

# Independent Review of the Regional Investment Corporation

David Tune AO PSM

February 2021



© Commonwealth of Australia 2021

### **Ownership of intellectual property rights**

Unless otherwise noted, copyright (and any other intellectual property rights, if any) in this publication is owned by the Commonwealth of Australia (referred to as the Commonwealth).

### **Creative Commons licence**

All material in this publication is licensed under a Creative [Commons Attribution 4.0 International Licence](#) except content supplied by third parties, logos and the Commonwealth Coat of Arms.

Inquiries about the licence and any use of this document should be emailed to [copyright@awe.gov.au](mailto:copyright@awe.gov.au).



### **Cataloguing data**

This publication (and any material sourced from it) should be attributed as: Tune, D 2021, *Independent Review of the Regional Investment Corporation*, Canberra, February. CC BY 4.0.

ISBN: 78-1-76003-438-2

This publication is available at [agriculture.gov.au/ric](http://agriculture.gov.au/ric)

Department of Agriculture, Water and the Environment

GPO Box 858 Canberra ACT 2601

Telephone 1800 900 090

Web [agriculture.gov.au](http://agriculture.gov.au)

The views and opinions expressed in this report do not necessarily represent the views of the Australian Government or the Portfolio Ministers for the Department of Agriculture, Water and the Environment. The Commonwealth of Australia, its officers, employees, agents, advisers and the other parties involved in creating this report, including the independent reviewer, disclaim responsibility to any other party for all liability, including liability for negligence and for any loss, damage, injury, expense or cost incurred by any person as a result of accessing, using or relying on any of the information in this report to the maximum extent permitted by law.

# Letter of transmittal

The Hon David Littleproud MP, Minister for Agriculture, Drought and Emergency Management  
Senator the Hon Simon Birmingham, Minister for Finance  
Parliament House  
CANBERRA ACT 2600

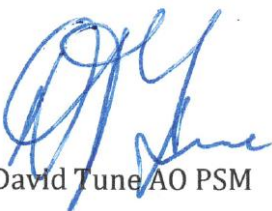
Dear Minister Littleproud and Minister Birmingham

Following my appointment to conduct an independent review of the Regional Investment Corporation (RIC), I am pleased to provide you with my report and recommendations.

In line with the terms of reference, the review considered the RIC's governance and suite of responsibilities, the suitability and effectiveness of its loan products, the suitability of the current funding model and the overall risk profile of the RIC, with a focus on financial risk.

The review concludes that the RIC and its current loan products are broadly fit for purpose, but there are a number of opportunities to improve, reform and enhance the direction and operations of the RIC. There are recommendations for the government, departments and the RIC that, if implemented, will reduce the overall risk to the government and decrease the RIC's operational challenges. Further, these recommendations should translate to improving the customer experience for RIC loan applicants and recipients and produce better outcomes for the government in line with its expectations and core policy objectives.

Yours sincerely



David Tune AO PSM

Independent Reviewer

# Acknowledgements

I would like to thank everyone involved in the Independent Review of the Regional Investment Corporation (RIC), including the stakeholders consulted for sharing their views. I wish to express my gratitude to the RIC Board, CEO, executive management team, and RIC staff for their time and insights. I would also like to thank the officials from Commonwealth agencies who provided background briefings and supporting analysis.

I thank the team at Deloitte for the professional analysis undertaken to inform various aspects of the review.

I would also like to acknowledge officials from the Department of Agriculture, Water and the Environment for their assistance throughout the review process, including by facilitating my discussions with stakeholders and providing secretariat support.

I would like to declare that, at the outset of the review, I became aware of the contract between the RIC and Bendigo and Adelaide Bank (Bendigo Bank) and declared that my self-managed superannuation fund includes 500 fixed interest holdings in Bendigo Bank, as well as similar holdings in other companies.

