



Mr Derek Mortimer
D F Mortimer & Associates

Dear Mr Mortimer

Thank you for your letter of 6 February 2003 to Chris Schweizer, Environment Australia, requesting a copy of a document regarding the Natural Heritage Trust application process. Your letter was passed to me as this matter falls within the responsibility of Agriculture, Fisheries and Forestry – Australia (AFFA).

As advised in your phone conversation with John Cameron, we have been unable to locate a document that specifically meets the details in your letter.

However, information you were able to provide regarding the subject of the requested document has helped to identify the attached information, which appears to cover the subject matter in which you are interested.

There is no charge for this information. I trust that you find the attached document useful.

Yours sincerely

Charles Willcocks
Manager, Landcare and Sustainable Industries
Natural Resource Management Business Unit

11 April 2003

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○ PROPOSAL FOR COMMUNITY OWNED LOAN FUND

This is a compilation of comments from Land and Water Resources Division of DPIE to the proposal from a landcare group in Victoria to establish such a fund, and put in an NHT (NLP) application for funding support.

Issues

1. Financial comment: The fund may end up being more complex than anticipated and the potential for this needs close examination to ensure that in the long term problems are identified and approaches put in place to manage them. In particular, it appears to be advisable to ensure that farmers are aware of the range of investment, taxation and financial management options available to them (including loans from the fund), so that they choose the option that best suits their own circumstances.

The proposal might involve taxation problems that limit the attractiveness of the scheme and the ability of the fund to be self-financing. Where the fund provides loans for farmers for works that provide public rather than private benefits, farmers might not be able to claim their interest costs as a business expense, and this might reduce the attractiveness of the loans. Where farmers invest in landcare as part of their farm business, it may be more worthwhile for them to use commercial finance and the existing landcare tax deductions, rather than the loan fund.

However, those farmers with low incomes who do not benefit fully from the existing tax provisions may find that the loan fund is a suitable vehicle for promoting landcare. The loan fund could be targeted to this group of farmers, but should bear in mind that encouraging these farmers to acquire further debts, even for a worthy purpose, may not be in the long term interest of either the farmers or landcare.

A further issue is that the interest paid to the fund by the farmers taking out the loans might be subject to tax as income earned (to the extent that the interest income exceeds the costs of earning that income). This will probably not be a problem if the fund operates as a non-profit scheme, as appears to be the intention (the fund won't pay tax as it won't make a profit). However, the downside of this is that as the interest charged by the fund will be lower than the commercial rate, the ability of the fund to finance its operations in the long term will be reduced. This issue should be examined further if the loan fund is intended to operate in the long term.

2. Other financial comment: (i) If the NHT were to consider funding, the Commonwealth might need to consult the Department of Finance and Administration and the Australian National Audit Office (to see whether this was a proper use of public funds, and resolve issues about whether the Commonwealth would be able to demonstrate how its contribution was assisting with improving the condition of the natural resource base, a critical accountability issue and a strong interest of the Government).

(ii) How will the fund generate its own cash flow -there are bound to be problems with acquittal, audit, fiduciary obligations. There would need to be provision for arms-length management and for the costs of management. How would the interest rate be set? What would be the real sources of funds? How to deal with problems such as conflict of interest, defaults on loans, loss of effective oversight, stress on stretched community-based management.

(iii) The proposed uses are private benefit income earners -farmers could theoretically borrow commercially to fund them. Is the Commonwealth/NHT entering the banking business? Will the banks regard that as unfair competition -or will they use such funds to unload their own bad risks? Alternatively, how would you ensure that the government contribution was not ultimately used to fund private benefit activities (eg pasture establishment)?

3. Comment on some factors for success: (i) The NSW Soil Conservation Service ran a soil conservation loan scheme successfully for years. Other States tried and were less than successful, usually ending up with just grants. Wouldn't farmers prefer grants to loans as a rule?

(ii) Might the proposal be more appropriately initiated at a regional scale (community loan funds for which information is available on the Internet seem to operate at a level broader than that of the community group. It gives the opportunity to establish a larger pool of funds. View that the scheme should preferably be funded from local funds. This would create the level of peer pressure to ensure loaned funds were repaid -this would be missing if the funds were seen as being sourced from government. As for industry sponsorship, the Landcare Foundation (or its Victorian equivalent) could be possibilities to help organise such support.

National Landcare Section
18 February 1998