target those in hardship. However, NRAC heard that some service providers have not considered it necessary to review the financial position of potential clients, and were willing to offer assistance to anyone who approached the service. This is confirmed by statistics available through ARC Database, which suggest a proportion of clients, particularly ongoing ones, may not be experiencing financial hardship.

Table 10 and Table 11 contain the available financial indicators for RFCS clients, which are comparable to the financial data for all broadacre and dairy farms as considered in Section 2.1.1.[29] As would be expected, the financial position of RFCS clients appears to be, in general, much worse than the broader population of broadacre and dairy farmers.

Compared to the average equity ratio of all broadacre and dairy farms (87 per cent and 79 per cent respectively in 2012–13), the average equity ratio for RFCS clients was 56 per cent. However, the percentage of clients with both low equity and either negative farm cash income or high-debt servicing commitments is relatively low. For example, only 28 per cent of ongoing clients for Service 3 have low equity as well as either negative farm cash income or high debt servicing commitments. While NRAC has noted issues concerning the reliability of the ARC Database, this suggests that, for some service providers only, a relatively small number of clients are experiencing significant financial hardship.

29 The ABARES data considered in Section 2.1.1 is only for dairy and broadacre farms, while RFCS clients come from a range of industries.

TABLE 10: New client financial data (2013–14)[a]

	Average equity ratio[b]	Clients with equity <70%	Average debt service costs as % of income[c]	Clients with debt servicing >15%	Clients with farm viability ratio <1[d]	Clients with equity <70% and debt service levels >15%	Clients with equity <70% and farm viability ratio <1%
	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Service 1	43	100	46	100	100	100	100
Service 2	52	61	30	39	61	36	46
Service 3	69	42	37	60	76	32	35
Service 4	51	56	25	36	60	20	34
Service 5	57	62	52	71	77	52	46
Service 6	53	62	40	64	77	49	50
Service 7	66	52	36	56	78	34	40
Service 8	66	46	71	69	77	38	31
Service 9	42	68	35	53	71	44	56
Service 10	23	44	47	78	78	44	39
Service 11	65	49	19	46	71	34	40
Service 12	65	53	20	29	71	24	41
Service 13	61	46	41	61	75	36	43
Service 14	26	80	76	66	46	58	41
Nationally	**53**	**58**	**42**	**59**	**71**	**42**	**43**

Source: ARC Database

[a] Only includes clients who have joined the RFCS in 2013–14 and completed financial performance records within an EAP.

[b] Equity ratio is the realisable value of farm, stock, plant and machinery and other assets less the amount for repayment of all liabilities, divided by assets.

[c] Debt servicing cost is the value of interest repayments for farm business debt as a proportion of gross income.

[d] Farm viability ratio is calculated from farm cash income divided by total costs and including depreciation, drawings and taxation/total income. A ratio of less than one indicates negative farm cash income.

TABLE 11: Ongoing client financial data (2013–14)[a]

	Average equity ratio[b]	Clients with equity <70%	Average debt service costs as % of income[c]	Clients with debt servicing >15%	Clients with farm viability ratio <1[d]	Clients with equity <70% and debt service levels >15%	Clients with equity <70% and farm viability ratio <1%
	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Service 1	74	30	22	39	54	17	18
Service 2	54	53	37	59	73	39	41
Service 3	67	38	34	53	70	28	28
Service 4	56	61	25	52	75	37	47
Service 5	45	52	44	66	60	40	38
Service 6	63	56	34	71	76	48	44
Service 7	51	61	34	65	76	48	49
Service 8	61	52	28	60	73	38	38
Service 9	59	60	20	47	67	34	42
Service 10	52	70	31	62	79	51	57
Service 11	54	68	22	44	72	40	50
Service 12	64	52	27	50	70	32	37
Service 13	53	66	39	65	61	49	47
Service 14	26	75	36	64	56	55	44
Nationally	**53**	**57**	**32**	**58**	**69**	**40**	**42**

Source: ARC Database

[a] Only includes ongoing clients who first sought assistance before 2013–14 and have completed financial performance records within an EAP.

[b] Equity ratio is the realisable value of farm, stock, plant and machinery and other assets less the amount for repayment of all liabilities, divided by assets.

[c] Debt servicing cost is the value of interest repayments for farm business debt as a proportion of gross income.

[d] Farm viability ratio is calculated from farm cash income divided by total costs and including depreciation, drawings and taxation/total income. A ratio of less than one indicates negative farm cash income.

Finding 20: The rules for determining client eligibility are ambiguous and contradictory. This has resulted in eligibility assessments being inconsistently applied across the RFCS program and some service providers not always targeting those in financial hardship.

The definition of an eligible client affects many facets of the RFCS program. A clear definition for eligible clients is essential to ensure that:

- government funds are used to assist those most in need
- accurate analysis on fluctuations in demand for the service can be undertaken
- service providers can effectively promote their services to the appropriate target client group
- the Department of Agriculture can effectively monitor and evaluate the program.

While it is important to have strong client eligibility criteria in place, it is also important that service providers retain some flexibility in meeting the needs of a broad range of clients. NRAC recommends that eligibility assessments become a two-stage process. When a potential client first contacts the RFCS, a preliminary assessment could be carried out by a short questionnaire. This would be used to establish if the potential client was in the target client group; seeking services offered by the RFCS; and believed themselves to be experiencing financial hardship. Provided this was the case, rural financial counsellors could offer that client up to two hours of assistance. This is currently the assistance time allowed before a client must be case managed under an EAP.

After two hours of assistance time, a rural financial counsellor should conduct a full eligibility assessment if a client is seeking ongoing services. This would include a more thorough review of the client's financial position. NRAC recommends that the full eligibility assessment focus on the risk associated with four key components of a target client's business: management; profitability; cash flow; and equity. An appropriately weighted combination of these factors would be used to generate an overall risk rating for a client.

An eligibility assessment that produces a simple risk rating would provide significant ongoing value and flexibility in servicing clients. This would allow service providers to triage clients and identify those most in need of immediate assistance, with priority given to clients experiencing high levels of financial risk. A risk-rating process would provide a robust eligibility assessment, ensuring that services were not provided to those in a strong financial position, while facilitating an appropriately early intervention role for the RFCS program.

As considered in Section 3.1.4, the process for recording clients in the ARC Database has created some confusion and inaccurate reporting of client numbers. A two-stage eligibility process would need to be effectively accommodated in the existing, or in any new, client database. There must be two clear client classifications: clients receiving assistance prior to a full eligibility assessment; and clients formally assessed as eligible. Clients who are determined to be ineligible by the eligibility assessment, or choose not to progress with assistance after the initial two hours, must be recorded as having exited from the service. Clients formally assessed and classified as eligible must have their client classification updated.

NRAC stresses that a formal eligibility assessment process must not be highly complex or onerous and that only the minimum information required for a robust and equitable assessment should be collected. All information collected should have value to the provision of an ongoing service.

Further, clients receiving income support payments should automatically be considered as having met the eligibility requirements for ongoing assistance, as is currently the case. This prevents unnecessary duplication, as these clients have already clearly demonstrated they are experiencing financial hardship. For clients who have not yet been granted income support, if a rural financial counsellor believes they would be successful, the client should be provided ongoing assistance until a determination is made. At that point, a client should become automatically eligible or be required to undertake the appropriate RFCS eligibility assessment.

In addition to income support, NRAC notes that some clients may approach the RFCS for help with applications for other government assistance programs. Clients must only be assisted to apply for other government services if the program is aimed at assisting those in hardship, such as income support or disaster relief. Acceptable short-term assistance is discussed further in Section 4.2.1.

Recommendation 11: The Department of Agriculture must develop robust and concise criteria to determine client eligibility, comprising two parts:

- **a brief, question-based preliminary assessment, enabling short-term assistance to be provided**
- **a financial risk assessment, enabling ongoing assistance to be provided.**

The formal financial risk assessment should not be overly complex or onerous. Clients receiving income support should be considered as having automatically met the eligibility criteria.

3.1.9 Provision of services not funded through the Rural Financial Counselling Service program

NRAC notes that, under current funding deeds, a service provider is not permitted to charge for services in connection with providing rural financial counselling. However, NRAC is aware that some service providers have been delivering related services through an independent division of their organisation. In some instances, these divisions may have been operating as commercial businesses, charging a fee-for-service, or delivering services funded through separate government or not-for-profit programs.

Finding 21: Some service providers deliver RFCS services through a separate division of a larger organisation, which may also operate for-profit divisions that charge fees for related services.

NRAC does not fundamentally consider there is an issue with parent organisations of service providers also operating for-profit divisions. However, the Australian Government and organisations with these arrangements must consider a number of issues, including the:

- separation and clear budgeting of funds, to ensure all RFCS program funds are spent exclusively on the delivery of rural financial counselling services
- management of real or perceived conflicts-of-interest, to ensure clients are not inappropriately referred to an associated service.

NRAC believes organisations currently delivering multiple types of services are managing these issues adequately.

There may be benefits in having complementary services delivered through a single organisation. Services not permitted under funding deeds, such as training and education, could be provided on a fee-for-service basis. This may facilitate a more holistic service and encourage service providers to be innovative in delivering assistance. In addition, clients requiring one-off assistance with application forms not directly related to hardship, such as concessional loans, could receive this on a fee-for-service basis. This would ensure that clients not experiencing financial hardship could still receive professional services, on a fee-for-service basis, that would improve their business structure and profitability.

NRAC notes service providers that have, or are planning to establish, a separate arm within their organisation could conduct Farm Financial Assessments (which is a requirement of the FHA) and charge for this service.

Delivering complementary services may increase rural financial counsellors' exposure to, and understanding of, a wider variety of agricultural, financial and legal issues. However, NRAC stresses that employees of a parent organisation must contribute a proportionate amount of labour to the remuneration they are receiving from RFCS funding. For example, if an employee was employed full-time by the service provider as a rural financial counsellor, they should not be devoting any of their labour to another division of the parent organisation. Service providers would need to demonstrate this to the satisfaction of the Department of Agriculture.

Recommendation 12: Parent organisations of service providers should be allowed to charge for related services through an independent division of that organisation. However, stringent management of RFCS budgets, resources and real or perceived conflicts-of-interest must be demonstrated.

3.2 Delivery of services

In the second part of this chapter, NRAC has considered the efficiency and effectiveness of the on-ground delivery of RFCS services. This relates primarily to the role played by rural financial counsellors. While limited quantitative data again made this somewhat difficult, NRAC was able to use anecdotal accounts and available evidence to draw some broad conclusions on the efficiency and effectiveness of service delivery.

3.2.1 Service quality

The ability and dedication of rural financial counsellors are fundamental to effective service delivery. As stipulated under funding deeds, the service provider, through the executive officer, must monitor the performance of rural financial counsellors. On the basis of internal performance evaluations, the executive officers consulted by NRAC consistently indicated that rural financial counsellors were hardworking and well respected. This view was consistently supported by clients and other parties consulted.

ARC Database information indicates that activities undertaken by rural financial counsellors have varied over time, reflecting their ability to be flexible. For example, during previous droughts and natural disasters, rural financial counsellors have spent a much higher percentage of their time assisting clients to access government related assistance programs, while the focus has now, in some regions, shifted to business planning and farm debt mediation.

NRAC also found that the RFCS responded to potential clients in a timely manner. While a set timeframe for responding to clients is not set out in RFCS program guidance documentation, NRAC heard that this was a priority for most rural financial counsellors and executive officers. At least one service provider reported that their protocol was to respond to client phone messages within 24 hours. Timely responses were more challenging for service providers experiencing large demands, for example, due to natural disasters or drought conditions.