# Contents

<b>Letter of transmittal.....</b>	<b>iii</b>
<b>Acknowledgements.....</b>	<b>iv</b>
<b>Executive summary.....</b>	<b>viii</b>
<b>Recommendations.....</b>	<b>xii</b>
TOR 1: Governance and suite of responsibilities.....	xii
TOR 2: Suitability and effectiveness of loan products.....	xiii
TOR 3: Suitability of current funding model .....	xiii
TOR 4: Overall risk profile .....	xiv
<b>Introduction.....</b>	<b>1</b>
History of Commonwealth concessional loan programs delivered by the states .....	1
Regional Investment Corporation .....	3
Independent review of the RIC .....	7
<b>1 Governance and suite of responsibilities (TOR1).....</b>	<b>11</b>
1.1 Establishment of the RIC as a Corporate Commonwealth Entity.....	11
1.2 RIC current governance framework and corporate structure .....	11
1.3 Roles and responsibilities of the RIC, the Board and the departments of state.....	14
1.4 Effectiveness of RIC processes and controls.....	20
1.5 Effectiveness of the RIC service delivery model .....	25
1.6 RIC delivery of its current loan and advisory functions .....	32
1.7 RIC ability to deliver additional concessional loans.....	35
1.8 RIC future – possible considerations.....	40
<b>2 Suitability and effectiveness of loan products (TOR2) .....</b>	<b>43</b>
2.1 Policy objectives of the RIC farm loans program.....	43
2.2 RIC policy objectives.....	44
2.3 Key RIC loan settings and eligibility criteria .....	44
2.4 Commonwealth drought responsibilities .....	56
2.5 RIC Loans as a farm business assistance measure – benefits and risks .....	57
2.6 RIC loans as a farm business assistance measure – avenues for improvement.....	60
2.7 Suitability of RIC loans to meet drought policy objectives .....	63
2.8 RIC approach to assessing the impact of its loans against policy objectives .....	65
2.9 Alternative financing mechanisms for the government to deliver support .....	66
2.10 Australian agricultural finance market in the absence of the RIC .....	68
<b>3 Suitability of current funding model (TOR3) .....</b>	<b>72</b>
3.1 RIC funding model .....	72

3.2	Current interest rate methodology.....	76
3.3	Mechanisms to efficiently allocate operational funding.....	79
<b>4</b>	<b>Overall risk profile (TOR4) .....</b>	<b>81</b>
4.1	Introduction .....	81
4.2	Portfolio lending risk.....	81
4.3	Financial payment risk .....	88
4.4	Overall risk profile.....	89
	<b>Glossary .....</b>	<b>90</b>
	<b>Appendix A: Background to concessional loans .....</b>	<b>92</b>
	History of Commonwealth concessional loan programs delivered by the states and territories .....	92
	<b>Appendix B: RIC timeline .....</b>	<b>95</b>
	<b>Appendix C: Roles and responsibilities of the RIC .....</b>	<b>99</b>
	<b>Appendix D: RIC Transformation Strategy update .....</b>	<b>103</b>
	<b>Appendix E: Stakeholder views on the future of the RIC .....</b>	<b>104</b>
	Regional Investment Corporation .....	104
	Other stakeholders.....	104
	<b>Appendix F: RIC loan settings and eligibility criteria .....</b>	<b>106</b>
	<b>Appendix G: Existing support measures.....</b>	<b>112</b>
	<b>Appendix H: Interest rate methodology .....</b>	<b>133</b>
	Variable interest rates .....	133
	Interest rate review .....	133
	Interest rates on commencement of the Corporation's programs.....	134
	<b>Appendix I: Key actions the RIC need to undertake to make required improvements.....</b>	<b>136</b>
	<b>References .....</b>	<b>138</b>

## Figures

Figure 1 Total funding announced and loans approved under various Commonwealth concessional loans schemes .....	2
Figure 2 Loan processes undertaken by the loan service provider .....	26
Figure 3 Total value of approved RIC loans since establishment of RIC, as at 31 December 2020 .....	48
Figure 4 Total number of applications, approved and rejected Loans by RIC loan type since establishment, as at 31 December 2020.....	49
Figure 5 Preferred options for people with matured concessional loans that have not yet been repaid as at November 2020 .....	59



## Tables

Table 1 RIC loan funding profile .....	4
Table 2 Processing times (in median days, including weekends) for loan applications from lodgement to settlement up to 31 December 2020 .....	31
Table 3 Indicative RIC funding profile for forward years to 2025–26 (for illustrative purposes only).....	41
Table 4 Overview of RIC loans and associated policy objectives .....	45
Table 5 RIC loan risk assessment profile – risk ratings (implemented December 2020) .....	55
Table B1 RIC timeline – original announcement to January 2021 .....	95
Table C1 Functions of the RIC Board .....	99
Table C2 Role of the RIC .....	101
Table F1 RIC loan settings and eligibility criteria.....	106
Table G1 Existing support measures .....	112
Table G2 Taxation concessions for primary producers and small businesses in rural and regional regions.....	128
Table I1 Key actions the RIC need to undertake to make required improvements .....	136

