Australian Government

Department of Agriculture and Water Resources

Department of Agriculture and Water Resources

Submission to the

Senate Select Committee Inquiry

into

Lending to Primary Production Customers

8 May 2017

Department of Agriculture and Water Resources

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Canberra ACT 2601

8 May 2017

Executive Summary

Debt is an important source of funds for farm investment and ongoing working capital, particularly for family owned and operated farm businesses that dominate most sectors of Australian agriculture.

A number of initiatives from the Australian Government's Agricultural Competitiveness White Paper have been implemented to assist Australian farmers with aspects of debt financing, including a $2.5 billion commitment over 10 years for concessional loans. The government has also committed to the establishment of a Regional Investment Corporation to deliver farm business concessional loans and the National Water Infrastructure Loan Facility.

The government is continuing to work in a number of debt and finance related areas, including developing a nationally consistent farm debt mediation scheme and a more robust and regular reporting regime on debt held by the agriculture sector.

This submission provides a range of information from the Australian Bureau of Agricultural and Resource Economics and Sciences, including data from the farm surveys it conducts, and other public resources.

Data indicates that:

- Nationally, total indebtedness of the agriculture, forestry and fishing industries[1] to institutional lenders was $69.5 billion at 30 June 2016.
- Bank lending accounts for 95 per cent of total institutional lending[2] to agriculture, forestry and fishing industries, with bank lending accounting for $67.2 billion at 31 December 2016.
- Debt to fund land purchases accounts for the largest share of debt on farms, accounting for an estimated 44 per cent of average broadacre debt at 30 June 2015. Working capital debt accounted for 37 per cent of average broadacre farm debt at 30 June 2015.
- Much of the aggregate agriculture sector debt is held by a relatively small proportion of mostly larger farms. At 30 June 2016, around 70 per cent of aggregate broadacre sector debt was held by just 12 per cent of farms.

Introduction

The Department of Agriculture and Water Resources (the department) welcomes the invitation from the Senate Select Committee (the Committee) to provide a submission into its *Inquiry into Lending to Primary Production Customers*.

The department would like to draw the Committee's attention to the submission it provided to the Parliamentary Joint Committee on Corporations and Financial Services' *Inquiry into the Impairment of Customer Loans*—much of the department's submission to that inquiry is relevant to this inquiry and where possible we have updated the information for the purposes of this submission.[3]

Since the time that submission was lodged, the Agricultural Competitiveness White Paper was released, with the aim of improving farm gate profitability, including through improved risk management. While improved farm gate profitability has positive flow-on effects on the ability of farmers to service their debts, the terms of reference for the White Paper specifically included an investigation into farm debt and access to finance.

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[1] Defined by the Reserve Bank of Australia (RBA) as 'rural debt'.
[2] Defined by the RBA as lending from banks (Authorised Deposit-taking Institutions), other government agencies (such as QRAA), and pastoral and other financial companies (e.g. those providing finance leases).
[3] www.aph.gov.au/Parliamentary_Business/Committees/Joint/Corporations_and_Financial_Services/customer_loans/Submissions

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A number of initiatives from the Agricultural Competitiveness White Paper have been implemented to assist farmers with aspects of debt financing, including the removal of legislative impediments to Farm Management Deposits (FMDs) being used as farm business loan offset accounts.

The White Paper also committed $2.5 billion over 10 years for concessional loans to assist farmers to access the finances they need. The government currently provides two concessional loans products under the Farm Business Concessional Loans Scheme. This scheme opened for applications on 1 November 2016, with $250 million available in 2016-17.

The government has committed to the establishment of a Regional Investment Corporation (RIC) to deliver farm business concessional loans and the National Water Infrastructure Loan Facility. The aim of the commitment is to consolidate loans expertise within the agriculture portfolio and streamline the administration of farm business loan arrangements to ensure they are delivered in a nationally consistent and efficient manner.

The government is continuing its process of developing a nationally consistent farm debt mediation scheme. The intent is to provide an efficient and equitable process that seeks to resolve farm debt disputes between creditors and borrowers before a creditor can undertake enforcement action.

The government is also working to improve the information available on the levels of debt held by the farm sector. The department is working with the Treasury, the Australian Prudential Regulation Authority (APRA) and the Australian Bankers' Association (ABA) to develop a more robust and regular reporting regime on debt levels, loans in arrears, and numbers of farm debt mediations and foreclosures, to provide a clearer picture of farm debt levels.

