Australian Government
Department of Finance
The Treasury

PUBLIC RELEASE OF 2022 ELECTION COMMITMENT COSTING

Name of proposal costed: Future Farmer Guarantee Scheme	
Costing Identifier:	COA 007
Summary of costing:	The proposal is to establish a Future Farmer Guarantee Scheme that would guarantee 40 per cent of an eligible farmer's new commercial loan up to a maximum value of $1.0 million. Applications for the guarantee would open for an 18 month pilot from 1 January 2023. Eligible loans would be guaranteed for a maximum term of 10 years, with an option to extend the loan term by two years for applicants who are experiencing significant financial hardship. A further allowance is provided to account for mediation or recovery action. The guarantee would be funded by reallocating $75.0 million of loan funding from Regional Investment Corporation (RIC) loans.
Ongoing or Terminating (including date)[(a)]	Terminating on 30 June 2039.
Person making the request:	Prime Minister.
Date costing request received:	2 May 2022.
Date of public release of policy:	19 April 2022.
Date costing completed:	9 May 2022
Additional information requested (including date):	Not applicable.
Additional information received (including date):	Not applicable.

(a) Ongoing policies continue indefinitely (until a decision is made to cease or alter the program). Terminating measures end on a date set out in the initial policy and a further decision is required to continue the program beyond this date.

Financial implications (outturn prices)[(b)]

Impact on	2021-22	2022-23	2023-24	2024-25	2025-26
Underlying Cash Balance (UCB) ($m)	0.0	-0.9	-1.1	-0.7	-0.6
Fiscal Balance ($m)	0.0	1.2	2.5	-1.5	-1.5

(b) 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 positive number for the UCB indicates an increase in revenue or a decrease in expenses or net capital investment in cash terms.

Where relevant, state that the proposal has been costed as a defined or specified amount.

The proposal has been costed as a specified amount.

Where relevant, include separate identification of revenue and expense components.

Expense and Revenue

Impact on Fiscal Balance	2021-22	2022-23	2023-24	2024-25	2025-26
Revenue ($m)	0.0	-0.4	-2.2	-2.9	-3.0
Expenses of the scheme ($m)	0.0	1.3	3.7	-0.1	-0.1
PDI on loans ($m)	0.0	0.2	1.0	1.6	1.6
Total ($m)	0.0	1.2	2.5	-1.5	-1.5

Payments and Receipts

Impact on Underlying Cash Balance (UCB)	2021-22	2022-23	2023-24	2024-25	2025-26
Receipts ($m)	0.0	-0.2	-1.3	-1.7	-1.7
Payments for the scheme ($m)	0.0	-0.9	-0.8	-0.5	-0.5
PDI on loans ($m)	0.0	0.2	1.0	1.6	1.6
Total ($m)	0.0	-0.9	-1.1	-0.7	-0.6

There would also be a reduction in gross debt of up to $73.8 million in 2025-26 from not issuing the farm business concessional loans through the RIC.

Where appropriate, include a range for the costing or sensitivity analysis.

Not applicable.

Qualifications to the costing (including reasons for the costing not being comprehensive).

The costing does not consider future changes to interest rates.

Where relevant, explain effects of departmental expenses.

Expenses for the RIC are:

2022-23: $0.7 million.

2023-24: $0.4 million.

2024-25: $0.1 million.

2025-26: $0.1 million.

There would be departmental expenses of $0.2 million per annum, subject to indexation and the efficiency dividend, from 2026-27 to 2038-39.

Where relevant, explain the reason for any significant differences between the assumptions specified in a party costing request and those used in a Treasury or Finance costing.

The costing request did not consider the financial impacts of no longer issuing $75.0 million of loans through the RIC.

Other comments ***(including reasons for significant differences between the estimated impact on the fiscal and underlying cash balances).***

Where relevant, include an explanation of the medium-term implications of the proposal.[c]

The differences between the fiscal balance and underlying cash balance reflect two factors:

i. The fiscal balance impact of the loan guarantees, which are the anticipated losses, are recognised upfront upon issuing the guarantees. The underlying cash balance is reflected when the payments are expected to be made over the guarantee period; and

ii. The reduction in concessional loans has an upfront positive impact from the concessional loan discount expense no longer incurred, with a negative impact in future years as the unwind concessional revenue is then no longer accrued.

The medium term implications are provided in the table below reflecting the interest and PDI impacts of the loans that would have been outstanding, the payment of guarantees and the costs of the RIC to administer the scheme.

Impact on	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Underlying Cash Balance (UCB) ($m)	-0.5	-0.6	-0.6	-0.6	-0.5	-0.5	-0.6
Fiscal Balance ($m)	-1.5	-1.6	-1.6	-1.5	-1.3	-1.1	-1.1

There are further, smaller, negative impacts continuing until 30 June 2039.

(c) Information on the medium term implications will be provided if the cost of the policy is expected to be significantly different beyond the forward estimates period. The medium term is considered to be the 7 years after the current forward estimates.

Background information

Costing methodology used:

For guarantees provided:

- The total value guaranteed by the loan guarantee scheme is $75.0 million.
- The upper end of a range of default rates for similar farm business concessional loan schemes was used.
- The uptake of the guarantee is evenly spread over 18 months and any claims paid will be evenly distributed over the guarantee period.
- It is expected that around 100 loans would be guaranteed.
- Eligible loans would have a maximum term of 10 years, with an option to extend the loan term by two years for applicants who are experiencing significant financial hardship. A further allowance is provided to account for mediation or recovery action.

For reallocation of RIC loan funding:

- Of the RIC loan funding diverted 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 one to five, and interest and principal for years six to ten.
- There is an assumption that the current interest rate of 2.31% on the loans continues.

Behavioural assumptions used (as appropriate):

Not applicable.