



Future Farmer Guarantee Scheme	
Party:	The Coalition
<p>Summary of proposal:</p> <p>The proposal is to establish a Future Farmer Guarantee Scheme (FFGS) that would guarantee 40% of an eligible farmer's new commercial loan up to a maximum value of \$1.0 million.</p> <p>Applications for the Guarantee would open for an 18 month pilot from 1 January 2023. Eligible loans would be guaranteed for a maximum of 10 years, with an option to extend the loan term by 2 years for applicants who are experiencing significant financial hardship. A further allowance is provided to account for mediation or recovery action.</p> <p>The guarantee would be funded by reallocating \$75.0 million of loan funding from Regional Investment Corporation (RIC) loans.</p> <p>The intent of this proposal aligns with the charter costing <i>COA 007 – Future Farmer Guarantee Scheme</i> prepared by the Department of Finance during the caretaker period. The Parliamentary Budget Office (PBO) has calculated the public debt interest (PDI) based on the implications of the entire proposal on the headline cash balance, rather than the loan component only as per the charter costing.</p>	

Costing overview

The proposal would be expected to increase the fiscal balance by \$1 million, decrease the underlying cash balance by \$3.2 million and increase the headline cash balance by \$71.8 million over the 2022-23 Budget forward estimates period.

The proposal would have an impact beyond the 2022-23 Budget forward estimates period. A breakdown of the financial implications over the period to 2032-33 is provided at Attachment A.

The financial implications are sensitive to assumptions on interest rates and default rates.

Consistent with the *PBO Guidance 02/2015*, PDI expense impacts have been included in this costing because the concessional loans affected by this proposal involve financial asset transactions.

Table 1: Financial implications (\$m)^(a)

	2022-23	2023-24	2024-25	2025-26	Total to 2025-26
Fiscal balance	1.3	2.6	-1.4	-1.5	1.0
Underlying cash balance	-0.9	-1.1	-0.6	-0.6	-3.2
Headline cash balance	24.1	48.9	-0.6	-0.6	71.8

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

- Indicates nil.

Key assumptions

The Parliamentary Budget Office has made the following assumptions in costing this proposal.

Guarantees

- The total value guaranteed by the FFGS would be \$75 million.
- The uptake of the FFGS would be evenly spread over 18 months and any claims paid will be evenly distributed over the guarantee period.
- Approximately 100 loans would be guaranteed.

RIC loan reallocation

- Of the RIC loan funding reallocated to the scheme, \$25.0 million of loans would not be made in 2022-23 and \$50.0 million of loans would not be made in 2023-24.
 - The loans no longer made were costed using the same assumptions for concessional loans through the RIC as currently applied in the PEFO 2022 estimates. This includes that the loans would have paid interest only for years 1 to 5, and interest and principal for years 6 to 10.
- The interest rate would be the 2.31%.
- The expected default rate would be 8% of the total loan amount guaranteed.

Methodology

Financial implications were derived by calculating the impact of not providing the loans through the RIC and calculating the cost of providing the guarantee. The cost of the guarantee is based on the expected default rate multiplied by the total amount of loans guaranteed.

The departmental costs were calculated by estimating the likely effort required, including project management costs, legal advice, creation of policies, procedures and loan documentation, system licencing costs and communication material.

PDI was calculated based on the total financial implications of the proposal including the FFGS and departmental costs.

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.¹

¹ https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Costings_and_budget_information

Data sources

All costing information provided by the Department of Finance.

Attachment A – Future Farmer Guarantee Scheme – financial implications

Table A1: Future Farmer Guarantee Scheme – Fiscal balance (\$m)^(a)

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Revenue													
Administered non-tax													
<i>Interest revenue</i>	-0.2	-1.3	-1.7	-1.7	-1.7	-1.7	-1.7	-1.5	-1.3	-1.2	-1.0	-4.9	-15.0
<i>Income from unwinding concessional loan discount</i>	-0.1	-0.9	-1.2	-1.2	-1.3	-1.4	-1.4	-1.3	-1.2	-1.0	-0.9	-3.4	-11.9
Total – revenue	-0.4	-2.2	-2.9	-3.0	-3.0	-3.1	-3.1	-2.8	-2.5	-2.2	-1.9	-8.4	-27.0
Expenses													
Administered													
<i>Concessional loan discount</i>	4.1	8.1	-	-	-	-	-	-	-	-	-	12.2	12.2
<i>Guarantee - default</i>	-2.0	-4.0	-	-	-	-	-	-	-	-	-	-6.0	-6.0
Total – administered	2.0	4.1	-	-	-	-	-	-	-	-	-	6.1	6.1
Departmental													
<i>Departmental expenses - Regional Investment Corporation</i>	-0.7	-0.4	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-1.3	-2.7
Total – departmental	-0.7	-0.4	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-1.3	-2.7
Total – expenses	1.3	3.7	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	4.8	3.4
Total (excluding PDI)	1.0	1.5	-3.0	-3.1	-3.2	-3.3	-3.3	-3.0	-2.7	-2.4	-2.1	-3.6	-23.6
PDI impacts	0.3	1.1	1.6	1.6	1.6	1.5	1.4	1.1	0.9	0.6	-0.2	4.6	11.5
Total (including PDI)	1.3	2.6	-1.4	-1.5	-1.6	-1.8	-1.9	-1.9	-1.8	-1.8	-2.3	1.0	-12.1