This will build on the quantitative information available from the farm surveys conducted by ABARES, and the anecdotal and other qualitative evidence available from those delivering services on behalf of the department, such as the Rural Financial Counselling Service (RFCS).

Farm debt levels and serviceability

Debt is an important source of funds for farm investment and ongoing working capital, particularly for family owned and operated farm businesses that predominate in most sectors of Australian agriculture. More than 95 per cent of broadacre and dairy farms are family owned and operated. Funding by family farms for expansion and improvement is limited to the funds the family has in reserve, the profits the business can generate and the funds it can borrow.

ABARES data shows:

- Debt to fund land purchases accounts for the largest share of debt on farms, accounting for an estimated 44 per cent of average broadacre debt at 30 June 2015.
- Working capital debt accounted for 37 per cent of average broadacre farm debt at 30 June 2015.

ABARES Analyses

National Indebtedness

Nationally, total indebtedness of the agriculture, forestry and fishing industries[4] to institutional lenders increased by 77 per cent from $42.0 billion at 30 June 2001 to $74.3 billion at 30 June 2009, in real terms. Several factors contributed to the growth in debt over this period, including:

- lower interest rates
- large increases in land values, which raised borrowing capacities
- increases in farm size and intensity of production

[4] Defined by the Reserve Bank of Australia (RBA) as 'rural debt'.

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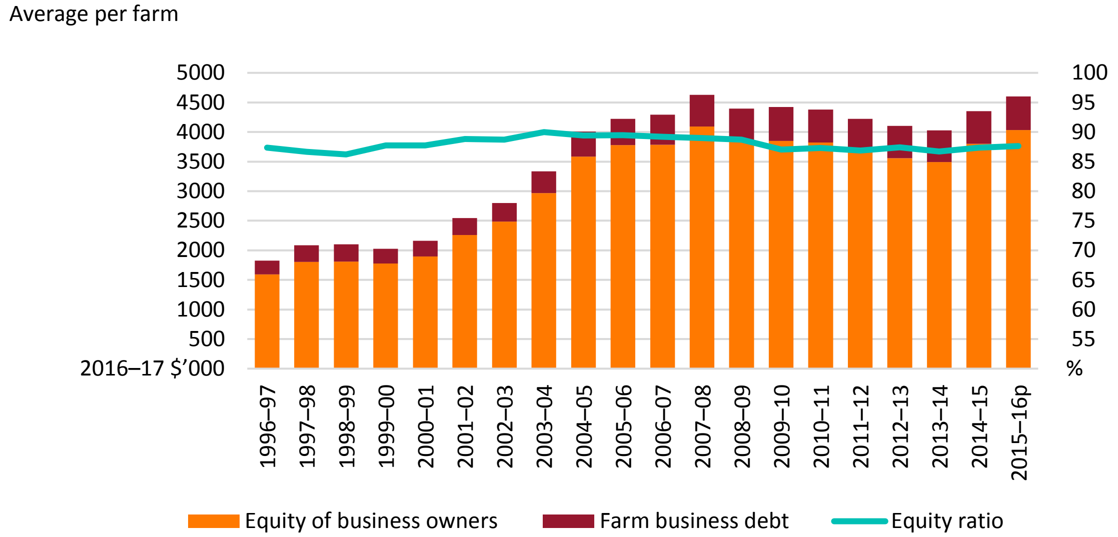
- changes in commodities produced
- reduced farm cash incomes because of widespread and extended drought conditions
- provision of interest subsidies to farmers in drought through Exceptional Circumstances arrangements[5]
- increased use of interest-only lending.

Total rural debt subsequently declined in real terms to $68.5 billion at 30 June 2015 before rising to $69.5 billion at 30 June 2016.

Bank lending accounts for 95 per cent of total institutional lending[6], with bank lending declining from $66.9 billion at 31 December 2009 to $64.4 billion at 30 September 2015 before rising to $67.2 billion at 31 December 2016.

Farm Equity

Farm business equity on average is strong for broadacre farms (Figure 1). The average equity ratio for broadacre farms at 30 June 2016 is estimated at 88 per cent, an increase from 87 per cent at 30 June 2015. Around 82 per cent of farms had equity ratios exceeding 80 per cent at 30 June 2016 (Martin et al 2017).



p Preliminary estimate. All financial estimates are in 2016-17 dollars.
Source: ABARES Australian Agricultural and Grazing Industries Survey

Figure 1: Farm business debt, owner equity and equity ratio, Australian broadacre farms, 1996-97 to 2015-16.