In the 2009 Charles Sturt University evaluation,[30] more than 80 per cent of surveyed clients rated rural financial counsellors as 'very good' or 'excellent' in areas such as quality of information provided, promptness, commitment, knowledge and ability, and communications. This high quality of service delivery is supported by a number of other client surveys and evaluations. A recent client survey commissioned by RFCS South Australia, for example, identified that 95 per cent of clients were 'very satisfied' or 'quite satisfied' with their rural financial counsellor.[31] This positive feedback is tempered somewhat by the 2012 PwC performance assessment of the RFCS, which found that, while standards varied significantly between the 14 service providers, procedures for monitoring service delivery should be improved.[32]

Finding 22: Rural financial counsellors are capable, dedicated and well-respected. They seek to provide a quality service that is valued by their clients.

3.2.2 Training and development of rural financial counsellors

All rural financial counsellors are required to have, or obtain within two years from commencing employment, a Diploma of Community Services (Financial Counselling). This course, originally developed to train 'generalist financial counsellors', was partially adapted for rural financial counsellors in 2009. Under the 'rural financial counselling stream' of the Diploma, a number of mandatory units focus on the skill sets needed by rural financial counsellors. A number of executive officers and rural financial counsellors commented that the Diploma did not adequately equip staff with all the skills needed to effectively deliver rural financial counselling services. In general, however, most service providers believed it provided the basic skills needed by all rural financial counsellors.

In addition to the Diploma, all service providers engage in additional training courses, specifically targeted to the needs of their rural financial counsellors. Further, many service providers seek to improve the skills of their counsellors by having experienced staff members mentor new employees. This has been a focus of the senior coordinators employed by the Victorian service providers. The senior coordinators have been appointed for the expertise and knowledge they have gained as experienced rural financial counsellors, and so are used extensively in mentoring and training less experienced staff members.

Finding 23: The Diploma of Community Services (Financial Counselling) is adequate as a minimum training requirement. Service providers are active in providing specialised training to meet the needs of rural financial counsellors.

NRAC recognises that the knowledge and experience of rural financial counsellors is valuable and that the implementation of a formal mentoring process is of great benefit to the development of less experienced counsellors. NRAC also recognises that the time available to focus on training and development can vary across service providers depending on levels of demand for RFCS assistance; high client demand limits the time available for non-client related activities. Allowing service providers the flexibility to identify their training needs is effective since it enables them to focus on training and development opportunities that address identified skill gaps.

30 S Glyde, I Gray, L Howard and T Dunn (2009), *The Rural Financial Counselling Service: an Evaluation*, Charles Sturt University, Wagga Wagga.

31 McGregor Tan Research (2014), *2014 RFCS Program Evaluation*, RFCS South Australia.

32 PricewaterhouseCoopers (2012), *Performance Assessment of Rural Financial Counselling Service Providers*, Commonwealth of Australia, Canberra.

Aside from formal training, many executive officers and chairs noted that the most effective rural financial counsellors usually had previous experience in agriculture or the banking and finance industries. NRAC notes that effective recruitment is an important consideration when engaging new rural financial counsellors, as previous experience in related industries is a valuable asset.

NRAC recognises that the move to state-based service providers (Recommendation 7) should increase the cost effectiveness of providing training to rural financial counsellors. While some service providers coordinate the delivery of specific training and information, this varies from state to state. NRAC considers that coordinated training for rural financial counsellors provides opportunities to network and share information.

Recommendation 13: Service providers should continue to focus on providing tailored training for their rural financial counsellors, including the mentoring of new rural financial counsellors by experienced staff. In addition, all service providers should build the skills of their cohort of rural financial counsellors through targeted recruitment.

3.2.3 Providing advice

Rural financial counsellors have an Australian Securities and Investments Commission exemption which allows them to provide financial advice in the course of providing financial counselling services without the need to hold an Australian Financial Services Licence. Regardless, the Department of Agriculture has considered the provision of financial advice by rural financial counsellors to be a high risk and inappropriate activity. This is due to the potential for conflicts of interest (that is, rural financial counsellors using their position to advantage their private interests) and the potential litigation of the Australian Government that might result from rural financial counsellors providing poor advice. Therefore, under current funding deeds, rural financial counsellors are prohibited from providing financial advice; they can only provide information, options and decision-support to clients.

By contrast, generalist financial counsellors, funded through other Australian and state and territory government programs, operate successfully within the bounds of the licensing exemption from the *Corporations Act 2001*. Information provided to NRAC indicated that, despite this exemption, generalist financial counsellors do not provide advice on specific financial products. Rather, they offer recommendations on the benefit of having insurance and superannuation, which are considered financial products.

Finding 24: The restriction placed on rural financial counsellors' ability to provide 'financial advice' may have, in some instances, restricted their ability to provide important, generic financial recommendations, such as on superannuation and insurance.

NRAC is satisfied that rural financial counsellors should continue to be prohibited from providing recommendations on specific financial products. However, under the current restriction, rural financial counsellors also cannot provide general advice about products such as insurance, superannuation and farm management deposits, which are critically important financial strategies available to primary producers. Therefore, it is reasonable that rural financial counsellors should be able to recommend that clients obtain these, without recommending specific products. NRAC believes this is unlikely to present significant risk to the Australian Government or increase the likelihood of conflicts of interest. If this were allowed, the limited nature of the advice permitted must clearly be set out in funding deeds and guidance documentation. It would also be necessary to ensure that all service providers hold appropriate professional indemnity insurance, as is currently the case.

Recommendation 14: In line with the appropriate licensing exemption provided by the Australian Securities and Investments Commission, rural financial counsellors should be permitted to provide generic advice on the benefits of using some types of financial products.

3.2.4 The Enterprise Action Plan

In 2008, the Department of Agriculture developed a new case management framework, using the EAP. This was intended to ensure RFCS clients had defined long-term goals and were continually taking actions to achieve these goals in a timely manner. Typically, clients are required to develop an EAP after more than two hours of accumulated rural financial counsellor assistance has been received. The department also has a key performance requirement that 85 per cent of clients be case managed under an EAP (or other relevant action plan in the case of income support recipients, as outlined in Section 4.3.3). This requirement was considered to provide enough flexibility in the case where service providers were dealing with large numbers of short-term clients, such as those who may seek assistance in the wake of a natural disaster.

NRAC notes that little quantitative evidence is available to indicate whether client outcomes improved after the EAP was introduced. In the 2009 Charles Sturt client survey, most respondents said the EAP had contributed to improving their financial position and three-quarters said it had increased their farm business and financial awareness.[33] This study was undertaken relatively soon after the EAP was introduced and it recommended a follow-up review of its effectiveness.

NRAC heard a mix of responses on the usefulness of the EAP. In general, rural financial counsellors and executive officers felt it was a useful tool. In some instances, however, rural financial counsellors reported the mandatory requirement to complete an EAP did not suit all clients, such as those exiting farming. NRAC also heard that some service providers were supplementing the EAP with additional financial, agricultural or business management software.

Finding 25: While there is limited evidence demonstrating the effectiveness of the Enterprise Action Plan, most service providers consider it a useful tool. In some instances, however, service providers are using additional business planning software, which suggests that the Enterprise Action Plan may have some limitations.

At present, the EAP appears to be mix of a case management tool and a business management tool. Given that some service providers are using alternative software for business planning requirements, this suggests that the EAP is not providing some capabilities of other business planning software. While case management and business planning are critical for supporting improved client outcomes, in principle, NRAC believes it would be beneficial to provide some flexibility. This could enable service providers to use business planning software that is suited to the unique circumstances of their clients; industry appropriate; and could be used after a client's engagement with the rural financial counsellor. This may increase service delivery costs, to some extent, because of licensing fees.

As part of this review, NRAC did not analyse the EAP thoroughly or assess the effectiveness of its dual role: providing a case management framework and business planning functions. However, a more in-depth review, that considers its ongoing purpose and functionality, should be undertaken in the broader context of developing a monitoring and evaluation framework (Recommendation 4) and an improved data collection tool (Recommendation 5). NRAC believes there may be an opportunity

33 S Glyde, I Gray, L Howard and T Dunn (2009), *The Rural Financial Counselling Service: an Evaluation,* Charles Sturt University, Wagga Wagga.

to split the two functions: case management could continue to be carried out through a data collection tool, while service providers could be given flexibility in the business planning software used. Any review of the EAP should also consider the role of the FIA under the FHA, and the interaction of the two case management tools, as discussed further in Section 4.3.3.

Recommendation 15: The business planning function of the Enterprise Action Plan should be reviewed. While a case management framework should continue to support client outcomes, service providers could be given greater flexibility in business planning software.

3.2.5 Providing timely outcomes

It is important that RFCS clients make progress in a timely manner. As discussed in Section 2.2.2, this ensures that farmers experiencing financial hardship are increasing their self-reliance and achieving a lasting outcome, as well as ensuring that public funds are used as efficiently as possible. While the case management framework was introduced in an attempt to ensure clients progress in a timely manner, NRAC often heard it was common for clients to receive assistance over extended periods of time.

The ARC Database reveals that for two service providers, more than 60 per cent of current clients have been active for five to six years or more (Table 12). NRAC is aware, however, there may be issues with the figures retrieved from the database. Both executive officers and rural financial counsellors raised concerns that the ARC Database may be distorting the time clients are reported as being active. After exiting from the RFCS, if a client returns for assistance with a new issue, their original file is re-opened. This makes it appear as though clients have been active from the time of their initial contact. Despite issues with the ARC Database, many clients revealed in consultations that they had been receiving assistance for extended periods, often much longer than five to six years.

TABLE 12: Time clients remain active for each service provider (2014)

	<12 months (%)	1–2 years (%)	3–4 years (%)	5–6 years or > (%)
Service provider 1	19	6	8	67
Service provider 2	18	10	9	63
Service provider 3	31	12	8	49
Service provider 4	15	23	18	44
Service provider 5	26	22	13	39
Service provider 6	54	13	7	26
Service provider 7	20	12	12	55
Service provider 8	23	26	8	43
Service provider 9	17	22	10	51
Service provider 10	28	27	10	34
Service provider 11	13	11	10	66
Service provider 12	25	20	15	40
Service provider 13	25	20	8	48
Service provider 14	14	46	32	9

Source: ARC Database
Note: Due to data consolidation during a previous upgrade to the ARC Database, some clients have a default start date of 21 November 2006, and this may distort some percentages.

Finding 26: Many RFCS clients are being assisted for extended periods, often five to six years or more. While NRAC acknowledges there are issues regarding available data on time spent assisting clients, over-servicing undermines the effectiveness and efficiency of the RFCS.

Evidence suggests that over-servicing has been a long-standing and systemic issue for the RFCS. In its 2006 assessment of RFCS South Australia, Rural Solutions SA highlighted longevity of service as a problem. It noted that 'almost 9 per cent of clients assisted in 2005–06 had been with the RFCS for a period of five years or more'. The Rural Solutions SA report suggested this was due to some rural financial counsellors offering extended assistance, beyond the core services of the RFCS and their skill and expertise. It also noted that some rural financial counsellors were not supporting the development of client independence and that some clients were, instead, becoming dependent on the rural financial counsellor.[34]

While NRAC did not find evidence of rural financial counsellors currently offering services beyond their skill and expertise, consultations supported the notion of dependence. The development of close personal relationships with rural financial counsellors appeared to be impeding the progress of some clients. During consultations, clients generally spoke very highly of their rural financial counsellor and the services received. However, NRAC was concerned at some comments such as 'rural financial counsellors provide a shoulder to cry on', 'we keep in contact with our rural financial counsellor because he's our friend' and 'our rural financial counsellor is part of the family'. Acknowledging the importance of good client relationships, a close personal relationship must not limit a rural financial counsellor's ability to provide clients with professional services. In these situations, the RFCS may be fostering dependence as opposed to building client capacity, increasing self-reliance and improving a client's long-term financial position.

In some circumstances, NRAC heard rural financial counsellors were unable to achieve timely outcomes due to lack of engagement from clients. This issue may be compounded by lack of clear guidance on when a client should exit from the service. The Resource Manual details the importance of 'regularly reviewing clients to confirm they are making progress towards a clearly defined outcome—whether this means adjusting within or out of agriculture'. For some service providers, it was difficult to articulate when a client should be exited.