## Maps

Map 1 National distribution of approved RIC loans, as at 31 December 2020 .....	82
---	----

## Boxes

Box 1 Terms of reference.....	8
-------------------------------	---

# Executive summary

The Regional Investment Corporation (RIC) is a Corporate Commonwealth Entity (CCE) that commenced operation on 1 July 2018, delivering Commonwealth-funded concessional loans to support the farming sector. The key rationale for the RIC's establishment was to replace the previous, sometimes inconsistent, inefficient, and administratively burdensome delivery of Commonwealth schemes by the states with an entity that could achieve national consistency. In the 3 short years since the *Regional Investment Corporation Act 2018* (RIC Act) was passed, the RIC has undergone substantial change to address operational challenges and implement decisions of government over that time.

The review has found that the structure of the RIC as a CCE remains appropriate for its function as a loan delivery agency with the key benefits and original rationale of this structure remaining relevant. However, given the government frameworks and decision-making processes the RIC must work within, the RIC Board would benefit from the inclusion of additional relevant expertise and skills reflective of senior Commonwealth public service experience.

The RIC's governance arrangements are also sound, though the government should remain flexible in terms of any future amendments to the *Regional Investment Corporation Operating Mandate Direction 2018* (Operating Mandate) and any further iterations of the Statement of Expectations, for example, as the government considers the RIC's future.

The roles and responsibilities of the RIC, its Board and the relevant agencies of state (the Department of Agriculture, Water and the Environment and the Department of Finance) are relatively straightforward and appropriate. However, the RIC has not performed all its functions to the standard expected by the government, particularly in relation to managing demand and reliable and timely monitoring of growth in its loan portfolio. This has necessitated prompt government action to ensure farmers in genuine need of assistance do not miss out and mitigate reputational damage. While the situation is improving, the government needs to closely monitor the RIC's performance over the coming months and take further action if it continues to be found wanting.

The RIC Board needs to be accountable for the organisation's performance and that of the Chief Executive Officer (CEO), through a performance agreement. The RIC's monthly reporting should include explicit measurement of progress against its key service delivery target of 80% of loans being processed within 65 days (RIC processing time) by the end of the financial year. The Board should also report to responsible Ministers promptly after 30 June 2021 on progress achieved in improving the entity's performance. If sufficient progress has not been achieved, the government and/or the Board should take appropriate action.

Communication and collaboration between agencies can always improve. To this end, and wherever possible, the Department of Agriculture, Water and the Environment (the department) should seek the RIC's input to policy development at an early stage, particularly in relation to new products or significant amendments to existing products. However, to be an effective provider of useful information to better inform government decision-making, the RIC needs to improve the accuracy, timeliness and quality of its advice and reporting to government.



The RIC's service delivery model, which uses an external loan service partner (LSP) for the majority of loan assessment and management functions, is not serving the RIC well. Deficiencies with the model itself relate to reputational risk, insufficient flexibility to deal with unforeseen events, and the overall efficacy of outsourcing core functions. Further, the RIC has found the current contract with the LSP to be constraining and one-sided (in favour of the LSP) and this has contributed to the current unacceptable loan application processing timeframes.

The RIC, with significant additional operational funding support from the government, is undertaking a range of initiatives to improve service delivery in response to unprecedented demand for its 2-year interest free Drought Loans and making good progress through its transformation agenda. The government should monitor the RIC's improvements closely, including holding the RIC accountable to its key service delivery target. RIC loan recipients cannot be expected to endure extended loan processing timeframes; nor should the RIC and the government be willing to be subject to the related reputational impacts this situation entails.

The RIC's current loan funding is profiled to conclude on 30 June 2023. The government should consider its future plans for the RIC to provide certainty and enable the RIC to make appropriate investment decisions and changes related to its service delivery model.

Despite the RIC's significant service delivery improvement task, and its need to improve reporting (both internally and to the government), the RIC remains best-placed to administer its core function of farm business concessional loan delivery. The RIC's advisory role in relation to Future Drought Fund projects is more problematic and may not be achieving in practice the intended objectives.