Decline in land values from 2007–08 to 2013–14 reduced farm equity in some regions and prompted financial institutions to tighten lending. This restricted some farm businesses' access to more finance.

In pastoral and other regions of northern Australia, farm equity fell significantly over the five years to June 2014. This was mainly a consequence of reported reductions in land values together with low beef cattle prices and reductions in cattle herds as a result of drought. However, farm equity strengthened in other regions because of reduced farm debt and increased capital investment.

[5] Exceptional Circumstances Interest Rate Subsidies ceased on 30 June 2012.
[6] Defined by the RBA as lending from banks (Authorised Deposit-taking Institutions), other government agencies (such as QRAA), and pastoral and other financial companies (e.g. those providing finance leases).

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Farm equity for many beef and sheep farms increased with the general rise in prices for beef cattle and sheep in 2014–15. Farm equity is estimated to have further increased in 2015–16 with higher land values in high rainfall and pastoral regions. Higher farm cash incomes for broadacre farms in 2014–15 and 2015–16 led to an increase in the proportion of broadacre farms buying land.

In contrast, the average equity ratio for dairy farms nationally has declined since 2004–05 as debt levels have increased with increased herd size and milk production. This is particularly the case in regions with increased focus on dairy production for export, including Tasmania, western Victoria and South Australia. The average farm equity ratio for dairy industry farms at 30 June 2016 was 79 per cent, down 1 percentage point from 30 June 2015 and around 7 per cent lower than in 2004–05.

Change in dairy farm equity ratios over time should also be considered against the background of the increase in average farm size. Equity ratios are typically lower for larger farms because they are generally able to take on and service larger debts.

Distribution of farm debt

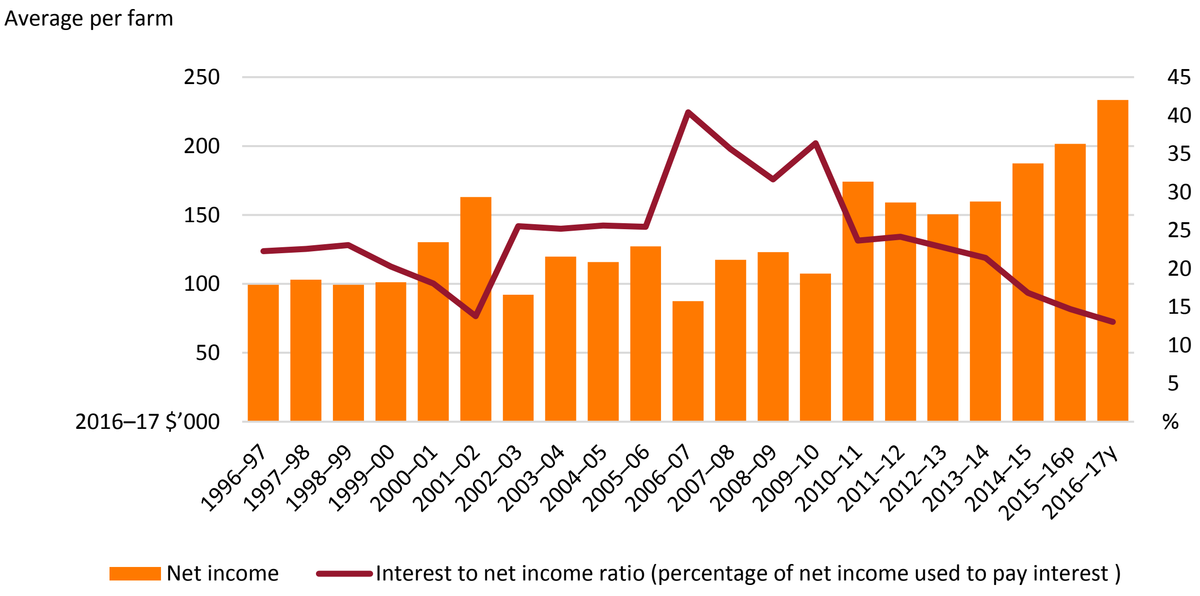
Much of the aggregate agriculture sector debt is held by a relatively small proportion of mostly larger farms. At 30 June 2016, around 70 per cent of aggregate broadacre sector debt was held by just 12 per cent of farms. On average, these were large farm businesses and in aggregate they produced around 50 per cent of the total value of broadacre farm production in 2015–16.

