

# Submission Shared responsibilities in drought support

July 2021

# SHARED RESPONSIBILITIES IN DROUGHT SUPPORT

CPA Australia represents the diverse interests of more than 168,000 members working in over a 100 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

CPA Australia makes this submission to the Department of Agriculture, Water and the Environment to assist the department build a common understanding of shared responsibility in drought support.

Additionally, our submission seeks to elaborate on feedback provided through consultative roundtables, working groups and ongoing discussions with the department.

We thank the department for the opportunity to provide input to the consultation and look forward to continued discussions and engagement on drought support going forward.

CPA Australia would also like to acknowledge our members who provided input and feedback on their experiences to inform the submission.

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Yours sincerely,

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# Access to recovery support – The accountants’ perspective

## 1. What are your views on how stakeholders see the role of the finance sector to be?

### a) What parts of this summary are specifically relevant to the role of accounting professionals in drought support?

Stakeholders may perceive the role of the finance sector in narrow terms – such as banking, lending or investments – and not consider the broader financial eco-system that includes accountants, financial planners, lawyers, financial counsellors and others.

The term ‘finance sector’ can have perceptions or associations with the banking sector. The role of professional accountants in relation to drought support is broader and incorporates advice and assistance to individuals and businesses in ways beyond managing finances.

We recommend that professional advisers such as accountants be viewed as distinct from (but linked to) the finance sector for the purpose of drought support.

In relation to the summary – we agree broadly with what has been captured. Areas specifically relevant to the accounting profession are:

- Providing trusted, honest advice to help plan and implement strategies
- Having difficult, sensitive conversations – CPA Australia is supporting accountants to achieve mental health first aid qualifications to upskill and support early intervention
- Business and performance assessments.

Additionally, accountants support farming businesses with business and financial planning, compliance, managing obligations, tax and other advisory services. They can help businesses access government support measures and often have a wide referral network so can point clients to other experts and advisers to provide more holistic support. This role crosses the phases of drought and recovery periods.

## b) How would you best describe an accountant’s role in drought support for periods during and outside drought?

The role of the accountant during and outside drought periods could include (but is not limited to) the following:

- Assisting farm businesses manage their finances – this is very broad and can include advice on pricing, costs, products, risk management and alternate income sources
- Providing advice on how to respond to challenges and opportunities
- Providing advice on how to improve the farm business
- Providing advice on how to respond during difficult periods – this can also include difficult conversations on the future of the business
- Providing advice on how to prepare the business for challenges such as drought and other disasters
- Providing advice on succession, business structuring and restructuring
- Assisting farm businesses access government support and helping farm businesses comply with the obligations imposed by such support
- Assisting farm businesses seek external finance and helping them comply with the requirements and obligations of this finance
- Connecting farm businesses to specialist business advisers for complex matters
- Connecting farm businesses to support services such as rural financial counsellors where appropriate
- Being an information conduit between government and the farm business. For example, interpreting and simplifying complex information and explaining the importance and relevance of this information to farm businesses.

## 2. We have heard that farming businesses are supported by a network of “professional services, including financial services and specialist advisers”. Are the roles and responsibilities of these players similar enough to that of accountants, in so that members would be comfortable with being included under this or a similar grouping?

We would recommend separating ‘financial services’ from ‘professional services.’ Professional services such as accountants and lawyers are independent, and businesses access professional services to seek specialist assistance.

‘Financial services’ is more commonly a term for services where the provision of advice is attached to gaining financial products (i.e. loans, insurance etc). Financial services providers (such as banks) can and do provide advice, but in the context of providing a financial product.

In contrast, a professional adviser such as an accountant would work with a business to determine whether the business needs

to access external finance and help them make an informed decision, but not provide the financial product.

CPA Australia recommends keeping professional advisers and financial services as more discrete terms but recognise the sectors work together.

**3. We have heard that “providing advice and helping farm businesses to develop and implement risk/drought/business/succession plans” is important. Do you see this as part of accountants’ role?**

Accountants play an important role in helping farm businesses prepare for risks, identify opportunities, manage through disaster and succession/exit planning.

There is great capacity for accountants to work with businesses to help build their resilience and capacity. Accounting advice can ensure businesses have the financial buffers and alternate revenue streams to manage through a drought, as well as taking opportunities during the recovery.

Accountants, together with lawyers, play an important role in succession planning and planning to exit a business. This can include activities such as:

- Preparing the business for sale
- Preparing information packs for potential buyers
- Advising on the tax consequences of different courses of action
- Advising on the obligations that need to be addressed on closing a business
- How to transition ownership to the next generation.