From both a policy and operational perspective, tasking the RIC to deliver additional products can be a complex and time-consuming process. The implementation of the new AgriStarter loan product should be closely monitored by the department and appropriate adjustments made to demonstrate the responsiveness of both the RIC and the government. The RIC has limited capacity to deliver additional loan products at this time. Improvements to existing service delivery and data management and reporting need to occur, along with a parallel work program to improve internal processes that go to managing financial risk. These should be the sole focus of the RIC for the next 12 months. Tasking the RIC to deliver additional products within this time period, such as the Plantation Loans election commitment, risks setting the RIC up to fail with all the flow on reputational risks to the government and impacting the much-needed service delivery improvements that RIC customers deserve.

The RIC has largely achieved the goal of national consistency in the delivery of Commonwealth concessional loans to date. The RIC's current loan products and eligibility criteria are sound and align with the government's drought policy objectives. Consultation with the National Farmers' Federation indicated that the RIC's Drought Loans are largely fit for purpose. In addition, stakeholders perceived that the Drought Loan eligibility criteria, such as the requirement for a Drought Management Plan, helps facilitate greater levels of drought preparedness.

For the most part, the RIC has appropriately targeted loans at farm businesses that meet the eligibility criteria of being in financial need and having sound prospects of viability over the long term. While it appears that the RIC has approved some loans to farm businesses with substantial private resources and/or the capacity to access commercial finance on reasonable terms, in December 2020 the RIC implemented changes to improve its assessment process to better target

farm businesses in genuine financial need. The RIC, and the department, should continue to monitor loan uptake, as well as feedback from industry and applicants, to ensure the assessment of the financial need criterion continues to align with the government's target cohort.

Targeted stakeholder consultation revealed that there are a number of benefits associated with RIC loans. Over the short term, RIC loans have allowed farmers to change their enterprise mix, refinance bank debt and start thinking about succession planning. The RIC is still a young agency and further work is required to determine whether the RIC's loans are contributing to drought resilience over the long term. During targeted consultation, stakeholders put forward a number of ideas on how RIC loan products can be improved. For example, options proposed include a short-term loan product for operating expenses to assist farm businesses with managing through drought and for drought recovery purposes, providing flexibility with refinancing, incentivising multi-peril crop insurance and considering a revenue contingent loan model. This review discusses the benefits and risks associated with each of these options and sees merit in the RIC delivering a short-term drought management and recovery loan product for operating expenses, provided that operating expenses are not funded under the RIC's other loan products.

A key issue for government consideration is the relatively high proportion of maturing concessional loans from previous schemes with recipients seeking to refinance through the RIC. This perpetuation of lending at concessional rates may impede appropriate structural adjustment in the agriculture sector, increase the financial risk to the Commonwealth and undermine the government's policy objective of fostering self-reliance and long-term drought resilience.

The RIC has a comprehensive monitoring and evaluation plan in place and is progressing its implementation. Although it is premature to comment both on the effectiveness of the RIC's approach in implementing the plan and assessing the impact of its 10-year loans against achieving policy objectives, the RIC should appropriately prioritise and resource implementation of the plan. The RIC should also liaise with the department to ensure that the RIC's monitoring and evaluation activities and any suggestions for improvement to its loan products can be considered and fed into future policy development.

Although the RIC Board would ideally like more certainty and control over the RIC's funding, the current funding model is generally appropriate given the RIC's functions, entity type and governance arrangements. The RIC's interest rate methodology is sound and the objective of pursuing budget neutrality over the life of the RIC and its loan products should be maintained (with the exception of the revenue impact of the 2-year interest free terms, which should be treated as outside the budget neutral model). Given the range of government decisions, including changes to loan and operational funding, since the RIC's establishment, the RIC's administrative cost margin should be revisited by the government at the next available opportunity. This should be amended as necessary through regular, scheduled reviews to be undertaken by the department in consultation with the Department of Finance (Finance).

The RIC requires certainty on its future operations to make appropriate resourcing decisions and modify administrative arrangements to achieve efficiencies where possible. Going forward, the government should make decisions regarding the extent of the RIC's continued operation so that appropriate resourcing can be determined. In relation to operational funding, historic, current and forecast demand should be taken into account. Developing a resource allocation

framework would support and streamline any future costings processes, as well as provide some certainty for the RIC and assist in managing expectations.

