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The Australian Rangeland Society

A PRELIMINARY FINANCIAL EVALUATION OF WEST 2000

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This preliminary evaluation was undertaken to examine the costs and benefits to be expected from the proposed adjustment and rehabilitation program WEST 2000 for the NSW Western Division (WD).

The proposed program comprises four interacting complementary strategies to address the key issues of profitability, viability, sustainability and isolation. It is not anticipated that all components will be implemented simultaneously. The strategies are directed at:

1. Improving economic self reliance of pastoral enterprises.
2. Supporting re-establishment of landholders.
3. Integrating natural resource management.
4. Facilitating regional development and government service reform.

Since this analysis was undertaken in 1994 we have seen the NSW Government provide $2.5m for the Rural Assistance segment of the package (Strategies 1 and 2). Strategies 3 and 4 are to be funded from 'in house' state department budgets. The federal government is expected to provide significant support as well. At this stage no announcements have been made.

It should be noted many segments of this proposal are presently operating in one form or another. WEST 2000 is aiming to bring these together on a regional basis. This may involve modification of existing programs. For example, interest subsidy for property build-up is presently available for 2 years under NSW Rural Assistance Authority Productivity Enhancement. At present an interest subsidy for up to 2 years on a maximum of 50% of interest paid (with a $20,000 p.a. ceiling) is available on a statewide basis. This program is seeking a 5 year interest subsidy on a maximum of 75% of interest paid ($30,000 ceiling) for the WD.

WEST 2000 is aiming to use a 'Tool Box' approach to be a catalyst to bring about change in the WD. It is not relying on one single strategy to make this happen. The program needs to have considerable FLEXIBILITY to achieve long-term outcomes due to the time span involved, the size and diversity of the area, and the different climates, land types and problems.

For the evaluation an actual case study property that was sold for property build-up (12,145 ha) was used. This property is in a better land class area and this is consistent with property build-up occurring in the better areas. But it needed some rabbit control and extra watering points to alleviate land degradation.

The analysis used two scenarios involving a hypothetical neighbour (currently 16,200 ha) purchasing this property. It is assumed they have been conservatively stocked and are controlling excessive native and feral animals.

ASSUMPTIONS

<u>Scenario 1</u>: After cashing $100,000 off-farm assets $340,000 is commercially borrowed, comprising $300,000 land and carry-on and $40,000 for 2,000 joined ewes. Another $20,000 is borrowed with a NSW Rural Assistance advance for water and rabbit warren ripping. A 5 year interest subsidy is available on 75% of interest paid on $340,000, borrowed from a commercial financier.

Scenario 2: 100% borrowing for land, carry-on, stock and an advance from the Rural Assistance Authority.

Other assumptions are:
1. The additional land is to be conservatively stocked and total grazing pressure controlled.
2. The wool price used is $2.50/kg nett (24 micron).
3. A loan period of 10 years.

RESULTS FROM 20 YEAR CASH FLOW ANALYSIS

Scenario 1

The loan is paid out in 10 years, there is a small annual surplus, income tax is paid each year with a husband/wife partnership. An interest subsidy of $92,000 is paid in the first five years. At the end of year 5, $44,187 income tax has been paid and at the end of 20 years $217,461 has been paid.

With this scenario there are many positive things such as reducing land degradation and socio-economic problems. The previous owners may be gainfully employed and paying PAYE tax. Also considerable income tax will be paid over 20 years by the build-up property. Other unpriced benefits are the multiplier effects of profitable holdings on local communities, improved biodiversity and less pressure on natural resources.

Scenario 2

Loan repayments cannot be met fully within 10 years and the loan is not paid out until year 14. In this case a 15 year loan would have been more appropriate, BUT very few commercial rural financiers will lend for such a long period. With this scenario any adverse events such as drought and/or recession could be disastrous to the future survival of the landholder. Also many borrowers and lenders would doubt the rationale of going from a $40,135 surplus (before tax and living) and being debt free, to making losses for 14 years (after living and taxation considerations).

There is no doubt the use of an interest subsidy is an excellent incentive to encourage property build-up. Under the present situation sales analysis shows that property build up and/or productivity enhancement is only occurring in better land types. An analysis of 1995 sales showed a distinct trend to purchasing part of existing properties. Also evident were purchases by existing holders using capital generated outside of the WD.

When property build up is included in the preliminary project evaluation, $51m invested over 9 years returned $173m by year 20. After discounting (7%) the Net Present Value of the project was $33.7m, with a Benefit Cost Ratio (BCR) of 1:1.81. Coincidentally, a preliminary estimate of Queensland's South-West Strategy had a BCR of 1.7.

In conclusion the package of strategies for WEST 2000 has the potential outcomes of improving the land condition, viability and diversification, reducing social stress and returning considerable medium to longer term tax revenue to Government coffers. The project is aimed to be a catalyst for change in NSW's Western Division.