Finding 27: Key reasons for extended servicing of clients include the development of close personal relationships or lack of engagement from the client.

NRAC believes clients should not be serviced for extended periods and that greater emphasis must be placed on achieving timely outcomes. NRAC acknowledges that the time over which clients require assistance may vary depending on their circumstances and the type of assistance required. As such, there must be sufficient flexibility in the delivery of RFCS assistance.

If a client is no longer making progress due to lack of engagement, in most circumstances, service providers should withdraw support. NRAC recommends that the key mechanism for ensuring that clients are engaging with the RFCS is a mandatory annual review of all clients, which should be undertaken by the rural financial counsellor. Client progress should be assessed against actions determined under the case management framework. If clients are not engaging, their file must be referred to the executive officer for reporting to the board, and formal exiting considered. NRAC notes that in withdrawing support, a service provider must be cognisant of a client's circumstances, including mental health status.

34 Rural Solutions SA (2006), *Rural Financial Counselling SA: Needs Analysis for Service Delivery Model*.

Recommendation 16: All RFCS clients should be reviewed annually by their rural financial counsellors and those who are not progressing due to lack of engagement should, in general, be exited from the service.

NRAC also believes ongoing dependence of some clients on the RFCS must be addressed. Based on feedback from a range of stakeholders, NRAC considers three years to be sufficient time for implementing management changes or exiting the industry through sale of the farm business. This timeframe is also consistent with the time limit applied to the provision of income support through the FHA. All clients remaining with the RFCS after three years of continuous assistance should undergo a mandatory review by the service provider's executive officer. NRAC would expect that most clients, having been engaged and provided adequate assistance, would be exited from the RFCS as a result of the three-year review. However, the option of ongoing assistance should remain the discretion of the executive officer in consultation with the board.

Recommendation 17: All clients should be reviewed after three years of continuous assistance and, in general, be exited from the service. If a legitimate need for ongoing assistance exists beyond this time, this should be left to the discretion of the executive officer and board.

Given the flexibility service providers will have to extend the time assistance is available to a client, it is important they have an incentive to ensure timely and sustainable improvement in a client's situation. As such, an appropriate key performance indicator relating to length of client service should be incorporated in a monitoring and evaluation framework. This would enable boards to track the overall level of extended servicing and ensure it is maintained at an appropriate level within its organisation. NRAC would expect that as part of the Department of Agriculture's monitoring of service providers' performance, minimum standards would be demanded for service providers to fulfil their funding deed obligations. In general, annual and three-yearly reviews should be a key mechanism for feeding data into the monitoring and evaluation framework and recording outcomes.

Recommendation 18: The number of clients being serviced for more than three years should be used as a key performance indicator under a monitoring and evaluation framework. This will ensure that service providers are focused on delivering timely outcomes for clients.

3.2.6 Awareness of the Rural Financial Counselling Service

When speaking with clients and other stakeholders, NRAC heard mixed views on the farming community's awareness of the service. Word of mouth or referral from another professional service provider appeared to be the most frequent method for clients to hear about the RFCS, which is consistent with past evaluations. NRAC also heard that service providers found radio and newspapers to be effective in promoting the service in rural areas. Promotion at field days occurred on quite a few occasions, however, some service providers noted that potential clients could be unwilling to approach an RFCS stand or talk with a rural financial counsellor in public.

While some stakeholders reported that the service was very well-known in their area, in some regions, stakeholders advised that awareness remained low. Many clients were not aware of the RFCS being advertised and some had only very recently become aware of the service. A number of clients believed many primary producers still did not know that the service existed, and when in financial distress were less able to seek out support services. This indicates that while most service providers are undertaking some promotional activities, awareness of the service is not consistently high across all regions.

Finding 28: While service providers are undertaking promotional activities, evidence suggests that awareness of the RFCS is varied across the agricultural sector.

Existing evidence suggests that some service providers are promoting their services to a very broad target client group without caveats relating to eligibility. Service providers may inadvertently be attracting and, given the current loose eligibility criteria, servicing clients not experiencing financial hardship. When promoting the RFCS, it is important that service providers make it clear that assistance is only available to specific clients. In addition, a clearly defined eligibility assessment (Recommendation 11) should prevent ineligible clients from receiving assistance if inadvertently attracted through promotional activities.

Recommendation 19: Service providers should ensure that the RFCS is widely promoted in rural areas through various engagement platforms. Promotion should focus on core services and target eligible clients.

3.2.7 Meeting with clients

During consultations, NRAC was informed that most meetings take place on-farm. Service providers considered this to be a unique feature and an important part of the RFCS. NRAC heard various explanations regarding the benefit of meeting on-farm. First, financial and farm business information required by the rural financial counsellor may be more easily accessible on the premises. Second, on-farm visits often enabled rural financial counsellors to engage with farmers who may otherwise have been unlikely to travel to an RFCS office. NRAC heard from rural financial counsellors that, while many farm businesses are partnerships, in most cases only one partner makes the initial appointment with a rural financial counsellor. Often, at some point during an initial meeting, on-farm the other partner is likely to decide to attend and subsequently engages in the process. This enables the rural financial counsellor to undertake a holistic assessment of a new client's situation. Finally, rural financial counsellors also reported that meeting on-farm generally put clients at ease and allows them to more easily develop a rapport. Once a level of trust has been established, clients are generally more willing to discuss financial issues, and progress can be made more quickly.

Finding 29: Most service providers appear to meet with clients on-farm as their primary means of engagement.

Assistance with business and financial management requires a relatively comprehensive understanding of the farm business. NRAC agrees there are likely to be practical benefits to initially meeting on-farm, which may improve the effectiveness of the RFCS. However, meeting primarily on-farm is an additional and significant expense for the RFCS in travel costs. More importantly, it is a significant cost to rural financial counsellors' time with most stating that, on average, they only meet one to two clients a day.

While NRAC supports the initial visit between a client and rural financial counsellor occurring on-farm, there should be greater use of other communication platforms. NRAC believes more meetings should occur in the RFCS office and notes that some service providers have already initiated this practice to increase efficiency. In addition, service providers should focus on innovative ways to provide assistance to clients and improve efficiency. This could include periodic visits to rural centres where there is not a permanent RFCS presence or using internet and telecommunications technologies.

Recommendation 20: While initial RFCS client appointments should continue to take place on-farm, service providers should consider different options to service their ongoing clients. This would increase the efficiency of service delivery.

NRAC found the RFCS to be a well-respected service delivered by devoted, hardworking rural financial counsellors. Based on available evidence, the RFCS is providing quality outcomes for clients and rural communities. In general, NRAC considers the program structure to be functional and appropriate. However, improvements can be achieved in administration and service delivery, including by:

- improving the professionalism and quality of service provider boards
- establishing greater delineation in the responsibilities of the Australian Government and service providers
- moving to a state-based delivery model
- making funding arrangements more responsive to demand
- increasing flexibility in the RFCS workforce
- introducing more robust eligibility criteria.

To monitor ongoing performance of the RFCS program and the success of changes implemented, NRAC recommends greater focus on monitoring and evaluation, which must be supported by appropriate data collection and reporting mechanisms.

In Chapter 4, NRAC has considered the future role of the RFCS including: appropriate objectives for the program; the assistance the RFCS should provide to implement these; the suitability of the current target client group; and the role of the RFCS in delivering the Australian Government's income support payment for farmers—the FHA.

4 Future role of the Rural Financial Counselling Service

In Chapter 3, NRAC assessed the efficiency and effectiveness of the mechanisms for delivering assistance under the RFCS program. In this chapter, NRAC focuses on the future activities the RFCS should deliver and the clients who should be targeted.

4.1 The Rural Financial Counselling Service Charter

As a necessary first step in establishing the future role of the RFCS, NRAC has considered the program's guiding documentation to ensure it reflects the need for the service as established in Chapter 2. The RFCS must have a concise and accurate statement that underpins the assistance it provides.

The Charter (Appendix A) provides high-level guidance to service providers and rural financial counsellors on the program's objectives and their roles in achieving these. NRAC believes the Charter contained a significant amount of information; however it provides a mix of outcomes, outputs and service-delivery principles. This makes the document complex, difficult to interpret and unlikely to provide the high-level guidance needed.

Finding 30: The Charter does not provide effective high-level program guidance in a clear and accessible format.

Having clear and unambiguous objectives is critical to ensuring service providers and rural financial counsellors have sound high-level principles to refer to and draw on to effectively undertake their roles.

The mission statement in the Charter states that the program's intent is to:

> *… provide free support to primary producers, fishers and small rural business operators (the client target group) who are suffering financial hardship, and who have no alternative sources of impartial assistance, to manage the challenges of change and adjustment.*

The mission statement articulates the problem the RFCS is attempting to address (financial hardship), the population in which this must be addressed (the target client group) and the high-level outcome expected (management of change and adjustment). This remains consistent with the objectives of the Australian Government and reflects this report's analysis on the existing need for a service of this type.

However, NRAC suggests minor changes be made to the wording of the mission statement to improve clarity, such that it reads along these lines:

The Rural Financial Counselling Service (RFCS) program facilitates change and adjustment in farming, fishing and primary-production-reliant small businesses that are suffering financial hardship.

The program's current objectives, as outlined in the Charter, are to:

1. provide clients with access to financial information, options, decision-support and referrals to other sources of industry, professional and government assistance
2. empower clients to make their own decisions on how to most effectively manage change and adjustment issues
3. deliver effective, flexible and responsive services to those in need of assistance.

The intent of these three objectives is still relevant and should continue to underpin program's delivery. However, in some instances the language is ambiguous and clarity could be improved, as suggested here.

Objective 1: These are the key services the RFCS should provide to help clients make decisions on long-term adjustment strategies, improve their financial position, build self-reliance and avoid the need to rely on the RFCS over the long-term.

NRAC suggests this statement remain unchanged, with the exception of 'decision support', which is unclear in its meaning and should be removed so the objective reads:

- Provide clients with access to financial information, options and referrals to other sources of industry, professional (including health and wellbeing) and government assistance.

Objective 2: This statement reflects a key RFCS objective—addressing financial hardship through adjustment, resulting in increasing profitability or exiting the industry.

NRAC suggests this statement needs to further clarify the intended outcomes of adjustment and should more closely resemble this wording:

- Build the capacity and capability that clients require to effectively make decisions for achieving viability or exiting the industry.

In addition, the analysis in Chapter 2, on need for the service, indicates the RFCS plays a legitimate role in addressing the immediate welfare needs of clients.

NRAC suggests a future objective-based articulation of the RFCS's role should reference this type of assistance so it reads:

- Assist clients with an immediate need for welfare support to access assistance as a first step in implementing a longer-term strategy.

Objective 3: The tenets of this statement underpin RFCS service delivery principles.

NRAC believes that 'cost-effective' and 'timely' should be key principles of service delivery for the RFCS program. A statement reflecting the service delivery principles should more closely resemble:

- Deliver cost-effective, flexible, timely and responsive services.

Recommendation 21: The Charter should be replaced with a more concise document that presents service providers, rural financial counsellors and clients with a clear delineation of the objectives, services provided, referral pathways and service delivery principles of the RFCS.

4.2 Continuation of current roles under taken by the Rural Financial Counselling Service

The types of assistance provided by the RFCS should reflect the outputs and outcomes defined in its Charter and enable the program's objectives to be achieved. NRAC has considered the relevance of continuing the activities currently provided by the RFCS, as well as other services that may be important in future.

4.2.1 Addressing immediate need

NRAC heard that, in addressing immediate need, activities undertaken by rural financial counsellors included: liaising with creditors and lenders; assisting with preparing documentation for accessing Australian, state and territory government support programs; providing access to natural disaster relief assistance; referring clients to professional service providers; referring clients to personal counselling services; and, in some cases, helping clients access support from community or charitable organisations.

Accessing government assistance has formed a large component of rural financial counsellors' workloads, particularly in the regions experiencing drought between 2002 and 2012. In 2008–09, rural financial counsellors spent 52.9 per cent of their time helping clients to access government assistance. This declined to about 20 per cent in 2013–14, reflecting improved seasonal conditions across many parts of Australia.