The RIC's credit policy and supporting documents appear largely fit for purpose, although it has been noted that they are not being consistently applied. Consequently, there are opportunities for the RIC to enhance its risk management of its loan portfolio that, if implemented, will lead to better outcomes in the long run for government. The RIC's credit team has undergone significant expansion in recent months to process its backlog of applications. The RIC have implemented an improved structure that will assist with efficient loan processing, and also consistent decision-making. The ongoing loan management and monitoring practices are yet to be fully tested.

The RIC has recently refined its target cohort, which also includes some direction on risk appetite for the origination of loans. Limited guidance has been provided to the RIC on risk appetite and tolerance for loss by the government to date. The review found that there have been some relatively higher risk loans that have previously been approved that will require close monitoring to minimise potential financial impact. The recent direction by the Board to avoid exposure to higher risk applicants is viewed as a positive from a risk management perspective and is in line with the intended policy objectives. The review also found a number of loans were classed as 'overlent'. Whilst this practice is acceptable in some circumstances and is not necessarily in conflict with the RIC's legislation which requires it to obtain 'sufficient security', in some cases it will present an increase in risk to the government. There may be cause for further investigation here and tightening of security requirements by the RIC.

The RIC is still a relatively young entity that continues to evolve. Throughout the course of this review, some improvements have been observed that address some of the findings that have been made. There is an opportunity now, whilst the loan portfolio is still in a growth phase, to fully address these issues and ensure that the role, direction and processes of the RIC are sustainable and risks are being managed appropriately on behalf of the Commonwealth.

# Recommendations

Recommendations are listed in relation to the 4 overarching terms of reference (TOR) guiding this review.

## TOR 1: Governance and suite of responsibilities

**Recommendation 1:** That the government expand the skill-set of the RIC Board to include senior Commonwealth public service experience.

**Recommendation 2:** That the RIC work with other relevant entities to establish and/or participate in a community of practice, to share learnings and facilitate best practice amongst financing entities within the Australian Government.

**Recommendation 3:** That the government assess the RIC's performance in relation to service delivery, monitoring of the loan portfolio, and advice and reporting to government over the next 6 months, with a report from the Board on these matters after 30 June 2021. Should the RIC's performance be found wanting, the government and/or the Board should take further action.

**Recommendation 4:** That the department draw upon the RIC's operational experience as early as possible in the policy development process for new products and/or significant amendments to existing products, to better inform government decision-making.

**Recommendation 5:** That the RIC improve its reporting to government, particularly its ability to more accurately forecast demand.

**Recommendation 6:** That the RIC implement its Transformation Strategy and, subject to the outcome of its end-to-end trial, process a greater percentage of loan applications in-house.

**Recommendation 7:** That the government, as soon as possible within 2021-22, determine its ongoing plans for the RIC over the (minimum) forward estimates to provide certainty to the RIC to enable investment decisions to be made, particularly relating to future service delivery.

**Recommendation 8:** That the government amend the Future Drought Fund (FDF) Act and the RIC Act to remove the RIC Board's advisory role in relation to proposed grants, arrangements and agreements under the FDF Act.

**Recommendation 9:** That, if needed, the government adjust the AgriStarter Loan product to ensure the product meets its intended objectives.

**Recommendation 10:** That the government not direct the RIC to deliver Plantation Loans at this time.

**Recommendation 11:** That, to provide stability to the RIC, and ensure it can successfully deliver its current suite of loan products, the RIC not be tasked with delivering any new products within the next 12 months.

**Recommendation 12:** That, as part of the government’s consideration of the RIC’s future and decisions to provide loan funding beyond 2022–23, the government re-profile unspent RIC loan funds into future years to better align with industry expectations and address continuing farm business need.

## TOR 2: Suitability and effectiveness of loan products

**Recommendation 13:** That the RIC and the department continue to monitor loan uptake, as well as feedback from industry and applicants, to ensure the assessment of the financial need criterion continues to align with the government’s target cohort.

**Recommendation 14:** That the RIC strengthen its assessment processes where an applicant has previously benefited from a concessional loan (Commonwealth or state), to consider the term over which they benefited, when assessing an applicant’s financial need and viability over the long term.

**Recommendation 15:** That, as part of the government’s consideration of the RIC’s future, the government remove operating expenses as a loan purpose from existing loan products and instead implement a shorter-term RIC loan product for operating expenses to assist farm businesses with managing through drought and the drought recovery process.

**Recommendation 16:** That the department and the RIC work together, including consultation with industry and other relevant agencies, to enhance the RIC’s loan application process to support farm business planning and the use of risk management tools to further support achieving the Commonwealth’s drought policy objectives.