Around 35 per cent of grains industry farms and 31 per cent of dairy industry farms nationally carried more than $1 million in debt at 30 June 2016. In contrast, 69 per cent of beef farms and 63 per cent of sheep–beef farms nationally were recorded as having debt of less than $100,000 at 30 June 2015. Many of these businesses are small.

Aggregate debt is slightly less concentrated among larger farms in the dairy industry. Nevertheless, around 70 per cent of aggregate dairy sector debt at 30 June 2016 was held by 30 per cent of farms.

Debt servicing

Higher net farm income since 2009–10 and reductions in interest rates resulted in a decline in the average proportion of net income needed to fund interest payments for broadacre farms (Figure 2).



p Preliminary estimate. All financial estimates are in 2016-17 dollars.
Source: ABARES Australian Agricultural and Grazing Industries Survey.

Figure 2: Ratio of interest payments to net farm income, Australian broadacre farms with debt, 1996-97 to 2016-17.

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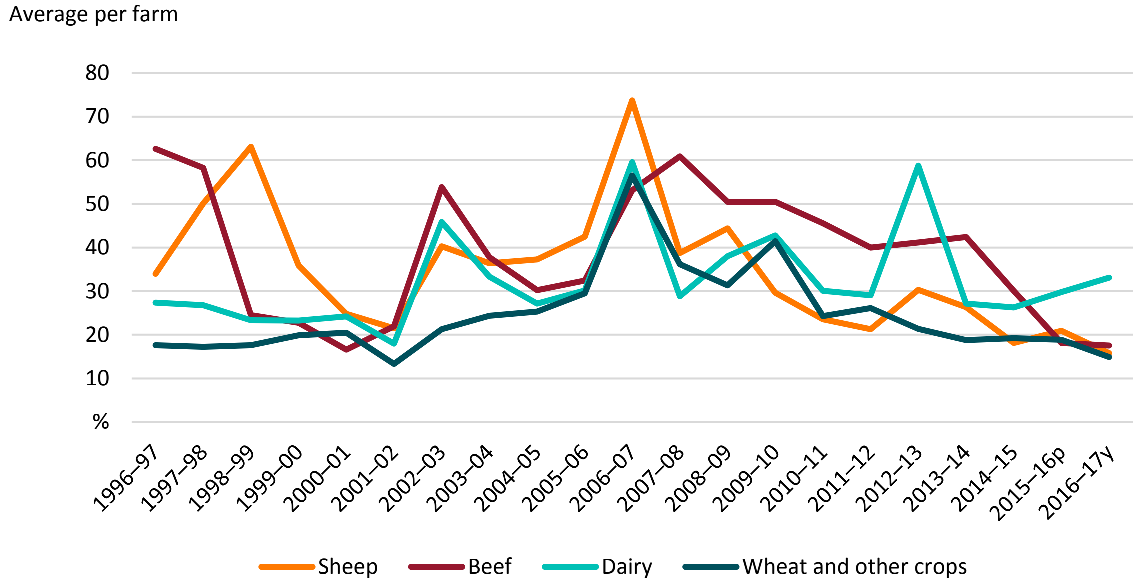
Large increases in borrowing through the 2000s and a reduction in net income between 2007–08 and 2013–14 resulted in the proportion of net income needed to fund interest payments being high for the beef industry (Figure 3). The proportion of net income needed to fund interest payments peaked at just over 60 per cent in 2007–08 as northern beef industry farms commenced rebuilding herds after the end of the 2000s drought. The proportion trended downwards to 18 per cent in 2015–16 and is projected to remain at around 18 per cent in 2016–17. This is similar to the proportion recorded in 2001–02, when beef cattle prices were also historically high.

In 2016–17 the ratio of interest payments to net farm income is also projected to be historically low in the wheat and other crops and sheep industries, at around 16 per cent for both.



p Preliminary estimate.
Source: ABARES Australian Agricultural and Grazing Industries Survey.

Figure 3: Ratio of interest payments to net farm income, by industry, Australia, 1996-97 to 2016-17.

For the dairy industry, the proportion of net farm income needed to fund interest payments increased very sharply in 2002–03, 2006–07 and 2012–13. Dry seasonal conditions and low milk prices resulted in very low net farm incomes in those years. In 2016–17 the proportion of net farm income needed to meet interest payments is projected to increase to 33 per cent for the dairy industry nationally and to around 36 per cent in Victoria.