Despite an overall decline in the time spent helping clients to access government assistance, it still remains a considerable part of a rural financial counsellor's work for some service providers. This is likely to be the result of a new income support payment introduced by the Australian Government (the FHA), and new drought support measures introduced in northern New South Wales and Queensland. The percentage of time spent on accessing government assistance ranges from 34 per cent for RFCS NSW Bourke and 32 per cent for RFCS Queensland South West Region, to 7 per cent for both RFCS Victoria Goulburn Murray Hume and RFCS Western Australia.

Finding 31: Addressing the immediate welfare needs of clients is currently, and has previously been, a significant and appropriate part of the RFCS workload.

Due to the complexity of most farm businesses, drought assistance measures generally require sophisticated eligibility assessments. Preparing applications can be relatively complicated, requiring detailed historic and current financial and business information, which can be beyond the ability of some farmers to collect, analyse and summarise. As such, there is likely to be continuing demand for rural financial counsellors to assist with accessing drought assistance. This is an essential service that alleviates an additional source of stress for those experiencing hardship.

While not articulated in the Charter, as considered in Section 2.2.1, addressing the immediate needs of clients in hardship is an important role for the RFCS. In some circumstances, addressing immediate need, including through 'form-filling', may be an important first step to enabling clients to improve their long-term financial position. During consultations however, it was reported to NRAC that some of the government assistance application forms which the RFCS currently assists clients with are not necessarily related to financial hardship. These include applications for the Farm Finance Concessional Loans Scheme, currently offered by the Australian Government, and conservation and other loans provided by various state governments.

NRAC considers that RFCS support in completing complex forms for government programs should primarily relate to financial hardship assistance, such as income support and natural disaster relief measures. Further, a rural financial counsellor's support with completing government assistance forms should only be used as a means for a client to develop and progress a longer-term strategy. This is particularly the case with loan and debt restructuring applications, which although they form a core part of assistance that can be provided by the RFCS, should not be provided in isolation and should form a part of a client's long-term strategy. One-off assistance with completing other application forms, such as for government concessional loans, could be provided on a fee-for-service basis, as discussed in Section 3.1.9.

Recommendation 22: The RFCS has an important role in addressing the immediate welfare needs of clients, including assisting clients to navigate the forms required to access other government support. However, this should be limited to hardship-related assistance, such as income support and disaster relief.

Clients seeking support from rural financial counsellors with applications that deliver longer-term benefits should only be assisted if they need ongoing support, and the assistance sought delivers on part of their strategy to achieve long-term viability.

4.2.2 Business improvement

A number of activities recorded in the ARC Database demonstrate that rural financial counsellors provide a range of business improvement services. These include viability analyses, cash flow analyses, assistance with loan applications or debt restructuring, and business planning.

NRAC heard that assessing a client's viability forms the first stage of developing a strategy to improve their longer-term financial position. This is likely to involve cash flow analysis and, depending on the outcome, a business planning process to improve profitability and/or securing of additional finance. Time spent by rural financial counsellors undertaking these activities has increased over time, offsetting a decline in time spent in assisting with drought support applications. In 2013–14, these activities accounted, on average, for around 34 per cent of rural financial counsellors' hours across the RFCS. When the time spent by rural financial counsellors on activities not directly servicing clients is excluded, for example travel, more than half of all the client-related work undertaken by rural financial counsellors is related to business improvement.

Finding 32: Business improvement-related activities form a significant and increasing part of the work undertaken by rural financial counsellors.

Supporting clients to adjust is currently, and should continue to be, the main reason for the existence of the RFCS. As discussed in Section 2.2.2, NRAC considers that one of the most effective means of achieving adjustment is by improving a client's capability for financial, business and personal management. While the value of business improvement will likely remain constant into the future, the extent to which service providers can undertake this work will continue to fluctuate as seasonal conditions, in particular, drive competing priorities. Delivering this service should also be considered in the context of preventing reliance on the RFCS or whether exit from the industry is necessary due to the financial position or wishes of clients.

Recommendation 23: Business improvement-related activities should continue to form a major part of the work undertaken by the RFCS to achieve change and adjustment, as long as this does not create dependence on the service and clients are transitioned to the private sector when appropriate and as quickly as possible.

4.2.3 Information and referrals

Referring clients to other professional service providers has always been emphasised as forming a core role of the RFCS. The Resource Manual states that, given the limitations placed on the assistance a rural financial counsellor may provide, referrals to professional services are critical to addressing the needs of farming businesses experiencing financial difficulties. Further, as many clients come to the RFCS with complex issues, it is not reasonable to expect that all rural financial counsellors will have the expertise required to address all these.

Table 13 shows that rural financial counsellors made 7 106 referrals in 2013–14. However, ARC data only shows the total number of referrals; it does not show the number of clients referred or the average number of referrals made for each client.

TABLE 13: Client referrals (2013–14)

Referral type	Referrals from RFCS
Government agency, not Centrelink (now DHS)	1 576
Centrelink (now DHS)	1291
Bank	957
Accountant	827
Solicitor	584
Industry organisation	298
Department of Agriculture	220
Real estate agent	220
Health and/or welfare organisation	183
Rural consultant	141
Another rural financial counsellor	136
Financial planner/advisor	106
Training organisation	96
Member of Parliament	84
Doctor	69
Community group	67
Stock agents	63
Water authority	56
Associate	54
Insolvency agency	45
Self	13
Field days	11
Newsletter or newspaper	7
Presentations	2
Transition Support Service	0
Total	**7 106**

Source: ARC Database

While one service provider has specified 2.5 referrals per client as a key performance indicator for each rural financial counsellor, it is hard to verify if there is an even spread of referrals across the program. It is unclear whether a large number of clients are being referred to a small number of professional services or a small number of clients are being referred to a large number of professional services. Further, it is important to note that the ARC Database does not reveal the extent to which clients are acting upon the referrals they receive, a reporting issue discussed further in Section 3.1.4.

A 2009 Charles Sturt University client survey[35] gives some context to the ARC Database figures, demonstrating that the number of clients referred is relatively low given the level of importance attached to them in program documentation and their link to positive client outcomes. The survey found that only 45.9 per cent of respondents had been referred to a professional service and that not all referrals were acted upon. However, of the 45.9 per cent of clients referred, three-quarters rated the ability of the RFCS to connect them with other services as 'very good' or 'excellent'.

Overall, NRAC notes that some rural financial counsellors do not have a clear understanding of what constitutes a referral. In some instances, rural financial counsellors reported that directing a client to Internet resources or their bank constituted a referral.

Finding 33: Available evidence suggests that relatively low levels of client referrals take place. Further, there is an inconsistent approach to referrals and a varying interpretation among rural financial counsellors of what they involve.

NRAC believes that referrals remain a valuable part of a client working towards particular business, financial and personal outcomes. As discussed in Section 2.2.2, many of the most profitable farm businesses draw heavily on professional services. The provision of information and referrals by the RFCS is important in connecting farm businesses with professional services and encouraging an ongoing relationship.

The importance of referrals in achieving positive long-term outcomes for clients is supported by evidence from the 2009 client survey. Moreover, the survey provides evidence that referrals lead to higher rates of self-reliance in RFCS clients. Of respondents reporting an improvement in awareness of their financial position, a relatively high proportion had been referred to accountants, financial advisors and farm business advisors. In contrast, of respondents who indicated an unchanged or worse awareness of their financial position—a key self-reliance indicator—less than 4 per cent had been referred to an accountant. A similar analysis reveals that awareness of the importance of farm management planning is highly correlated with a referral to an agronomist. The implication of this evidence is that increasing the number of referrals and the rate these are acted upon should build self-reliance in clients.

NRAC acknowledges that limited availability of professional services may make referrals challenging in some more remote locations. However, future guidance to rural financial counsellors should place renewed importance on providing referrals and clients taking advantage of these. Guidance should include specific advice on the circumstances in which particular professional services are likely to be most appropriate and the necessity for finding innovative ways for clients to follow-up on referrals.

As detailed in the Resource Manual, a more 'formal' referral approach might involve a phone call or letter on behalf of the client to the relevant service provider.[36] NRAC considers that there are additional, more simple options, including checklists signed by the rural financial counsellor and client, which could be used to reflect the referrals discussed and increase the client's commitment to follow-up on the options provided.

35 S Glyde, I Gray, L Howard and T Dunn (2009), *The Rural Financial Counselling Service: an Evaluation*, Charles Sturt University, Wagga Wagga.

36 Department of Agriculture (2011), *RFCS Resource Manual Factsheets*.

NRAC also considers that annual reviews of client cases, as discussed in Recommendation 16, should place appropriate weight on a client's failure to act upon on referrals. The incidence and efficacy of referrals must also be considered by both a future data-collection system and a monitoring and evaluation framework. The importance of health and wellbeing referrals, is discussed further in Section 4.3.2.

Recommendation 24: Renewed emphasis must be placed on the importance of referring clients to other professional services (including health and wellbeing professionals). There must be a consistent and documented formal approach to referrals and accurate reporting and monitoring, including whether referrals have been acted upon.

4.2.4 Farm debt mediation

Farm debt mediation is a structured negotiation process between a farmer and their creditor, designed to reach an agreement on their future financial relationship. Arrangements vary from legislated processes (New South Wales and Victoria) to voluntary or informal mechanisms in some states, while other jurisdictions have no mechanisms in place. While not acting as the mediator, NRAC heard that the RFCS plays a key role in legislated and non-legislated farm debt mediation processes by preparing clients for, and supporting them through, the stages.[37]

The time rural financial counsellors spend performing debt mediation roles has increased sharply in recent years. In 2008–09, debt mediation for farms and agriculture-related small businesses accounted for about 4 per cent of rural financial counsellor time across the program; by 2013–14 this had increased to around 18 per cent.[38] The significant portion of time spent by the RFCS assisting clients with farm debt mediation is partly due to the time consuming nature of the process. Nearly all service providers reported that farm debt mediation was resource intensive and taking up an increasing amount of rural financial counsellors' time. One rural financial counsellor reported that the time needed was often around 40 to 50 hours, with additional time needed for travel.

Finding 34: Farm debt mediation is a time consuming activity and is taking up an increasing amount of rural financial counsellors' time.

Service providers unanimously believed that RFCS involvement in farm debt mediation resulted in a better outcome for the client. RFCS assistance was considered to play a significant role in enabling viable businesses to avoid foreclosure and remain in business post mediation. This view was supported by banking sector representatives, who were highly supportive of the role the RFCS plays in farm debt mediation. NRAC heard from a range of sources that financial institutions often proactively referred their customers to the RFCS if they were identified as being at risk of requiring asset management or foreclosure. In addition, banking industry representatives reported that the RFCS provided an 'outside' view which enabled impasses to be overcome during mediation. This was because clients see the RFCS as impartial and independent, whereas a bank's financial advice was often perceived as biased towards its interests.

While there is limited direct evidence of the effectiveness of RFCS intervention in farm debt mediation, it fits well with the program's purpose and intended outcomes. Farm debt mediation processes are

37 Department of Agriculture (2011), *RFCS Resource Manual Factsheets*.

38 ARC Database. Before 2012–13, debt mediation activities were captured under a general 'debt mediation' category that included mediation for both farm and non-farm businesses. From 2012–13, the ARC Database contained two separate categories—farm debt mediation and business debt mediation.

complex and require a reasonable level of financial literacy and business management competency. NRAC heard from the banking sector that farmers who need mediation often do not have the business acumen required to develop a realistic long-term plan for sustainable financial viability, including the management of their financing and debt requirements. As such, in many cases successful farm debt mediation requires private sector or RFCS assistance.

Recommendation 25: The RFCS should continue to provide assistance with farm debt mediation, regardless of variations in state arrangements, as this can be a critical service for improving the long-term financial position of farm businesses.

