



## PARLIAMENTARY BUDGET OFFICE

NSW Parliament • Parliament House, Macquarie Street Sydney 2000

**Referred by:** Coalition **Proposal No:** C1406  
**Date Referred:** 14/02/2023 **Date Published:** 20/03/2023  
**Proposal Title:** Farm Innovation Fund 3.0  
**Cluster:** Regional NSW

### General Government Sector Impacts

	2022-23 \$'000	2023-24 \$'000	2024-25 \$'000	2025-26 \$'000	4 year Total \$'000
Expenses (ex. depreciation)		18,502	21,750	24,529	64,781
Depreciation					-
Less: Offsets					-
Revenue		4,825	9,088	12,773	26,686
<b>Net Operating Balance:</b>	-	<b>(13,678)</b>	<b>(12,662)</b>	<b>(11,755)</b>	<b>(38,095)</b>

Capital Expenditure	-	-	-	-	-
Capital Offsets					
<b>Net Capital Expenditure:</b>	-	-	-	-	-

<b>Net Lending/(Borrowing):</b>	-	<b>(1,723)</b>	<b>(2,948)</b>	<b>(3,997)</b>	<b>(8,668)</b>
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### Total State Sector Impacts

<b>Net Lending/(Borrowing):</b>	-	<b>(1,723)</b>	<b>(2,948)</b>	<b>(3,997)</b>	<b>(8,668)</b>
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### Notes and costing assumptions:

The policy proposes to establish a new and expanded Farm Innovation Fund (FIF) 3.0 to provide \$1 billion in concessional loans to NSW farmers to help them:

- adapt and build resilience against natural disasters such as floods, and droughts
- innovate and realise benefits from “AgTech” enhancements
- access capital to drive long-term productivity or practice change activities.

The value of the concessional loans will be from \$50,000 to \$2 million, with terms of 5 to 20 years. The interest on the loans will be charged at concessional rates, which are lower than market rates.

The Fund would be administered by the NSW Rural Assistance Authority (RAA) and would operate over the period from 2023-24 to 2045-46.

The policy assumes that the initial establishment and administration costs in 2022-23 will be absorbed from within the Authority and the Regional NSW Cluster, and the ongoing administration costs and other expenses are to be met within existing budgets. The Parliamentary Budget Office (PBO) considers this would be feasible but may require a reprioritisation of agency activities to administer the Fund.

## Notes and costing assumptions continued:

Based on advice from RAA and NSW Treasury, the policy is expected to:

- decrease net operating balance by \$38.1 million over the forward estimates
- have a total net borrowing impact of \$8.7 million over the forward estimates
- decrease net operating balance by \$98.1 million over ten years to 2031-32
- have a total net borrowing impact of \$47.6 million over ten years to 2031-32.

Refer to Table 1 on page 3 for details of the budget impact from 2022-23 to 2031-32.

### Key assumptions

- There are 330 new loans per year. The profile of these loans is: 30 per cent environmental, 20 per cent animal welfare and 50 per cent technology.
- The average value per loan, average loan term and concessional rate for each of the loan types are based on advice from RAA and are shown below.

Loan type	Environmental	Animal Welfare	Technology
Total Amount Financed (\$)	350,000	350,000	225,000
Term (years)	13	13	5
Concessional interest rate (%)	2.50	2.25	2.50

- The benchmark market rate for loans to farmers is assumed at 6 per cent per year as per Treasury's advice. Treasury notes that the market interest rates are highly unpredictable, hence this rate is subject to change. The assumption of 6 per cent is Treasury's conservative estimate of the market rate at which a farmer would be able to borrow at.
- TCorp bond rates over the forward estimates are assumed at:

	2023-24	2024-25	2025-26
Average interest rate (%) on new debt issued by NSW Treasury Corporation (TCorp)	4.2	3.9	3.9