Rural Financial Counselling Service data

The Rural Financial Counselling Service (RFCS) is funded by the Australian, state and Northern Territory Governments. It provides free financial counselling to farmers, fishing enterprises, forestry growers and harvesters, and small, related businesses across Australia who are suffering financial hardship.[7]

The RFCS is a useful source of qualitative and quantitative information on debt-related matters.[8] RFCS service providers provide information to the department on the main activities they undertake when meeting with a client, which can include asset management and farm debt mediation.

[7] A rural financial counsellor is not permitted to provide family, emotional or social counselling or financial advice, rather it can provide a referral service, allowing clients to obtain professional information and service.
[8] It should be noted that the RFCS programme is only available to farmers, fishing enterprises, forestry growers and harvesters, and small, related businesses that are in hardship; this means RFCS information may not reflect the situation for the broader population of these business types.

At the time of lodging this submission, the department is unable to provide statistics on rural financial counsellors' assistance to clients with these issues[9]. However, rural financial counsellors have provided some anecdotal information about their farm debt mediation work with clients as part of the feedback provided to the NSW Government for the review of its *Farm Debt Mediation Act 1994 (NSW)*. This feedback indicates that:

- The process of farm debt mediation, particularly through legislated processes, is valuable and preferable to rapid foreclosure decisions.
- Financial institutions operate within the intent of existing farm debt mediation legislation.
- There could be improvements to the farm debt mediation process, particularly when considering legal aspects:
  - The days of farmers negotiating 'in good faith' with their local bank representative have lapsed. In some instances, banks appear to outsource their credit/control and direct recovery to their legal representatives much earlier than previously.
  - While it is anticipated that banks attend mediation with their legal representatives, there have been instances where the bank's legal representative has attended as their sole agent. This often places the farmer at a disadvantage as they have to make the decision as to whether or not to have legal representation, generally when they are in a position of severe financial disadvantage.
  - Legal costs incurred by banks through the farm debt mediation process should, in the spirit of the legislated process, be borne by the banks, just as the farmer would be expected to meet any legal costs they incur in supporting themselves through farm debt mediation.

Current Government Programmes

The Australian Government has a number of programmes in place to assist Australian farmers with aspects of debt financing. These mainly relate to an Agricultural Competitiveness White Paper commitment to provide $2.5 billion over 10 years for concessional loans and improvements made to the Farm Management Deposits (FMD) Scheme.

Concessional Loans

The department, through arrangements with the relevant state and territory governments, delivers five concessional loans products: Farm Finance, Drought, Drought Recovery, Dairy Recovery and Drought Assistance loans. Loans are administered on behalf of the Australian Government by state and Northern Territory government delivery agencies.

Farm Finance Concessional Loans

The Farm Finance Concessional Loans (available under the Farm Finance Concessional Loans Scheme) closed for applications on 30 June 2015. Loans were available for five-year terms to farm businesses that were experiencing debt servicing difficulties but were assessed as commercially viable in the longer-term.

Eligibility for the loans was not contingent on a particular reason for hardship. The type of loans available (debt restructuring and/or productivity enhancement activities), value and terms were tailored to meet the farm business needs in each participating jurisdiction.

The interest rate is currently 3.03 per cent (effective 1 February 2017).

[9] Should this change, the department will forward data to the Committee Secretariat when/if available.

As at 31 March 2017, 409 farm businesses had been approved for Farm Finance Concessional Loans valued at over $196 million.

Eligible farm businesses experiencing hardship due to drought could apply to transfer their Farm Finance Concessional Loan to a Drought Concessional Loan.

The five-year loan term for the first of the Farm Finance Concessional Loans will expire during the 2018-19 financial year.

Drought Concessional Loans

The Drought Concessional Loans (available under the Drought Concessional Loans Scheme) closed for applications (in all jurisdictions except Western Australia) on 31 October 2016. Western Australia has Drought Concessional Loans available until 30 June 2017. The loans are available to farm businesses in need of financial assistance due to the impacts of drought.

- For the purposes of this scheme, a drought is defined as a rainfall deficiency equivalent to, or worse than, either a 1 in 10 or a 1 in 20 year or worse rainfall event for at least 12 months in the previous 24 months.
- Applicants can assess their eligibility to apply for a loan by using the Bureau of Meteorology's Australian Rainfall Deficiency Analyser[10], to confirm whether they fall within an area covered by a 1 in 10 or a 1 in 20 year or worse rainfall event.