In recommending that the RFCS should continue to play a role in farm debt mediation, NRAC also acknowledges that an institutional lender receives a benefit from referring its customers to the RFCS. By not addressing farm debt mediation issues in-house, lenders are using the RFCS as an ‘outsourced’ form of customer management, potentially reducing their loan management costs. While, in some instances, lenders are willing to provide additional credit to clients to fund debt mediation assistance, NRAC notes that this increases a client’s liabilities and further deteriorates the financial position of their business.

Financial Counselling Australia informed NRAC that it is investigating whether a charitable trust to harness finance industry contributions for the generalist financial counselling sector can be established. While NRAC did not have the opportunity to explore this fully, it believes the banking industry benefits significantly from RFCS farm debt mediation activities and there is a *prima facie* case for financial institutions to contribute to the cost of the service. However, NRAC is cognisant that bank funding could damage the perceived independence of the RFCS. Should a proposal for industry contributions be supported, the mechanism through which this is managed must preserve this independence.

Recommendation 26: As institutional lenders benefit from the farm debt mediation assistance provided by the RFCS, mechanisms that enable industry contributions to funding the cost of this service, while maintaining the independence of the RFCS, should be further explored.

4.2.5 Pre-referral succession planning

Under funding deeds, rural financial counsellors can provide support with ‘pre-referral succession planning’. This involves assisting clients to collect relevant information and prepare for succession planning, before referring them to a relevant professional. While they may provide support, rural financial counsellors cannot actually deliver a succession planning service. Time spent on this activity has increased from 1 per cent of rural financial counsellor hours across the service in 2008–09 to 4 per cent in 2013–14.[39]

This increase may be related to the previous Australian Government’s decision to increase the focus of the RFCS on providing succession planning support services from 2010–11. In implementing this decision, additional guidance was provided to clarify what aspects of succession planning rural financial counsellors could engage in. Despite this guidance, NRAC is concerned there is evidence that some rural financial counsellors may be providing succession planning services as opposed to completing ‘pre-referral’ activities.

39 ARC Database.

NRAC heard from many service providers that succession planning is an important issue facing many farmers. The process is usually complex, as farmers generally aim to meet three conflicting objectives: maintaining a viable farm business for the next generation; treating their children equitably; and providing adequately for their own retirement.[40] As such, successful succession planning requires expert advice—at the very least employing an accountant and solicitor. This also makes it an expensive process, so clients can significantly reduce costs if any relevant ground work is completed by a rural financial counsellor in the first instance.

Finding 35: The role of the RFCS in pre-referral succession planning has increased since 2010–11, partly in response to previous Australian Government priorities.

NRAC is concerned about the direct relevance of succession planning to the strategic intent of the RFCS. First, succession planning is important for all farm businesses to undertake, not just those experiencing financial difficulties. As such, there is an incentive for all farmers to seek succession planning services from the RFCS, including those who may be in a strong position to pay for private-sector services. Second, succession planning may not always be an integral part of improving the financial position of a farm business. In many cases, other structural issues may need to be addressed before a succession plan would be a practical or sensible option.

NRAC acknowledges that succession planning is critical for running farm businesses and should be included in a long-term business plan. In addition, financial hardship can exacerbate issues around succession and this can become an impediment to business planning and rational decision making.[41] However, providing succession planning assistance in isolation is unlikely to improve the financial position and profitability of a farm business, particularly in the short term.

As such, NRAC does not believe that pre-referral succession planning should be undertaken if a client is solely seeking assistance with this matter. Further, NRAC heard from service providers that farmers seeking succession planning in isolation are likely to be ineligible for RFCS assistance. Succession planning, as with all RFCS assistance, should only be undertaken with farmers experiencing financial hardship and where this can generate positive outcomes for the longer term.

Recommendation 27: Pre-referral succession planning services should only be provided to eligible clients and only when it is identified as a necessary part of their strategy for improving their financial position in the long term.

4.3 Additional roles

In addition to the activities already being undertaken by the RFCS, the review's term of reference asked NRAC to consider specific options for the future role of the RFCS. This included expanding its target clients to include forestry businesses, increasing its role to include personal counselling services, and considering how the program can best support delivery of the FHA. NRAC has also considered the rationale for widening the RFCS client base to include all small rural businesses, as this issue was often raised in consultations.

40 E Barclay, R Foskey and I Reeve (2007), *Farm Succession and Inheritance: Comparing Australian and International Trends*, Rural Industries Research and Development Corporation, Canberra.

41 Drought Policy Review Expert Social Panel (2008), *It's About People: Changing Perspective. A Report to Government by an Expert Social Panel on Dryness,* Commonwealth of Australia, Canberra.

4.3.1 Expanding the target client group

As described in Chapter 1, the RFCS provides free support to primary producers, fishers and small rural businesses. To determine a small rural business client's eligibility, funding deeds stipulate that a 'small rural business' must 'provide the majority of its services to primary producers or fishing enterprise operators and be directly involved in primary production'. Therefore, other rural small businesses not directly related to agriculture or fishing, such as hairdressers, hardware stores or newsagents, would not be eligible to receive assistance from the RFCS. Further, funding deeds stipulate that a 'primary producer' is 'an individual whose primary source of income is derived from agriculture or farming'. Under that ruling, the majority of forestry-related businesses would not currently be considered eligible to receive RFCS assistance, unless businesses were providing on-farm forestry services.

As discussed in Chapter 2, there is a sound rationale for government to provide free rural financial counselling to farming businesses. This is based on the unique factors relating to farm business hardship, which include:

- their high capital investment and relatively illiquid asset base
- their need for long-term business planning requirements, due to variations in seasonal, climatic and market conditions
- the flow-on effects to the wider community of a viable and profitable farming sector.

These factors are present in other sectors in varying degrees. For example, the failure of small businesses that are not agriculture reliant is also likely to have significant and negative impacts on a local community and its economy. However, many small businesses are unlikely to face all the impediments to addressing financial hardship that challenge agriculture-reliant small businesses. NRAC notes that the prevalence and relevance of these factors has underpinned government decisions to determine which primary production related industries should receive RFCS assistance.

NRAC also notes that the RFCS has been established for, and rural financial counsellors are specialised in, the delivery of financial counselling services that deal mainly with the complexities of primary production hardship. This can involve anything from assessing lambing and calving rates, cropping input costs, horticulture contracts, and financial options such as swaps and hedges. In defining the target client group, NRAC considers that the skill base of rural financial counsellors that has developed over time is important. While many of these skills could be applied to dealing with broader types of small businesses, this expertise could be weakened if the target client base is expanded. NRAC considers there may be a significant advantage for the RFCS to continue focusing on farm enterprises and agricultural-reliant businesses, so rural financial counsellors can retain, develop and improve the specialised skills, knowledge and expertise needed to assist their clients with these issues.

Finding 36: The specialised skills, knowledge and expertise of rural financial counsellors meet an identified need that is characterised by a unique set of circumstances. A decision to expand the RFCS client base should be consistent with these factors and recognise the strength rural financial counsellors have in addressing these circumstances.

NRAC notes that generally free assistance is provided to small businesses by the Australian and state and territory governments through a range of programs. Relevant programs are typically delivered through small business-related departments, rather than through agriculture portfolios. Examples include Small Biz Connect in New South Wales, the Small Business Development Corporation in Western Australia, and the Australian Government's Business Enterprise Centres. While these services do not necessarily provide the same crisis response role as the RFCS, they do offer some capacity building and support services to small businesses, including those in rural areas.

While the challenges facing non-agriculture-reliant small business are relatively divergent from those facing primary producers, the circumstances that have an impact on the forestry industry appear to be more closely aligned. NRAC notes that forestry businesses often have similar financial and business planning issues, such as high capital investment and an illiquid asset base. It is likely, therefore, that rural financial counsellors already have at least some of the skills and knowledge needed to assist these clients. Further, as noted previously, businesses that supply on-farm forestry services are typically able to access the RFCS under the small rural business category of eligible clients.

Finding 37: Forestry businesses face similar circumstances to farming and fishing businesses, and rural financial counsellors are likely to have some of the appropriate skills needed to assist these businesses. The current eligibility criteria offer flexibility to provide some forestry related services.

Given the similarities between the forestry industry and other primary industries, it seems unusual, on NRAC's initial assessment, that the RFCS program's definition of primary producer does not include those working in the forestry industry. This is inconsistent with existing standard definitions of primary production, such as the one used in legislation by the Australian Taxation Office. However, NRAC is aware that a number of factors led to forestry businesses being made ineligible for RFCS assistance. These include alternative assistance packages targeted to the forestry industry over a significant period of time, and other mainstream assistance measures, such as income support, which have generally been available to this sector.

Accessibility of the forestry industry may engender a more consistent approach to the provision of RFCS assistance to primary production industries and related businesses. However, NRAC notes that the Australian forestry industry consists of several large institutional investors, with small plantation businesses making up only a small portion of the industry. Inclusion into the client base of the RFCS would need to consider which elements of the industry should become clients and the potential impact of the demand for this type of assistance. Further, cause of financial difficulty in the forestry industry is typically related to structural issues, such as changing resource availability and market demands, rather than business and financial management.

NRAC is aware there have been calls in the past, including from Tasmanian peak forestry bodies, for forestry contractors to be able to access the RFCS. However, NRAC has not received any current evidence indicating that small forestry businesses are experiencing financial hardship and need access to the RFCS. While forestry stakeholders contacted were unavailable or declined to be interviewed, it is likely that the significant extent of adjustment in the industry over recent years has reduced the need for such services.

Recommendation 28: In principle, forestry businesses should be eligible clients. If there is evidence of demand in the future, the next review of the program should consider developing criteria to underpin forestry clients' eligibility.

4.3.2 Personal counselling

NRAC heard from a number of stakeholders that providing personal counselling services to RFCS clients is important. Consultations reveal that a significant proportion of clients are experiencing some form of mental health concern or personal issue when they seek financial counselling. Often, combinations of stresses affect the clients seeking support from rural financial counsellors. Without first addressing these issues, many clients may not be in a position to make judgements about their business and its financial options, particularly when making important decisions about whether their future lies on or off the farm. However, some rural financial counsellors advised NRAC that symptoms of stress, depression and decision-paralysis in clients were often resolved once they developed a plan to address their financial issues.

Rural financial counsellors are precluded from providing personal counselling services as they are generally not trained in this area. However, as they are often the first point of call for rural clients seeking various forms of assistance, they are expected to have some mental health first-aid training. This allows them to fulfil their duty of care to provide immediate assistance where necessary and helps them identify where a referral to a professional personal counsellor is required.

NRAC heard that, under this arrangement, referring clients to personal counselling services is not always undertaken or successful. Some service providers mentioned issues with access to personal counselling services in very remote areas or delays in accessing personal or mental health services through the public health system. NRAC also found it difficult to accurately ascertain the types of personal counselling referrals undertaken (that is, a written referral, a phone call, handing a client a card, or a verbal suggestion). This made it difficult to adequately evaluate the impact of referrals, as outlined in Section 4.3.2.

Finding 38: Mental health or personal issues can impede the progress of RFCS clients in addressing financial hardship. However, RFCS referral processes are inconsistent and not all clients are willing or able to act on referrals.

Since 2011, the Victorian Government has funded a trial in one of the five Victorian service providers, under which a third-party personal counsellor has been sub-contracted to work alongside the rural financial counsellors. When a client is identified as needing assistance with mental health or personal issues, the service provider funds a number of sessions with the personal counsellor. Engagement is initiated by a 'warm handover', whereby the personal counsellor accompanies the rural financial counsellor to meet with the client for the first time. This was reported to NRAC as a 'time-limited intervention', with most clients needing around four sessions to address their issues or to allow them to be referred on to additional mental health services.

As yet, an evaluation of the trial's success has not been undertaken, however feedback has been positive. During consultations, NRAC heard that clients were more likely to engage with personal counselling services under this collaborative type of arrangement. Clients involved in the trial reported that, if not for this engagement process, they would not have pursued personal counselling and therefore addressed the issues impeding the successful operation of their farm business. Feedback from rural financial counsellors indicated that this arrangement had also helped them to better identify clients with personal issues.