**Recommendation 17:** That the RIC work with the department on monitoring and evaluation to ensure the impact of RIC loans against government policy objectives can be measured and fed into future policy development, drawing on the RIC’s identification of current and future industry needs.

**Recommendation 18:** That the government consider all assistance currently available through commercial and public (Commonwealth and state/territory) sectors when determining whether there is an ongoing need for the RIC to provide assistance to farm businesses.

## TOR 3: Suitability of current funding model

**Recommendation 19:** That the government remove the loan product funding envelope requirement once the RIC has demonstrated sufficiently robust monitoring and reporting of loan applications and approvals.

**Recommendation 20:** That the current interest rate methodology is fit for purpose and the government confirm its continued use by the RIC in setting interest rates for RIC loans.

**Recommendation 21:** That the department undertake a review of the administrative cost margin to reflect all changes to loan and operational funding since the RIC’s establishment. The margin should be reviewed annually, with updated ongoing costs for the RIC’s program to be determined through an agreed costing process between the department and Finance.

**Recommendation 22:** The department, in consultation with Finance and the RIC, develop a resource allocation framework to support and streamline any future costings processes.

#### **TOR 4: Overall risk profile**

**Recommendation 23:** That the RIC, in parallel with its transformation agenda to improve service delivery, implement the actions outlined in Appendix I to improve its loan assessment process. This financial risk management work program should be implemented in full by December 2021.

**Recommendation 24:** That the department commission an independent follow-up audit of the RIC's financial risk management practices in December 2021, to provide assurance that the RIC has successfully implemented the recommended actions.

**Recommendation 25:** That the RIC ensures that it only approves loans where sufficient security exists in accordance with the Operating Mandate and only considers an overlent position at loan origination for lower risk applicants where strong mitigants exist, and the loan is appropriately monitored.

**Recommendation 26:** That the RIC ensures it has a clear risk appetite statement for its loan portfolio reflecting the RIC's current interpretation of the Operating Mandate and the Board's recent decision of targeted lending. The statement should be periodically reviewed and its implications firmly embedded within credit policies to ensure sound and consistent credit decisions are being made.

**Recommendation 27:** That the department work with the RIC to gain greater assurance around the completeness of repayments.

**Recommendation 28:** That the department, in consultation with Finance, provide a report to responsible Ministers on the overall risk profile of the RIC's loan portfolio on an annual basis.

# Introduction

The Regional Investment Corporation (RIC) is a Corporate Commonwealth Entity that was established under the *Regional Investment Corporation Act 2018* (the RIC Act) on 8 March 2018 and formally opened for business on 1 July 2018. The RIC delivers Commonwealth concessional loans directly to farm businesses and small businesses that provide primary production related goods and services to farm businesses.

## History of Commonwealth concessional loan programs delivered by the states

Prior to the establishment of the RIC, the states and territories delivered the Commonwealth's farm business concessional loan programs. In 2012, the farming sector expressed concerns to the Australian Government that some farming enterprises were finding it increasingly difficult to service debt due to a range of factors impacting:

- income, such as high input costs, extreme weather conditions, low commodity prices and/or exchange rate fluctuations
- access to credit, including lower land valuations and tightening credit market conditions following the Global Financial Crisis.

To assist farm businesses to improve their debt servicing capacity, the government announced it would make concessional loans available to farm businesses as a form of debt relief through the Farm Finance Concessional Loans Scheme. Over 2 years from 2013–14, \$420 million was made available for loans to build the ongoing financial resilience of farm businesses with debt-servicing difficulties but that were considered viable in the longer term. Subsequently, the government made concessional loans available to assist farm businesses through a further range of schemes (see Appendix A). These include:

- Drought Concessional Loans Scheme: \$430 million over 3 years from 2013–14 for loans to drought-affected farm businesses for debt restructuring, operating expenses and drought recovery and preparedness activities
- Drought Recovery Concessional Loans Scheme: \$200 million over 2 years from 2014–15 for loans to farm businesses for restocking, planting and/or drought recovery activities, or to those farm businesses that were impacted by the 2011 government-imposed disruption of live cattle exports to Indonesia
- Dairy Recovery Concessional Loans Scheme: \$555 million in 2015–16 for loans to assist dairy farmers who were adversely impacted by retrospective price cuts on milk by Murray-Goulburn and Fonterra
- Farm Business Concessional Loans Scheme: \$250 million per annum over 10 years from 2016–17 to assist farm businesses manage through, recover from and prepare for droughts, assist with debt restructuring and provide new debt for productivity enhancement activities. This scheme ceased on 30 June 2018 due to the commencement of the RIC's farm business loans program on 1 July 2018.