Applicants are required to demonstrate that: they had taken reasonable steps to prepare for the effects of drought; their farm business has sound prospects for a return to commercial viability; they have the ability to service the loan; they can provide adequate security; and their commercial lender agrees to the proposed arrangements for the concessional loan.

Loans are available for debt restructuring; operating expenses; and drought recovery and preparedness activities.

The interest rate is currently 2.53 per cent (effective 1 February 2017).

As at 31 March 2017, 505 farm businesses had been approved for Drought Concessional Loans valued at $295.09 million.

Drought Recovery Concessional Loans

Drought Recovery Concessional Loans (available under the Drought Recovery Concessional Loans Scheme and the Drought Recovery and Dairy Recovery Concessional Loans Scheme) closed for applications on 31 October 2016. The Drought Recovery Concessional Loans assisted farmers to, where seasonal conditions allowed, commence eligible replanting and/or restocking activities.

Loans were available to farm businesses that experienced equivalent or worse than a 1 in 50 year or 1 in 100 year rainfall event.

- Applicants could assess their eligibility to apply for a loan by using the Bureau of Meteorology's Australian Rainfall Deficiency Analyser to confirm whether they fell within an area covered by a 1 in 50 or a 1 in 100 year or worse rainfall event.
- In Queensland, farm businesses involved in the direct consignment of live cattle to the export trade to Indonesia that were also experiencing 1 in 10 or 1 in 20 year rainfall event were also eligible to apply.

Applicants also had to demonstrate that their farm business had taken reasonable steps to prepare for the effects of drought and that they had the support of their current commercial lender(s).

[10] The Analyser has been developed specifically to support the delivery of drought-specific concessional loans schemes and is available at www.bom.gov.au/climate/ada.

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The interest rate is currently 2.07 per cent (effective 1 February 2017).

As at 31 March 2017, 101 farm businesses had been approved for Drought Recovery Concessional Loans valued at $43.525 million.

Dairy Recovery Concessional Loans

The Dairy Recovery Concessional Loans are available to eligible suppliers of Murray Goulburn, Fonterra and National Dairy Products, in Victoria, New South Wales, South Australia and Tasmania. These loans recognise that the May 2016 decision by Murray Goulburn, Fonterra and National Dairy Products to reduce the farm gate price of milk has had a severe impact on some dairy farm businesses.

Loans are available for a maximum of $1 million, with conditions applying, for the purposes of debt restructuring, new debt for operating expenses or productivity enhancement activities, or a combination of these.

The interest rate is 2.07 per cent for loans approved under the 2015–16 application period (as at 1 February 2017) and 2.47 per cent for loans approved under the 2016–17 application period.

As at 31 March 2017, 177 farm businesses had been approved for Dairy Recovery Concessional Loans valued at $100.034 million.

Drought Assistance Concessional Loans

Drought Assistance Concessional Loans are offered under the Farm Business Concessional Loans Scheme, which is currently open for applications. These loans assist eligible farm businesses in need of financial assistance to manage, recover from and prepare for droughts and maintain prospects for long term commercial viability.

Loans are for a maximum of $1 million, with conditions applying, for the purposes of debt restructuring, new debt for operating expenses, drought preparedness activities or drought recovery activities, or a combination of these.

The interest rate is currently 2.47 per cent (effective 1 February 2017).

As at 31 March 2017, 51 farm businesses have been approved for Drought Assistance Concessional Loans valued at $29.436 million.

Farm Management Deposits (FMD) Scheme

The FMD Scheme is a financial risk management tool for primary producers to help smooth the uneven income streams that are common in agriculture due to climatic and market variability. The scheme encourages individual primary producers to set aside pre-tax income in good years to build up cash reserves for use in low-income years.

Deposits are tax deductible in the financial year they are made, and form part of the primary producer's taxable income in the financial year they are withdrawn.

As at 31 March 2017, $4.3 billion was in held in more than 46 500 FMD accounts across the country[11].

To hold an FMD a person must:

- be an individual[12] carrying on a primary production business in Australia at the time of making a deposit
- not earn more than $100 000 in non-primary production income in the year of deposit

[11] Detailed statistics, including holdings by state/territory and industry are available at www.agriculture.gov.au/ag-farm-food/drought/assistance/fmd/statistics.