While the feedback from the trial was positive, NRAC believes that extending this arrangement to other service providers needs to be considered in the context of the broader availability of services. In most circumstances, government-funded services for mental health and personal counselling already exist in rural Australia. Some services already provided by the Australian Government include the Targeted Community Care (Mental Health) Program, the Family Support Program, and the Mental Health Services in Rural and Remote Areas Program, all of which focus on improving mental wellbeing and strengthening communities.

In areas currently affected by drought, these services have also been enhanced and expanded, and include: community events focused on mental health and wellbeing; one-to-one counselling services; outreach support to families in their homes or workplaces; additional telephone and online counselling services; and additional services enabling better access to clinical psychologists. In addition, five 'drought coordinators' have recently been appointed in drought-affected parts of New South Wales and Queensland. These coordinators travel to communities in drought-affected areas to identify their needs and facilitate communication and links between government, non-government and community-based mental health and social support services. NRAC understands that both the RFCS and mental health service providers have been engaged by drought coordinators in this process.

Finding 39: Anecdotal evidence suggests that a personal counsellor funded through a trial in Victoria resulted in positive outcomes for clients; however, this is only one of several mechanisms that could be used to encourage better linkages with personal counselling services. There are already established programs through which the Australian, state and territory governments fund mental health and personal counselling services.

NRAC acknowledges that accessing professional mental health and social workers in some rural and remote areas can be challenging[42], primarily due to workforce availability. However, accessibility issues are being considered by the national and various state and territory mental health commissioners. NRAC is also aware that, in some instances, the problem may not be a lack of services, but rather the unwillingness of rural residents to seek assistance for mental health issues.[43] NRAC's consultations confirmed there was reluctance among RFCS clients to act upon mental health or personal counselling referrals. The success reported from the trial in Victoria therefore appears to have not so much filled a service gap but rather improved the level of client engagement with personal counselling services.

Referrals for clients with stress-related problems were found to be easier where the rural financial counsellors described good working relationships with personal counsellors and related professionals in their area.[44] Feedback from the personal counselling trial in Victoria also suggests that the sound working relationship between the rural financial counsellors and the personal counsellors underpinned more effective engagement of clients. NRAC heard that the confidence which rural financial counsellors had in the ability of the personal counsellor was a significant factor in enabling the referral process.

42 AJ Carter, RL Burritt and JD Pisaniello (2013), 'Accountants as Emotional Wellbeing Counsellors in Rural Areas', *Australian Accounting Review,* vol. 65, pp. 151–62.

43 F Judd, H Jackson, A Komiti, G Murray, C Fraser, A Grieve and R Gomez (2006), 'Help Seeking by Rural Residents for Mental Health Problems: The Importance of Agrarian Values', *Australian and New Zealand Journal of Psychiatry,* vol. 40, pp. 769–76.

44 J Fuller and J Broadbent (2006), 'Mental health referral role of rural financial counsellors', *Australian Journal of Rural Health,* vol. 14, pp. 79—85.

Finding 40: Developing stronger professional relationships between the RFCS and mental health and social services is likely to improve the likelihood of client referrals and the success of these.

NRAC notes that stronger connections between the RFCS and mental health services are already being developed in some circumstances. Under the Intergovernmental Agreement on National Drought Program Reform, the Australian Government and state and territory governments are aiming to implement a coordinated and collaborative approach to the provision of social support services. In response to the drought conditions in northern New South Wales and Queensland, the RFCS has been working closely with a number of government and not-for-profit agencies to ensure appropriate services, including financial and personal counselling services, are available to those in need.

Strong connections with individual personal counselling service providers can also encourage these organisations to more readily link with the RFCS. NRAC's consultations, as well as previous reviews of mental health services, show that some of these service providers have found it difficult to connect with farmers. Closer links to the RFCS may provide avenues through which personal counsellors can better engage with farmers and other rural residents. Such processes could also encourage mental health professionals to ensure adequate counselling sessions are available for farmers; however, NRAC notes the RFCS program should not be responsible for funding these.

NRAC recognises the unique position of rural financial counsellors in being a first contact for many people suffering from personal issues and mental health and wellbeing problems. While the RFCS should not be directly responsible for the provision of personal counselling services, given its position as a point of first contact, the ability of counsellors to deliver adequate mental health first-aid should remain a high priority.

In addition, the importance of referring clients to mental health and social service professionals, such as personal counsellors, should be emphasised more strongly in the future. This must be underpinned by improved connections with existing mental health and social services, with innovative methods for achieving this encouraged by all parties. NRAC considers that the trial in Victoria and collaboration of service delivery agencies in New South Wales and Queensland provide examples of how this may be achieved. Further, the Department of Agriculture may be able to assist the RFCS in fostering stronger networks, given its relationship with other government departments.

As discussed in Section 4.3.3, NRAC considers that more formal documentation needs to be shared with clients to summarise the actions they need to undertake, particularly in the area of mental health and wellbeing referrals. This will not only ensure that rural financial counsellors can better fulfil their duty of care requirements, but will also assist clients to clearly recall and reflect on the options they have discussed with their rural financial counsellor. These documents will also allow rural financial counsellors to more easily follow-up on the actions clients need to complete.

Capturing the effectiveness of mental health referrals must be considered in the development of a new monitoring and evaluation framework and any tools or databases used to support this. Better recording of referrals and their uptake in any client management system is critical to evaluating the success of the RFCS program in this area, particularly as NRAC considers that the RFCS should not directly deliver personal counselling services.

Recommendation 29: The RFCS should not deliver personal counselling services, as the program was not established for this purpose and other services are already funded through a number of government programs. However, to improve outcomes for RFCS clients it is recommended that:

- **Closer engagement with social services be pursued, as these have been demonstrated to improve the success of referrals.**
- **Systems be developed to ensure that referrals are provided in a consistent manner and rural financial counsellors take appropriate steps to encourage clients to act on these. This could include the use of 'co-signed' documents that reflect the referral/s recommended to clients.**
- **Processes be implemented to ensure emphasis on assessing whether referrals have been taken up by clients and evaluating the outcomes from these.**

4.3.3 Role of the Rural Financial Counselling Service in the delivery of the Farm Household Allowance

From June 2008 until the introduction of the FHA from 1 July 2014, the RFCS played a key role in the delivery of various farmer income support payments. This role extended beyond assisting clients with their income support application forms. Under a number of these previous arrangements, DHS was only responsible for assessing and paying income support, while rural financial counsellors were responsible for the broader case management of recipients under varying types of 'action plans' and associated advice and training mechanisms.

Under these previous arrangements, rural financial counsellors were also responsible for ensuring that clients completed the reciprocal obligation activities necessary to receive their income support payments and reporting their compliance (or otherwise) to DHS. Some rural financial counsellors noted that, under these arrangements, it was difficult for them to play an independent and impartial role because they were required to 'enforce' recipient compliance with reciprocal obligations.

From 1 July 2010 to 30 June 2012, the Western Australia pilot of drought reform measures trialled a new income support payment—Farm Family Support. This operated at the same time as the Exceptional Circumstances Relief Payment was available in other states. It was also available at the same time as the Transitional Income Support program, which was being delivered nation-wide and involved the RFCS case managing these income support recipients.

Under Farm Family Support, a DHS rural services officer was responsible for the case management of the income support payment recipients and ensuring they met their compliance obligations. The rural services officer and income support recipient decided if and when a referral to the RFCS was appropriate. Feedback from the Department of Agriculture was that having a DHS rural services officer focus on compliance and giving them the discretion to refer recipients to the RFCS reportedly worked well to deliver adjustment outcomes.

Under the FHA, the Australian Government's current income support payment for farmers, the role of the RFCS mirrors that which operated under Farm Family Support, where there was a clearer distinction between the compliance roles and responsibilities of the rural services officers and the rural financial counsellors. Rural financial counsellors are therefore not responsible for any case management activities under the FHA; rather, DHS Farm Household Case Officers work with income support recipients to develop a FIA. They also monitor client compliance with the FIA, as payments are contingent on adhering to it. As with Farm Family Support, the DHS Farm Household Case Officer and recipient determine when a referral to the RFCS may be appropriate. Appendix B summarises the operation of the FHA.

A number of reasons underpin the Australian Government's decision on the delivery design of the FHA. NRAC is also conscious that the legislation and explanatory memorandum underpinning the FHA reflects broader social security law and establishes the specific roles of DHS officers for client case management.

As the FHA has only been in operation since 1 July 2014, NRAC is unable to make an accurate assessment on the extent to which rural financial counsellors will be involved in the case management of clients, such as the extent of their involvement in the development of the FIA and their role in assisting clients to comply with the goals, strategies and activities outlined in these. However, NRAC heard during consultations that under Farm Family Support there was at times a tendency for rural services officers to have a more 'hands-off' approach. While in some instances rural financial counsellors played a leading role in ensuring clients completed compliance activities, anecdotal evidence suggests that rural financial counsellors and rural services officers worked effectively together to achieve positive client outcomes.

NRAC is aware that the department has developed a protocol[45] to guide the complementary relationship of DHS Farm Household Case Officers, the RFCS and their clients. This guidance is necessary, as many FHA recipients will have an existing relationship with the RFCS, and DHS Farm Household Case Officers may refer recipients to the RFCS at any time during their case management. Early feedback from the RFCS and DHS Farm Household Case Officers is that the protocol is working well.

The department has committed to starting a review of the protocol within three months of the FHA starting. However, NRAC believes that periodic assessments of the protocol, and the arrangements outlined in it, are also needed to avoid any risk of duplication between the role of DHS Farm Household Case Officers and rural financial counsellors.

NRAC notes that the potential for duplication is discussed in the protocol, as it advises that any FHA recipient receiving assistance from the RFCS is not required to be case managed under an EAP. Removing this requirement may suit those service providers who are critical of the EAP as a planning tool and who prefer to use other commercial software. However, this also creates the risk that RFCS assistance becomes more *ad hoc*, less consistent between service providers, and less focused on long-term client outcomes.

This concern might be rectified by rural financial counsellors having access to a client's FIA. NRAC understands there are strong privacy considerations that preclude the mandatory provision of client FIAs to their rural financial counsellors. However, NRAC expects that the most clients would be willing to provide a copy to their rural financial counsellor with little encouragement. This is due to the:

- significant level of trust clients hold in rural financial counsellors
- clear benefits that engagement with the RFCS provides
- removal of the need for duplicated information.

45 www.daff.gov.au/agriculture-food/drought/assistance/income-support-for-farmers/farm-household-allowance/protocol

With various options open to clients, there should be an emphasis on the need for close working relationships between the DHS Farm Household Case Officers and rural financial counsellors, so their services are complementary rather than duplicative.

Enabling FHA clients to access the RFCS without being case managed by rural financial counsellors must also be taken into consideration in the future monitoring and evaluation of the program, as it will have an impact on the workload of the RFCS and, in some cases, may imply there has been a reduction in a service provider's effectiveness. In addition, it may be difficult to determine if outcomes have been facilitated by the RFCS or through the mutual obligations required by the FHA. This may distort the outcomes reported by those service providers who have a large number of FHA clients on their books.

While NRAC is aware that similar models of service delivery to that used for the FHA have been used in the past, the information available, in particular from the ARC Database, has not allowed comparisons to demonstrate the effectiveness, or otherwise, of previous interactions between the RFCS and other government service providers (such as DHS).

Recommendation 30: Due to the complexities associated with the RFCS servicing Farm Household Allowance recipients, monitoring and evaluation of service provider outcomes must distinguish between these clients and regular clients of the service.

NRAC notes that not all FHA clients will wish to access RFCS services. However, NRAC recommends that additional steps, beyond exempting FHA clients from the EAP process, would further limit potential duplication and reduce unnecessary requirements being placed on any FHA clients who choose to use the RFCS.