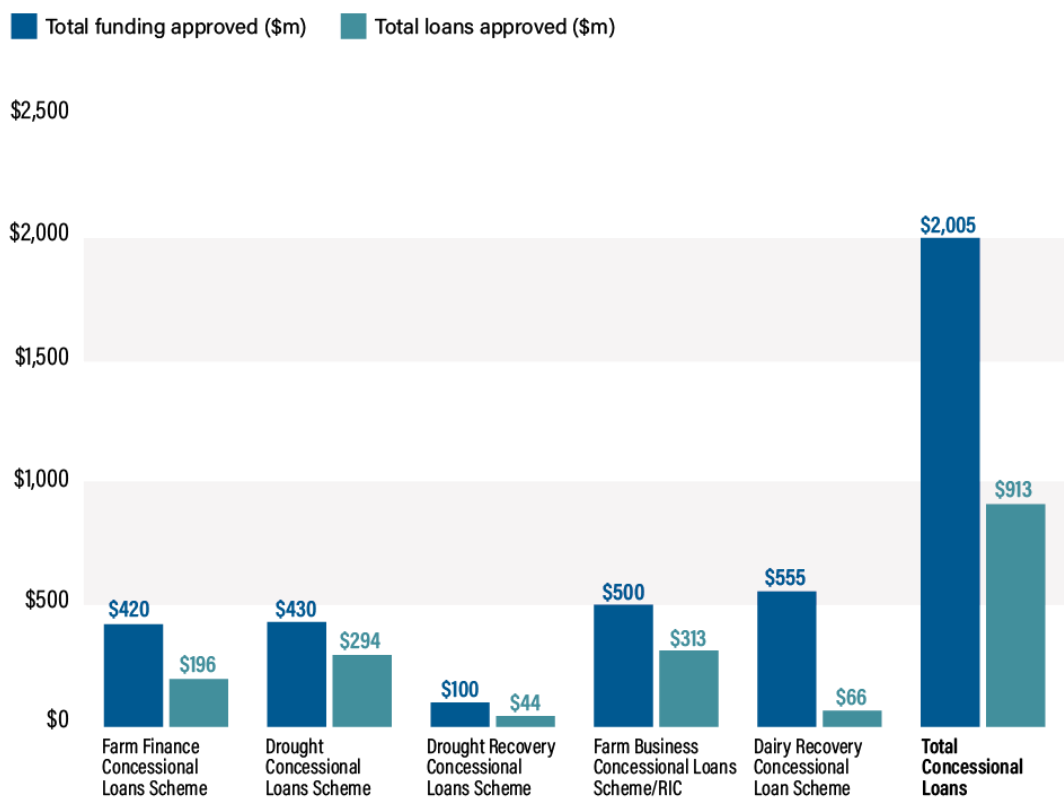
## Agricultural Competitiveness White Paper: new 10-year loan scheme

The White Paper had terms of reference that included consideration of farm debt, access to finance and reviewing drought support measures. It provided an additional \$250 million to continue the Drought Concessional Loans and Drought Recovery Concessional Loans schemes for a further 12 months, and an additional \$250 million per year for 10 years for a new drought concessional loans scheme to commence in 2016–17.

Approvals were less than the funding announced by the government in most of the earlier concessional loan schemes. This was in part due to not all jurisdictions offering loans, inconsistent delivery and the volume of approved loans being lower than expected in some jurisdictions. Figure 1 depicts the total funding announced as available from the earlier concessional loan schemes against overall approvals. It demonstrates that uptake of loans in most instances fell far short of overall funding available.

**Figure 1 Total funding announced and loans approved under various Commonwealth concessional loans schemes**

### Total approved fundings and loan approval of various Concessional Loans Schemes, 2013 to 2019



Note: There were also various movements of funds across the loan schemes. Therefore, the funding allocated to each scheme cannot be added to determine a total. For example, \$555.0 million was announced for the Dairy Recovery Concessional Loans Scheme but this figure included \$500.0 million available for the subsequent Farm Business Concessional Loans Scheme. Further note that the figures for the Dairy Recovery Concessional Loans Scheme reflect the approved figures for 2015–16 only (these are the pre-Farm Business Dairy Recovery Concessional Loans).