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

- Indicates nil.

Table A2: Future Farmer Guarantee Scheme – Underlying cash balance (\$m)^(a)

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Receipts													
<i>Administered non-tax</i>													
<i>Interest receipts</i>	-0.2	-1.3	-1.7	-1.7	-1.7	-1.7	-1.7	-1.5	-1.3	-1.2	-1.0	-4.9	-15.0
Total – receipts	-0.2	-1.3	-1.7	-1.7	-1.7	-1.7	-1.7	-1.5	-1.3	-1.2	-1.0	-4.9	-15.0
Payments													
<i>Administered</i>													
<i>Guarantee - distribution of payouts</i>	-0.2	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-1.4	-4.2
Total – administered	-0.2	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-1.4	-4.2
<i>Departmental</i>													
<i>Departmental expenses - Regional Investment Corporation</i>	-0.7	-0.4	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-1.3	-2.7
Total – departmental	-0.7	-0.4	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-1.3	-2.7
Total – payments	-0.9	-0.8	-0.5	-0.5	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-2.7	-6.9
Total (excluding PDI)	-1.1	-2.1	-2.2	-2.2	-2.3	-2.3	-2.3	-2.1	-1.9	-1.8	-1.6	-7.6	-21.9
<i>PDI impacts</i>	0.2	1.0	1.6	1.6	1.6	1.5	1.4	1.1	0.9	0.6	-0.1	4.4	11.4
Total (including PDI)	-0.9	-1.1	-0.6	-0.6	-0.7	-0.8	-0.9	-1.0	-1.0	-1.2	-1.7	-3.2	-10.5

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

- Indicates nil.

Table A3: Future Farmer Guarantee Scheme – Headline cash balance (\$m)^(a)

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Receipts													
Administered non-tax													
<i>Interest receipts</i>	-0.2	-1.3	-1.7	-1.7	-1.7	-1.7	-1.7	-1.5	-1.3	-1.2	-1.0	-4.9	-15.0
<i>Principal repayments</i>	-	-	-	-	-	-4.1	-7.5	-7.5	-7.5	-7.5	-40.9	-	-75.0
Total – receipts	-0.2	-1.3	-1.7	-1.7	-1.7	-5.8	-9.2	-9.0	-8.8	-8.7	-41.9	-4.9	-90.0
Payments													
Administered													
<i>Guarantee - distribution of payouts</i>	-0.2	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-1.4	-4.2
<i>Loans made</i>	25.0	50.0	-	-	-	-	-	-	-	-	-	75.0	75.0
Total – administered	24.8	49.6	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	73.6	70.8
Departmental													
<i>Departmental expenses - Regional Investment Corporation</i>	-0.7	-0.4	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-1.3	-2.7
Total – departmental	-0.7	-0.4	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-1.3	-2.7
Total – payments	24.1	49.2	-0.5	-0.5	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	72.3	68.1
Total (excluding PDI)	23.9	47.9	-2.2	-2.2	-2.3	-6.4	-9.8	-9.6	-9.4	-9.3	-42.5	67.4	-21.9
PDI impacts	0.2	1.0	1.6	1.6	1.6	1.5	1.4	1.1	0.9	0.6	-0.1	4.4	11.4
Total (including PDI)	24.1	48.9	-0.6	-0.6	-0.7	-4.9	-8.4	-8.5	-8.5	-8.7	-42.6	71.8	-10.5

(a) A positive number for the headline cash balance indicates an increase in receipts or a decrease in payments or net capital investment in headline cash terms. A negative number for the headline cash balance indicates a decrease in receipts or an increase in payments or net capital investment in headline cash terms.

- Indicates nil.