First, while it happens in practice (as noted in Section 3.1.8) FHA recipients should all be considered to be automatically eligible for RFCS assistance (should they wish to access it). This removes the requirement for a second process to assess their eligibility to access the program. Second, NRAC considers that DHS Farm Household Case Officers should encourage FHA clients to provide their FIA to their rural financial counsellor if they are going to continue a previous relationship with the RFCS or if it is recommended they start to engage with the service. Third, the interaction between the two services should be reviewed every 12 months to ensure that duplication is not occurring between the role of DHS Farm Household Case Officers and rural financial counsellors.

Recommendation 31: Since a large number of Farm Household Allowance (FHA) recipients are likely to also access the RFCS, practical steps should be taken as a matter of priority to minimise any risk of duplication, including:

- **making FHA recipients automatically eligible for assistance from the RFCS, as it has already been established that they are experiencing financial hardship**
- **requiring Department of Human Services (DHS) Farm Household Case Officers to encourage FHA recipients who are also accessing the RFCS to provide their Financial Improvement Agreement to their rural financial counsellor**
- **ensuring rural financial counsellors and DHS Farm Household Case Officers work closely together to make sure their actions are complementary and their reporting is consistent**
- **reviewing the relationship between the two services regularly, starting within three months and at 12-month intervals after that.**

NRAC has recommended the EAP undergo a thorough evaluation of its effectiveness (Recommendation 15). Any review should consider if the case management tool used by the RFCS should be made consistent with the FIA or if the FIA should incorporate parts of, or build upon, the EAP. While the RFCS and the FHA have slightly different policy intents, in principle, NRAC considers that both should employ coordinated case management frameworks. This would enable a systematic approach to addressing farm financial hardship and the efficient transfer of clients between the services.

Recommendation 32: The case management framework used by both the Department of Human Services and the RFCS should be complementary and coordinated.

NRAC is aware that under previous income support programs, rural financial counsellors were variously responsible for aspects of assessing clients' financial positions, as well as their case management through a set of action plans. This took place through the development of specific action plans, such as the Climate Change Adjustment Program Action Plan (used in conjunction with the Transitional Income Support program) or the EAP (as used under the Transitional Farm Family Payment).

At a high level, there are similarities between the Farm Financial Assessment and financial assessment components of the EAP. There are also similarities between the FIA and the forward planning sections of the EAP, as well as the commercial software used by some service providers.

The use of prescribed advisors under the FHA removes the need for rural financial counsellors working with FHA clients to complete a detailed assessment of the financial position of those clients' businesses. While the outcomes remain to be seen, it is also likely to remove the need for rural financial counsellors to assist clients accessing the FHA with developing options on how those clients can achieve financial self-reliance.

Under the Farm Financial Assessment, prescribed advisors are required to make recommendations on possible future business structures and commodity types; advice, training and support needed by the client; and other options for improving their financial security in the short and long term. This effectively seems to shape the role of rural financial counsellors working with FHA clients towards designing the processes for implementing these recommendations.

The process for the FHA also removes, to a certain extent, the rural financial counsellor's involvement in recommending training and advice to be sought, as well as the support they used to provide in assisting clients to apply for advice and training grant programs. This is because DHS Farm Household Case Officers are now responsible for developing with the FHA recipient the advice and training to be incorporated into a client's FIA and for organising the payment of these from an activity supplement of up to $3000.

NRAC notes that the total and long-term impact of these changes on RFCS workload, and therefore program funding required, is unknown, particularly given the extent to which rural financial counsellors will be engaged in the development and implementation of FIAs and the extent to which clients will choose to access both programs is unclear.

However, it is still reasonable to expect there will be significant peaks in the workload of rural financial counsellors as they assist potential FHA clients to complete their applications for the payment. This has been the case recently, as large numbers of new clients, as well as previous Interim Farm Household Allowance clients, have sought to access the FHA. Natural disasters, droughts, and market access and commodity price changes will all create significant pressure points for rural financial counsellors to assist large numbers of FHA clients in the future. This will need to be taken into consideration in the context of providing additional resources under any contestable proportion of the funding available to service providers, as discussed in Section 3.1.6.

Finding 41: The impact of the Farm Household Allowance delivery model on the workload of the RFCS is unknown; however, future funding models, including the use of contestable funding, will need to consider this impact once it can be quantified.

4.4 Future funding of the Rural Financial Counselling Service

As discussed in Section 3.1.6, NRAC believes there has not been adequate adjustment in RFCS program funding to reflect changes in localised or regional need for the service. In concert with a more flexible workforce (Recommendation 9), NRAC considers that the new funding model proposed (Recommendation 8) will address issues relating to fluctuation in demand and provide a transparent and equitable distribution of funds to states and territories. There should, however, also be greater scrutiny of funding to the RFCS program that considers changes to the need for the service on a national basis.

Throughout consultations, NRAC observed that some services had excess capacity of resources at present. There is an element of 'mission creep' that has occurred over time. This has seen the types and level of assistance provided by some service providers, generally when seasonal conditions are good, become more in-depth, time consuming, less related to issues of hardship and, in some cases, provided to clients not experiencing financial hardship. While NRAC has discussed the merits that can be attributed to more intensive assistance (Section 2.2.2), it found that some services were being under-used. This was openly confirmed by some service providers who stated that there was not always high demand for their service.

In addition to excess capacity, NRAC has made a series of recommendations that should result in considerable gains in service efficiency. These include the delivery of services by single, statewide providers (Recommendation 7); more robust client eligibility criteria (Recommendation 11); appropriate management ensuring clients are receiving timely outcomes (Recommendation 16, 17 and 18); greater innovation in delivery platforms (Recommendation 9); renewed focus of short-term assistance on hardship (Recommendation 22); and restricted delivery of succession planning services (Recommendation 27). Provided these recommendations are implemented, there should be substantial and ongoing improvements to the efficiency of all service providers. Reductions in workload may also be further enhanced by possible long-term decreases in case management responsibilities as a result of the new FHA arrangements.

These improvements to the structure and delivery of services, as well as reducing the excess capacity apparent in a number of service providers, should generate significant cost savings. As such, there should be a commensurate reduction in RFCS program funding. While the efficiency gains achievable and the level of under-use of the service is difficult to quantify, NRAC's general observations suggest that savings in the order of 20 per cent of total funding could be made. However, NRAC acknowledges that it may take time to realise these efficiency gains and there must be no significant, short-term impact on service delivery. Consideration must be given to providing the time and resources required to effectively manage change within service areas.

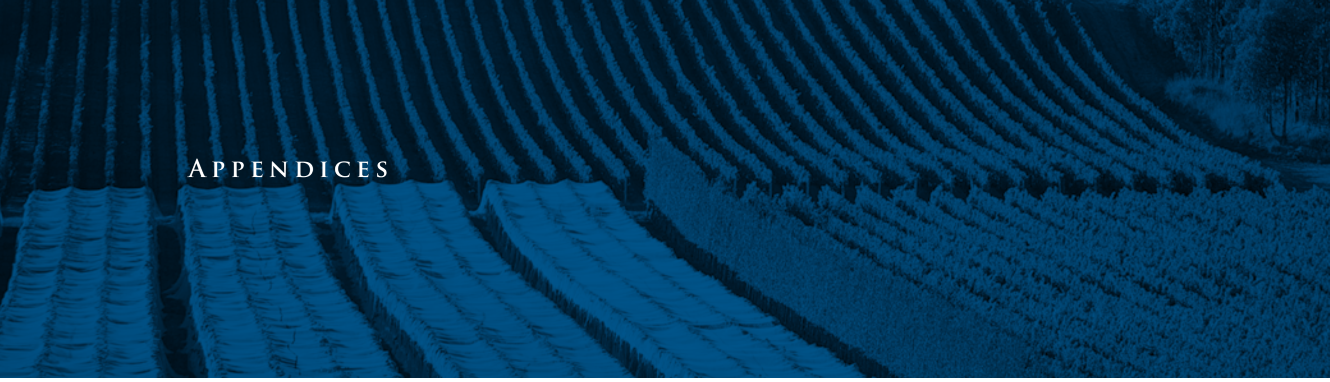
NRAC emphasises that New South Wales and Queensland, which are currently experiencing challenging climatic conditions, should receive a significant proportion of available contestable funding (Section 3.1.6). In the case of Queensland, which has historically received a relatively low proportion of Australian Government funding, there would likely be an increase regardless of the recommended 20 per cent reduction total funding. NRAC has provided some preliminary calculations based on Australian Government funding allocations for 2014–15 (Appendix E). This uses the distribution model outlined in Section 3.1.6, although the contestable portion of funding has been allocated on the basis of number of farm businesses per state and territory (fixed funding distribution method). However, given the high demand for RFCS assistance currently being experienced in some regions of New South Wales and Queensland, both states could also expect to have a strong claim to significant proportions of the demand-based, contestable portion of available funding.

Recommendation 33: Total RFCS program funding should be reduced by 20 per cent to account for excess capacity in some service providers and efficiency gains associated with:

- **delivery of services by single, state-wide providers**
- **more robust client eligibility criteria**
- **appropriate management to ensure clients achieve timely outcomes**
- **greater innovation in delivery platforms**
- **a renewed focus of short-term assistance on hardship**
- **restricted delivery of succession planning services**
- **a greater focus on accurately determining client eligibility**
- **possible long-term reduction in RFCS case management workloads.**

Funding reduction should be implemented so there is no significant, short-term impact on service delivery, particularly in New South Wales and Queensland where seasonal conditions currently present significant challenges.

The changes recommended by NRAC should improve client outcomes and ensure the RFCS continues to be efficient and cost-effective. With the installation of more professional and skill-based boards (Recommendation 2) that have a strong strategic governance role (Recommendation 3), service providers are well placed to continue to innovative, improve their service delivery methods and increase productivity. Both governments and service providers must continue to drive innovation and improvement so the RFCS remains a relevant and valuable service over the long term. NRAC believes that rural financial counselling plays an important role in rural communities and while the many benefits provided by the RFCS are often difficult to quantify, discontinuing this service would be detrimental to rural Australia.



Appendix A: Rural Financial Counselling Service Program Charter

The purpose of the Rural Financial Counselling Service (RFCS) Program is to provide free support to primary producers, fishers and small rural businesses (the target client group) who are suffering financial hardship, and who have no alternative sources of impartial assistance, to manage the challenges of change and adjustment.

The RFCS Program operates as a partnership between the Australian and state governments and non-government, not-for-profit organisations that employ rural financial counsellors.

Objectives

The objectives of the RFCS Program are to:

- provide clients with access to financial information, options, decision support and referrals to other sources of industry, professional and government assistance
- empower clients to make their own decisions on how to most effectively manage change and adjustment issues
- deliver effective, flexible and responsive services to those in need of assistance.

Rural financial counsellors

Rural financial counsellors are qualified and experienced in working with rural clients to achieve positive outcomes.

Rural financial counsellors aim to:

- help clients understand their financial and business position
- help clients understand their financial and business options
- improve clients' abilities to plan operations, achieve realistic goals and identify risks
- help clients complete action plans to address industry adjustment and climate change pressures
- connect clients to information about government and industry assistance
- refer clients to accountants, agricultural advisers and other relevant professionals, as required
- refer clients to professionals for succession planning, family support and personal (social and emotional) counselling, as required
- assist clients to identify their advice and training needs
- apply a case management approach to provide clients with an holistic outcome.

Rural financial counsellors cannot provide financial advice, succession planning or family, emotional or social counselling, but they can provide referrals to appropriate professionals and information on how to prepare for discussions with succession planning experts.

RFCS Program outcomes

Improving awareness and understanding

The target client group, and individuals and institutions operating within the RFCS referral network, are aware of:

- the RFCS Program and available services and resources that can be delivered through the RFCS network
- the benefits of early access to the service
- the need for a proactive approach to manage change and adjustment.

Flexible and timely access

The target client group can access the RFCS Program to receive financial information, options, decision support and referrals in a flexible and timely manner.

Satisfying need

Service delivery arrangements are:

- meeting the needs of clients
- meeting the needs of government funding partners
- providing information, analyses, options and referrals to RFCS clients in a way that helps them understand and improve their financial position and prepares them to meet the potential challenges they may face, including the implications of climate change.