**4. We have heard that accountants are privy to information about how farm businesses and other businesses in regional communities are tracking financially. Do you see the accounting sector having a role in advising government on general on-ground hardship conditions?**

Accountants often live and work in the communities they service – many are farmers themselves. They are a great source of both anecdotal and real data when it comes to issues on the ground and hardship in communities.

Accountants should be seen as an informed and independent local source of intelligence. They can help test ideas and identify potential complexities or barriers in policy implementation.

Accountants may also be a source of forward indicators of economic performance. For example, whether they are seeing increasing queries about financial assistance, voluntary insolvencies, debt payment plans with the Australian Taxation Office etc. This could help flag areas for early intervention.

Professional bodies such as CPA Australia can provide a conduit to these members as well as providing guidance, tools and

resources to equip our members in delivering services to their clients.

**5. We have heard that there are a range of players whose role should be considered in a shared approach to drought, for example agriculture industry bodies, banks, and charities. Are there other players that accountants routinely refer their clients to?**

Accountants often manage and maintain their own referral networks. Where an accountant recognises that the assistance a business needs is beyond their expertise, they can suggest other expert advisers. For example, in difficult periods, they may refer clients to financial counsellors, financial advisers, lawyers and/or insolvency practitioners.

We have made further suggestions about other stakeholders that should be considered in drought support in the second part of this submission - [Shared responsibility – consultation questions](#).

**6. What government drought support measures do accountants most routinely refer their clients to and why?**

Additional input from members is required to collate information around this question. However, we note that assisting clients access government drought support is not the only step an accountant will undertake with a client to support them.

Accountants will take a number of steps to support a business as they often have long-term relationships and will seek to maintain this through good, and challenging, times. Steps they may take include; supporting businesses find alternate sources of income, suggestions for disposal of non-core assets, suggestions for cost control and cash flow management.

**7. We have heard that tax incentives could be useful to encourage preparedness. From a tax accountant’s perspective: What is the level of awareness of the existing tax incentives? Are you aware of any circumstances where the current taxation treatment is not encouraging preparedness?**

Accountants working with farm clients will inform their clients of relevant tax incentives and many of our members, particularly those in regional areas, have specialist expertise in tax issues related to farming. Farming business operators are

highly dependent on their advisers to keep them informed of tax incentives in addition to accessing other financial and business support.

Tax incentives are one tool in the government's policy toolbox that could use to encourage drought preparedness. While not specific to drought preparedness, the existing tax policies in relation to income averaging and the various specific treatments of farming-related activities and assets can assist with cash flow and business planning. CPA Australia made a submission on the Agricultural Competitiveness Green Paper in 2014 highlighting opportunities to improve the tax system efficiency and equity, as well tax options to enhance competitiveness. This submission is attached for reference.

Our recent submission on the [Farm Management Deposit Scheme](#) outlined that overall, the scheme is serving its intended purpose, enabling farmers to better save income generated in good years. However, CPA Australia highlighted some areas for improvement, including the design and eligibility for modern farming business structures.

We observe that farming-related tax policy design tends to differentiate between the farmer as an individual and the farming business itself, which may comprise multiple entities, owners and beneficiaries with direct interests in the farming activities. As a result, issues can arise depending on the entity type in which the activity is carried out, or where income and cash is held (e.g. distributed to a beneficiary, retained dividends or salary paid to a director).

To support drought preparedness through the tax system, the Government should seek to achieve equitable access to incentives regardless of the structure of the farm business. It should consider whether the existing rules and definitions remain contemporary, especially as farms are now rarely operated through individuals.

We suggest that the tax policy should centre on enabling business entities to better manage drought and other farming-related risks, as opposed to managing the taxable income earned by an individual (such as a farmer). Such an approach more directly targets business decisions, such as investing in technologies and assets to prepare for drought, rather than focusing on ameliorating the impacts of drought on farmers' incomes annually.

However, as a general observation, we recommend more direct forms of assistance, rather than using the tax system to achieve non-tax policy objectives.

## **8. Are there additional gaps and opportunities to consider in defining a shared approach which encourages preparedness that need to be considered and asked in future consultations?**

Regular consultation on emerging issues and open communication between the department and professional bodies will ensure gaps that are identified can be addressed.

There should be a continuous improvement approach to preparedness that regularly reassesses what is working and

what is not. Government should seek to adapt and innovate where there are opportunities to support better drought preparedness in communities.

Data sharing, insights and experiences from across industries will also contribute to more robust and considered decision making.