- Repayments will be made annually where loans are issued on the first day of the financial year and principals are repaid at the end of the year. Interest is calculated at closing balance at the end of the year.
- There is nil closing balance at the end of the loan.
- The net present value of the concession or 'loan discount' (which is the difference between the market and concessional interest rates) is captured as an expense. This is recorded under 'concessional loan expense' on Table 1.
- The remaining value of the concession decreases as loans are repaid. The unwinding of the concession is recorded as a revenue.
- There is very low risk of default (0.31%). DRNSW advised that historically, the FIF has had an extremely low default rate. The assumption is based on similar levels of risk observed from existing FIF loans.
- Establishment, administration, software and promotion costs will be absorbed from within RAA's and the Regional NSW Cluster's budget as stated in the policy. Therefore, these costs will have nil impact on the budget. RAA advised its estimates of these costs from inception of the program in 2023-24 to 2025-26 (see Table 2). Based on the advice, about \$3.4 million per year would have to be found within the agency or cluster's existing resources.



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**Table 1. Farm Innovation Fund 3.0 – Budget impact on Net Operating Balance and Net Lending**

	2022-23 (\$m)	2023-24 (\$m)	2024-25 (\$m)	2025-26 (\$m)	2026-27 (\$m)	2027-28 (\$m)	2028-29 (\$m)	2029-30 (\$m)	2030-31 (\$m)	2031-32 (\$m)	Total to 2025-26 (\$m)	Total to 2031-32 (\$m)
<b>Revenue</b>	<b>0.0</b>	<b>4.8</b>	<b>9.1</b>	<b>12.8</b>	<b>15.9</b>	<b>18.3</b>	<b>20.2</b>	<b>21.8</b>	<b>23.3</b>	<b>24.5</b>	<b>26.7</b>	<b>150.6</b>
Interest revenue on loans (cash)		2.3	4.3	6.1	7.5	8.6	9.5	10.2	10.9	11.4	12.7	70.9
Unwinding of Concession Liability (non-cash)		2.5	4.8	6.7	8.4	9.7	10.7	11.6	12.4	13.0	14.0	79.7
<b>Expenses</b>	<b>0.0</b>	<b>18.5</b>	<b>21.7</b>	<b>24.5</b>	<b>26.9</b>	<b>28.9</b>	<b>30.3</b>	<b>31.6</b>	<b>32.7</b>	<b>33.6</b>	<b>64.8</b>	<b>248.7</b>
Interest expense on T-Corp borrowings (cash)		4.0	7.2	9.9	12.3	14.2	15.6	16.9	17.9	18.8	21.1	116.9
Default write-off (cash)		0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.3	0.3	0.3	1.6
Concessional loan expense (non-cash)		14.5	14.5	14.5	14.5	14.5	14.5	14.5	14.5	14.5	43.4	130.2
<b>Total Budget Result Impact</b>	<b>0.0</b>	<b>(13.7)</b>	<b>(12.7)</b>	<b>(11.8)</b>	<b>(11.1)</b>	<b>(10.5)</b>	<b>(10.1)</b>	<b>(9.7)</b>	<b>(9.4)</b>	<b>(9.1)</b>	<b>(38.1)</b>	<b>(98.1)</b>
<b>Total Capital Expenditure</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total Net Lending Impact</b>	<b>0.0</b>	<b>(1.7)</b>	<b>(2.9)</b>	<b>(4.0)</b>	<b>(5.0)</b>	<b>(5.7)</b>	<b>(6.3)</b>	<b>(6.9)</b>	<b>(7.3)</b>	<b>(7.7)</b>	<b>(8.7)</b>	<b>(47.6)</b>

**Table 2. Other costs to be absorbed within existing resources**

	2022-23 (\$m)	2023-24 (\$m)	2024-25 (\$m)	2025-26 (\$m)
Employee - program administration		1.8	1.8	2.9
Employee - project delivery and implementation		0.8	1.2	1.2
Software and promotion costs		0.4	0.0	0.0
<b>Total</b>		<b>3.0</b>	<b>3.1</b>	<b>4.1</b>