[12] Companies and trusts are not eligible to hold FMDs. However, individuals who are trust beneficiaries may be able to access the scheme.

- deposit only primary production income in their FMDs[13]
- not hold more than $800 000 as FMDs at any given time
- make a minimum deposit of at least $1000
- hold the deposit for at least 12 months to receive the tax benefit[14]
- claim a tax deduction in a financial year that does not exceed their taxable income from the primary production business for that financial year.

The department and the Treasury continue to co-manage the FMD scheme and assess what changes are needed to improve it on an ongoing basis.

- The department has policy ownership of the scheme, while the Treasury has legislative responsibility. The scheme is delivered by the Australian Taxation Office through the tax system.

The Agricultural Competitiveness White Paper brought about the most recent changes to the scheme, which were implemented from 1 July 2016:

- The deposit limit was increased from $400 000 to $800 000. This will deliver more flexibility to farming enterprises to manage income fluctuations by setting aside funds for low income years.
- An ‘early access in drought’ provision was reintroduced, allowing farmers in drought to withdraw their FMDs within 12 months of deposit without losing their claimed taxation benefits.
    - This is similar to provision that was previously available under the Exceptional Circumstances arrangements that ceased on 30 June 2014, which was used to trigger the availability of early access.
- Allowing FMDs to be used to offset the costs of their primary production business borrowings, reducing the interest payable on business debt and improving primary producers’ net cash positions.

Other portfolio involvement in recent debt and banking issues

The department’s submission to the Parliamentary Joint Committee on Corporations and Financial Services’ *Inquiry into the Impairment of Customer Loans* provided a detailed summary of its involvement in banking and finance matters. Of relevance to the Agriculture portfolio was the Committee’s recommendation from its report on the inquiry that a national farm debt mediation scheme should be established, and a similar nationally consistent mediation scheme be put in place for small business (see below for further discussion).

There have been a number of other inquiry responses to which the department has provided input more recently:

- The department worked with the Treasury in its development of the government’s response to the Rural and Regional Affairs and Transport References Committee inquiry into *Foreign Investment and the National Interest* (completed 26 June 2013).

[13] This can include income a beneficiary receives from a primary production trust.

[14] Primary producers who receive primary production Category C assistance under the Natural Disaster Relief and Recovery Arrangements following a natural disaster can withdraw their FMDs prior to 12 months without losing their claimed tax benefits. Primary producers who withdraw their FMDs early under this exemption cannot deposit any more FMDs in the same financial year.

The report recommended the government consider appropriate avenues for improving access for Australian agricultural businesses to domestic finance from Australian banks.

- The department also worked with the Treasury in its development of the government's response to the Economics Legislation Committee inquiry into the *Reserve Bank Amendment (Australian Reconstruction and Development Board) Bill 2013* (completed 31 March 2015). The report recommended the department and the Treasury consult with the banking sector and the relevant bodies that have identified deficiencies in the current information available on rural debt. This process is well underway (see below for further discussion).

The department continues to monitor and contribute to other Australian Government processes that are of relevance to the treatment of farmers by banks. These include:

- The Review of the Australian Small Business and Family Enterprise Ombudsman announced by the Hon. Michael McCormack MP, Minister for Small Business, on 15 March 2017. The review will investigate matters relating to the advocacy and assistance functions of the Ombudsman. The review is due to report to the government on 30 June 2017.
- The Review of External Dispute Resolution and Complaints Schemes, announced by the Hon. Kelly O'Dwyer MP, Minister for Revenue and Financial Services, on 8 August 2016. The review is investigating matters associated with the Financial Ombudsman Service (FOS), the Superannuation Complaints Tribunal, and the Credit and Investments Ombudsman. At the time of writing, the report (due by 31 March 2017) had not been released.

More recent developments in specific agriculture portfolio projects and initiatives that are of relevance to this, and the previous inquiries, are summarised below.

<u>Farm debt data</u>

There is a lack of reliable and comprehensive information on lending to the farm sector. The department is working with the Treasury, APRA and the ABA to develop a more robust and regular reporting regime on debt levels, loans in arrears, and numbers of farm debt mediations and foreclosures, to provide a clearer picture of farm debt levels.