## **Shared responsibility – consultation questions**

In this section, we have responded to selected questions that are part of the broader shared responsibility consultation.

### **Question 3. Has the Australian Government got the right balance between short-term relief and support for preparedness activities? If not, what should that balance be?**

While it is difficult to know precisely what the right balance might be, it is clear that support for farmers and farming businesses needs to be ongoing. Support should be viewed on a continuum, and not just at the point in time when a crisis or hazard event (i.e. fire, drought, storms) occurs.

To achieve the right, or a better, balance requires ongoing consultation and discussion between the government and all key stakeholders.

CPA Australia has previously recommended a standardised and scalable assistance framework to increase certainty and speed of delivery of support during times of need. This framework could incorporate preparedness strategies and lessons learned for continuous improvement.

### **Question 4. How do we translate what we have heard about what makes a farm business resilient and the support available, into a useful tool for farmers?**

Many farmers, like other businesses, rely on their accountant as a trusted adviser for business advice. Any business tool for farmers should therefore be developed in consultation with accountants and other professional advisers.

In designing any tool, it is important to consider that it will be the farmer's trusted adviser – often their accountant – who will be key to uptake. The professional advisers will be key in recommending or not recommending that their client use such tools.

Depending on the design and delivery of the tool, the farmer/farming business will often sit down with their trusted adviser to work through it. Activities like completing checklists, developing plans, risk assessments, cash-flow projections,

pricing etc. benefit from expertise or support from an adviser to complete, to ensure they are robust and reliable.

A potential option for a tool could be a training package or micro-credential to upskill and equip farming businesses in adapting, preparing and mitigating drought risks, as well as other farming risks.

The benefit of a micro credential is that it is more than a tick-box exercise. It requires genuine commitment to complete and a recognised outcome at completion. However, barriers such as time commitments, access to technology, or complexity could be a risk to uptake without the right support framework.

Incentives could be one way to encourage uptake of a tool. Incentives, along with support from a trusted adviser, could help to maximise the government's return on developing a tool and see higher uptake (rather than just putting the tool on a website).

Any tool would also need to be relevant for the diversity of farming businesses and farm business structures.

### **Question 5. What actions enable a farm business to be resilient, recover from drought and manage through drought?**

The importance of preparedness and planning cannot be understated, and neither can the need to ensure that professional advice is sought and sought early.

Farmers/farming business should be encouraged to consult trusted professional advisers and develop robust plans that consider the many risks that farming businesses face, including but not limited to, drought.

Off-farm income, fair and sustainable pricing for goods during non-drought times, financial and tax planning, contingency planning and diversification are just some steps businesses can take.

However, while there are many actions a business can take to build resilience, a principles-based approach should be taken to avoid being too prescriptive and allow for innovation.

### **Question 6. What should be the role of industry bodies be in providing assistance, information and tools across the drought cycle?**

The role of a professional accountancy organisation such as CPA Australia should primarily be to help upskill accountants to ensure they can service and engage their clients to support them across the drought cycle.

Professional bodies can develop tools, guides and templates that help accountants and their clients.

Industry and professional bodies also play an important role in working with government to provide the collated insights of their members as well as provide communication and distribution channels into communities to get messages out and intelligence back.

Industry bodies, such as professional accountancy organisations, should be prepared to liaise and consult with governments and other stakeholders on how to develop and implement the assistance policies and tools that are necessary to ensuring the most efficient, effective and consistent drought support outcomes.

### **Question 7. What should be the role of the finance sector be in providing assistance, information and tools across the drought cycle?**

As discussed previously, we consider the finance sector to mean banks and finance providers. The finance sector can provide financial assistance and many banks have support tools available for customers.

In terms of broader access to information and tools, many businesses rely on their trusted professional adviser (such as an accountant). The finance sector and accounting profession should work together to help farmers and farm businesses meet their information needs.

### **Question 9. Who are the other players (e.g. jurisdictions, charities, local governments, youth representatives etc.) that should be considered in building a shared approach to drought support?**

**Financial counsellors and rural financial counsellors** are important – especially where they work closely with accountants to identify the early signs of a farmer in need. They can provide early intervention.

**Insolvency and bankruptcy practitioners** are important to help manage dignified exits from the sector. We understand and acknowledge not all farm businesses will get through and survive a drought. For some it is better to exit early, to allow a dignified exit and seek the best possible outcome for the individuals and businesses in difficult circumstances.

Local, community-based **not for profits and charities** are important to support local communities which are impacted by the effects of drought on farmers and farming businesses.

**Medical practitioners and other healthcare** professionals are important to manage mental health challenges associated with drought and building community resilience.