Building capacity and empowerment

Clients accept the need to make changes to their businesses and achieve goals to improve financial self-reliance and long-term sustainability (for some this may include considering exiting from farm or small rural business ownership).

Clients develop the skills and confidence to act on the financial information, options, decision support and referrals provided by a rural financial counsellor.

Improved practices

Rural financial counselling service providers continue to demonstrate high standards of governance and accountability. Clients increase their adoption of sound and proactive approaches to farm or small rural business management and regularly review their situation.

Self-reliance

The RFCS Program is helping clients to:

- effectively manage change and adjustment
- be more profitable, competitive and sustainable.[46]

46 See: www.daff.gov.au/agriculture-food/drought/assistance/assistancerural-financial-counselling-service.

Appendix B: Farm Household Allowance—stages and involvement of different parties

Stage or process	Client	Rural financial counsellor	Department of Human Services (DHS)	Prescribed advisor
Application for Farm Household Allowance (FHA)	Completes application form.	Can assist client to complete application form.	Can assist during application process.	X
Assessment of application	Can be required to provide additional information to allow assessment.	Can assist client to provide additional information to allow assessment.	Assesses application (can involve requests for additional information, reference to a Complex Assessment Officer, and completion of appeals processes). Advises of application's success or otherwise.	X
Farm Financial Assessment (FFA) Up to $1500 provided to cover the cost of obtaining this	Requires partial completion by client.	Can assist client to complete sections required of them.	Advises client of process and timeframe for completing FFA. Provides up to $1500 to Prescribed Advisor upon completion of their components.	Requires partial completion by the Prescribed Advisor.
Development of Financial Improvement Agreement (FIA)	Requires development and agreement by client (with DHS Farm Household Case Officer).	Can be involved in negotiation of FIA (with agreement of DHS Farm Household Case Officer and client). An Enterprise Action Plan is not required.	DHS Farm Household Case Officer works with the client to develop and agree the FIA.	X
Monitoring and compliance with FIA	Client to adhere to requirements.	Can assist client to adhere to requirements. Referral to the RFCS can be included in the FIA or recommended at any time.	DHS Farm Household Case Officer monitors client's compliance with the FIA. Requires quarterly contact with the client and one face-to-face review within three years.	X
Activity supplement Up to $3000 provided for costs associated with this	Client to undertake training or seek advice using funds.	X	DHS Farm Household Case Officer to agree what training and advice components are to be funded.	X

Appendix C: List of stakeholders consulted during the review

Stakeholders	Located*	Meeting details		
		Date	Location	face-to-face (F) teleconference (T) written submission (W)
Rural Financial Counselling Service South Australia	Adelaide	21 May 2014 18 July 2014	Adelaide –	F W
Current and former clients of the Rural Financial Counselling Service	Various	21 May 2014	Adelaide	F
Rural Financial Counselling Service Victoria—Murray Mallee	Mildura	21 May 2014 6 June 2014 18 July 2014	Adelaide – –	F T W
Department of Primary Industries and Regions—South Australia	Adelaide	21 May 2014	Adelaide	F
Rural Financial Counselling Service Western Australia	Geraldton	22 May 2014 23 July 2014	Adelaide –	F W
Rural Financial Counselling Service Victoria—North Central	Bendigo	27 May 2014	Bendigo	F
Rural Financial Counselling Service Victoria—Goulburn Murray Hume	Wodonga	27 May 2014	Bendigo	F
Social Works	Bendigo	27 May 2014	Bendigo	F
Rural Finance Corporation	Bendigo	27 May 2014	Bendigo	F
Current and former clients of the Rural Financial Counselling Service	Various	27 May 2014	Bendigo	F
Rural Financial Counselling Service Victoria—Wimmera South West	Hamilton	28 May 2014 18 July 2014	Bendigo –	F W
Rural Financial Counselling Service Victoria—Gippsland	Leongatha	28 May 2014	Bendigo	F
Department of Environment and Primary Industries—Victoria	Melbourne	28 May 2014	Bendigo	F
Rural Financial Counselling Service Queensland—South West Region	Roma	3 June 2014 20 July 2014	Roma –	F W

Stakeholders	Located*	Meeting details		
		Date	Location	face-to-face (F) teleconference (T) written submission (W)
Current and former clients of the Rural Financial Counselling Service	Various	3 June 2014	Roma	F
Department of Agriculture, Fisheries and Forestry – Queensland	Brisbane	4 June 2014	Brisbane	F
Queensland Farmers' Federation	Brisbane	4 June 2014 11 July 2014	Brisbane –	F W
QRAA	Brisbane	4 June 2014	Brisbane	F
Rural Financial Counselling Service New South Wales—Northern Region	Casino	4 June 2014 21 July 2014	Brisbane –	F W
Department of Agriculture and Food—Western Australia	Perth	6 June 2014	–	T
Department of Primary Industries—New South Wales	Orange	12 June 2014	Canberra	T
Rural Financial Counselling Service Queensland—Central Southern Region	Longreach	18 June 2014	–	T
Primary Producers South Australia	Adelaide	23 June 2014	–	T
Pastoralists and Graziers Association of Western Australia	Perth	23 June 2014	–	T
Rural Financial Counselling Service Tasmania	Launceston	25 June 2014 18 July 2014	Canberra	F W
Rural Financial Counselling Service New South Wales—Central West	Dubbo	25 June 2014 9 July 2014 18 July 2014	Canberra – –	F T W
Rural Financial Counselling Service New South Wales—Bourke	Bourke	25 June 2014 18 July 2014	Canberra –	F W
Australian Government Department of Agriculture	Canberra	25-26 June 2014	Canberra	F

Stakeholders	Located*	Meeting details		
		Date	Location	face-to-face (F) teleconference (T) written submission (W)
Rural Financial Counselling Service New South Wales—Southern Region	Cooma	26 June 2014	Canberra	F
Department of Primary Industry and Fisheries—Northern Territory	Darwin	26 June 2014	Canberra	T
Financial Counselling Australia	Brisbane	4 July 2014	–	T
Australian Association of Agricultural Consultants (Western Australia) Inc	Perth	4 July 2014	–	T
Department of Primary Industries, Parks, Water and Environment—Tasmania	Launceston	4 July 2014	–	T
Rob Brown—Peppin Financial Planners	Deniliquin	8 July 2014	–	T
Rebel Black—The Hungry Spirit	Lightening Ridge	8 July 2014	–	T
Tasmanian Farmers and Graziers Association		9 July 2014	–	T
Department of Human Services	Canberra	15 July 2014	Canberra	F
Department of Social Services	Canberra	15 July 2014	Canberra	F
Department of Health	Canberra	15 July 2014	Canberra	F
National Farmers' Federation (and members)	Canberra	15 July 2014 18 August 2014	Canberra –	T W
Westpac—Agribusiness	Various	15 July 2014	Canberra	T
ORM Consulting	Bendigo	15 July 2014	Canberra	T
The Western Australian Farmers Federation Inc.	Perth	25 July 2014	–	W
Rural Business Development Corporation	Perth	22 August 2014	–	W
Legal Aid Queensland	Brisbane	27 August 2014	–	W

Stakeholders	Located*	Meeting details		
		Date	Location	face-to-face (F) teleconference (T) written submission (W)
Testimonials from current and former clients, members of parliament, local governments, accountants, industry organisations, community organisations and the financial sector	Various	–	–	–

* Refers to head office location and/or office(s) where stakeholder representatives who consulted with NRAC are located

Appendix D: Funding for the Rural Financial Counselling Service, by state and Northern Territory

Total by government	2011–12	2012–13	2013–14	2014–15	Total	%[a]
New South Wales						
State Government	$840 000	$840 000	$840 000	$840 000	$3 360 000	13
Australian Government	$5 015 922	$5 116 818	$5 694 408	$5 783 934	$21 611 082	87
Total New South Wales funding	**$5 855 922**	**$5 956 818**	**$6 534 408**	**$6 623 934**	**$24 971 082**	**34**
Victoria						
State Government	$1 817 898	$1 830 568	$1 003 905	$1 015 147	$5 667 518	27
Australian Government	$3 569 423	$3 641 222	$4 198 703	$4 262 405	$15 671 752	73
Total Victorian funding	**$5 387 321**	**$5 471 790**	**$5 202 608**	**$5 277 552**	**$21 339 270**	**29**
Queensland						
State Government	$250 000	$250 000	$428 500	$494 000	$1 422 500	13
Australian Government	$1 722 512	$1 882 384	$3 538 909	$2 781 041	$9 924 847	87
Total Queensland funding	**$1 972 512**	**$2 132 384**	**$3 967 409**	**$3 275 041**	**$11 347 347**	**15**
South Australia						
State Government	$260 000	$260 000	$260 000	$260 000	$1 040 000	12
Australian Government	$1 786 421	$1 822 355	$2 002 903	$2 034 784	$7 646 463	88
Total South Australian funding	**$2 046 421**	**$2 082 355**	**$2 262 903**	**$2 294 784**	**$8 686 463**	**12**
Tasmania						
State Government	$40 000	$40 000	$40 000	$40 000	$160 000	7
Australian Government	$405 781	$338 454	$711 703	$647 624	$2 103 561	93
Total Tasmanian funding	**$445 781**	**$378 454**	**$751 703**	**$687 624**	**$2 263 561**	**3**
Western Australia						
State Government	$111 000	$311 000	$311 000	$111 000	$844 000	16
Australian Government	$832 031	$848 767	$1 376 075	$1 390 923	$4 447 796	84
Total Western Australian funding	**$943 031**	**$1 159 767**	**$1 687 075**	**$1 501 923**	**$5 291 796**	**7**
Northern Territory Trial*						
Territory Government	–	6 011	12 125	–	18 135	15
Australian Government	–	51 383	51 383	–	102 766	85
Total Northern Territory trial funding	**–**	**57 394**	**63 508**	**–**	**120 901**	**<1**
Total program funding	**$16 650 987**	**$17 238 962**	**$20 469 614**	**$19 660 858**	**$74 020 420**	

Source: Department of Agriculture
* Services provided by RFCS South Australia
[a] Figures not bolded are the percentage split between Australian and state/territory government funding for each jurisdiction. Figures in bold are percentages of total program funding for each state/territory.

Appendix E: Preliminary projection of future Australian Government funding, by state and Northern Territory

	NSW	Vic	Qld	SA	WA	Tas	NT	Australia
Number of farm businesses	38 565	28 937	25 572	12 608	11 168	3 462	436	120 803
% farm businesses	31.9	24.0	21.2	10.4	9.2	2.9	0.4	100.0
Current Australian Government RFCS funding								
% of total funding	35.4	25.7	16.1	12.5	7.3	2.7	0.3	100.0
Current total funding four-year average	$5 402 771	$3 917 938	$2 448 212	$1 911 616	$1 111 949	$405 781	$51 383	$15 249 648
Projected Australian Government RFCS funding (20% reduction for current four-year average)								
% of total funding	31.9	24.0	21.2	10.4	9.2	2.9	0.4	100.0
Fixed funding	$3 113 368	$2 342 346	$2 069 072	$1 015 017	$897 899	$283 033	$39 039	$9 759 775
Contestable funding [a]	$778 342	$585 586	$517 268	$253 754	$224 475	$70 758	$9 760	$2 439 944
Total funding	$3 891 710	$2 927 932	$2 586 340	$1 268 771	$1 122 374	$353 792	$48 799	$12 199 719
Variation from current	–$1 511 060	–$990 005	$138 129	–$642 845	$10 425	–$51 989	–$2 584	$3 049 930
% change	–28.0	–25.3	5.6	–33.6	0.9	–12.8	–5.0	20.0

[a] Contestable portion of funding has been distributed based on the number of farms per state/territory (fixed funding distribution method). However, distribution based on additional demand is likely to increase funding amounts to states/territories experiencing challenging climatic condition, such as New South Wales and Queensland.

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