On 28 March 2017, APRA released a formal consultation package to Authorised Deposit-taking Institutions (ADIs) and Registered Financial Corporations (RFCs), proposing that APRA will collect the following data from ADIs and RFCs on behalf of the department:

- total balance outstanding on loans and leases;
- total facility limits on loans and leases;
- total balance outstanding on loans and leases more than 90-days past due;
- number of business entities with a balance outstanding for loans and leases; and
- number of business entities with a balance outstanding that is more than 90-days past due.

Data will also be sought on agricultural lending distress broken down by state or territory, including:

- number of new instances of farm debt mediation
- number of new farm foreclosures
- total balance outstanding on loans and leases for any new farm foreclosures.

As part of the consultation process, ADIs and RFCs have been asked to voluntarily provide the data outlined above for the 30 June 2016 reporting period. The first formal data collection is proposed for the period ending 30 June 2017.

At the same time, the government, through the Treasury portfolio, is making amendments to the *Financial Sector (Collection of Data) Regulations 2008* and the *Australian Prudential Regulation Authority Regulations 1998* to list the department as an agency with which APRA can share the data once collected.

At the time of lodging this submission, APRA and the department were reviewing written submissions from ADIs and RFCs.

Farm Debt Mediation

At a meeting of the Agricultural Finance Forum on 26 September 2014, the Minister for Agriculture, the Hon. Barnaby Joyce MP, confirmed his commitment to the development of a nationally consistent farm debt mediation scheme.

Currently, New South Wales (NSW) and Victoria have legislated farm debt mediation schemes, while the Queensland Government recently passed the *Farm Business Debt Mediation Act 2017*, which will commence on 1 July 2017. ABARES data indicates that the combined legislated processes of these three states will cover approximately 77 per cent of Australia's farm businesses.

The Western Australian (WA) Government implemented a 2-year voluntary pilot farm debt mediation scheme on 5 June 2015, which may form the basis of a formal legislative approach in the future. South Australia (SA) relies on a voluntary scheme, the SA Farm Finance Strategy, in conjunction with its Fair Trading (Farming Industry Dispute Resolution Code) Regulations 2013. Tasmania, the Northern Territory (NT) and the Australian Capital Territory (ACT) have no formal mechanisms.

The government continues to work towards implementation of a farm debt mediation scheme to create a nationally consistent and transparent process to resolve farm debt disputes between creditors and farmers before enforcement actions are undertaken. The preferred model for achieving this is through the harmonisation of legislation across the country and its implementation at the state and territory level.

The need for a nationally consistent farm debt mediation scheme has been reinforced by the recent (3 February 2017) release of the Australian Small Business and Family Enterprise Ombudsman (the Ombudsman) report on its *Inquiry into Small Business Loans*, which was produced as a result of the Parliamentary Joint Committee on Corporations and Financial Services' *Inquiry into the Impairment of Customer Loans*.

The Ombudsman was asked to investigate (amongst other things) a selection of cases identified by the Parliamentary Joint Committee as unfair and to ascertain whether there were any deficiencies in the regulation of ADIs in lending to small business. The cases investigated included a number of farm business loans. The resulting report recommended that 'a nationally consistent approach to farm debt mediation must be introduced'.

Further discussions on the best processes for implementing a national farm debt mediation scheme are expected to take place at the Agriculture Minister's Forum scheduled for July 2017. In the interim, the department has been consulted by the NSW Government for its review of the *Farm Debt Mediation Act 1994 (NSW)*, with the view to helping update and align it with the existing Victorian and the new Queensland legislation where possible and sensible to do so. Submissions for the NSW Government review are due on 7 May 2017.

The department's current work with the Treasury, APRA and the ABA to collect better farm debt data will develop a more robust and regular reporting regime on farm debt mediation and foreclosure numbers, amongst other key lending statistics.

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Forthcoming Australian Government Initiatives

Regional Investment Corporation

In June 2016, the Australian Government committed to establish a Regional Investment Corporation (RIC) to be the national administrator for the Commonwealth farm business concessional loans and the National Water Infrastructure Loan Facility.

The aim of the commitment is to consolidate loans expertise within the portfolio and streamline the administration of farm business loan arrangements to ensure they are delivered in a nationally consistent and efficient manner, as well as providing loans to state and territory governments for the construction of nationally significant water infrastructure.

References

Martin, P, Shafron, W, and Phillips, P (2017), ‘Farm performance: broadacre and dairy farms, 2014-15 to 2016-17, in Agricultural Commodities: March Quarter 2017, Australian Bureau of Agricultural and Resource Economics and Sciences, Canberra