Parliamentary Budget Office - Election Policy Costing

NSW Parliament • Parliament House, Macquarie Street Sydney NSW 2000

Referred By:	Coalition	Proposal No:	Y061
Date Referred:	21/02/2019	Date Published:	18/03/2019

Proposal Title: Expansion of Farm Innovation Fund

Cluster: Industry

General Government Sector Impacts

	2018-19 $'000	2019-20 $'000	2020-21 $'000	2021-22 $'000	4 year Total $'000
Expenses (ex. depreciation)	-	5,793	8,097	10,408	24,298
Depreciation	-	-	-	-	-
Less: Offsets	-	4,699	4,927	5,248	14,874
Revenue	-	1,094	3,170	5,160	9,424
Net Operating Balance:	**-**	**-**	**-**	**-**	**-**
Capital Expenditure	-	-	-	-	-
Capital Offsets	-	-	-	-	-
Net Capital Expenditure:	**-**	**-**	**-**	**-**	**-**
Net Lending/(Borrowing):	**-**	**-**	**-**	**-**	**-**

Total State Sector Impacts

	2018-19 $'000	2019-20 $'000	2020-21 $'000	2021-22 $'000	4 year Total $'000
Net Lending/(Borrowing):	**-**	**-**	**-**	**-**	**-**

Notes and costing assumptions

The policy proposes to increase funding for the Farm Innovation Fund (FIF), which provides concessional interest rate loans to primary producers, by $350 million from 2019-20. The $350 million increase is to be phased in over four years at $87.5 million per year. The policy specifies that:

- The Department of Industry and the Rural Assistance Authority would absorb the cost of administering the additional funding for the FIF, and
- The Department of Industry would absorb the cost of the foregone interest for the concessional loans from the FIF.

The policy also proposes to expand the eligibility criteria to include technologies such as water sensors and commercial fishing equipment.

The PBO estimates the net budget impact of the policy as nil. The estimated net expense for this policy is $14.9 million over the forward estimates, which can be absorbed by the Department of Industry and its Cluster.

Notes and costing assumptions continued:

Interest rate assumptions and how the FIF works

The $350 million increase to the FIF is for additional loan funds to be disbursed to primary producers and the Government expects these funds to be recouped over time, plus interest. As such, the $350 million increase represents an injection of funds that appears on the state's balance sheet, rather than the state's operating statement as expenses. The impact on the state's net operating balance is limited to the net interest expenses from the concessional interest rate charged on the loans.

Based on advice from Treasury, the net interest expense of the policy is the difference between:

- The 2.5% concession rate of the loans (government revenue), and
- The 2.94% TCorp interest rate for NSW Government's 20 year bond to fund the FIF (government expense).

Treasury advised that accounting standards require concessional interest to be recognised as a grant expense at the start of the disbursed loan. This expense is then amortised over the loan period as the borrower repays the loan and the associated concessional interest.

In this case, the PBO and Treasury assumes the additional $350 million is fully subscribed over the policy's duration, leading to a net expense of $14.9 million over the forward estimates. Over the period 2019-20 to 2028-29, the total net expense is estimated to be $35.5 million, ranging from $1.5 to $5.7 million per year.

The Department of Industry and the Cluster to absorb the costs

The PBO considers it feasible for the Department and the Cluster to absorb the above impact. This is based on Treasury's advice that the Cluster provided undertakings that it will absorb the additional costs. The PBO also notes that the Industry Cluster's recurrent expenditure for 2018-19 is $4.7 billion, which indicates room for the Department to reprioritise resources from existing programs to meet the cost of this policy.