## **Regional Investment Corporation**

### **Rationale**

In June 2016, the Coalition Government announced an election commitment to establish the Regional Investment Corporation (RIC) that would fast track the delivery of \$4.0 billion in Commonwealth drought and water infrastructure loans. A key driver for the establishment of the RIC was inconsistent delivery of Commonwealth concessional loans to farm businesses across the different jurisdictions. These inconsistencies included differences between maximum and minimum loan amounts, loan types and the ability to extend the loan past the 5-year term (for relevant schemes). In addition, there were differences in jurisdictions' risk appetite and the assessment of eligibility across jurisdictions, meaning potentially inequitable outcomes for farmers on either side of a state border despite being in similar situations in terms of financial hardship.

Each time the Commonwealth wanted to deliver a new loan scheme nationally, it had to negotiate lengthy and complex loan and service level agreements with each jurisdiction. This included negotiating the Commonwealth's contribution to administrative funding to support delivery of the scheme. At times, these negotiations were protracted and involved multiple ministerial interventions on both sides.

The result of these processes was a sometimes-significant difference in the timing for when different jurisdictions would open Commonwealth loan schemes (if at all). This resulted in the further inequity with farmers in some jurisdictions being unable to access Commonwealth concessional loans while farmers in other jurisdictions were able to. A key objective for the government in establishing the RIC was to achieve national consistency in the availability of loans and treatment of applicant farm businesses. The first 2 years of loan funding for the new White Paper drought concessional loans scheme measure was allocated to the Farm Business Concessional Loans Scheme and delivered by the states. The RIC subsequently opened for business on 1 July 2018, utilising the remaining 8 years of loan funding (\$2 billion) from the 10-year White Paper measure to deliver its farm business concessional loans program. The loan funding was originally profiled so the RIC would deliver an 8-year scheme, with \$250 million in loan funding available each year to 30 June 2026. A range of subsequent government decisions have adjusted the RIC's loan funding profile, as illustrated in Table 1.

**Table 1 RIC loan funding profile**

<b>Funding</b>	<b>Event</b>	<b>2018-19 (\$m)</b>	<b>2019-20 (\$m)</b>	<b>2020-21 (\$m)</b>	<b>2021-22 (\$m)</b>	<b>2022-23 (\$m)</b>	<b>2023-24 (\$m)</b>	<b>2024-25 (\$m)</b>	<b>2025-26 (\$m)</b>	<b>Total</b>
<b>July 2018</b> (Original: reflects Ag White paper providing \$250m per year to 2025-26).	RIC opened	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0	2,000.0
<b>September 2018</b> (PM announces that loan size would double to up to \$2m per year, appropriation increased to \$500m per year. Overall farm loan funding to stay at \$2b.)	Loan change	500.0	500.0	500.0	500.0	0.0	0.0	0.0	0.0	2,000.0
<b>September quarter 2019</b> (After the first year, whilst there was approximately \$150m in approvals, there was only \$28.5m in loans settled. The balance was moved to year 5).	Movement of funds	28.5	500.0	500.0	500.0	471.5	0.0	0.0	0.0	2,000.0
<b>Mid 2019-20</b> (Funds were brought back from 2022-23 to allow the RIC to approve more loans, given an increase in loan applications and approvals due to interest-free terms).	Movement of funds	28.5	735.0	500.0	500.0	236.5	0.0	0.0	0.0	2,000.0
<b>July 2020</b> - current position (Government increases Drought Loan funding by \$2b to address the back log in applications, ceases availability of interest-free terms from 30 September	Government decision to allow undrawn funds from 2019-20 to	28.5	409.7	2,900.3	500	236.5	0.0	0.0	0.0	4,075.0

Independent Review of the Regional Investment Corporation

Funding	Event	2018-19 (\$m)	2019-20 (\$m)	2020-21 (\$m)	2021-22 (\$m)	2022-23 (\$m)	2023-24 (\$m)	2024-25 (\$m)	2025-26 (\$m)	Total
2020 due to improved conditions, provides funding for AgriStarter loans, and allows undrawn funding for loans approved but not settled in 2019-20 to be drawn upon in 2020-21 (approx. \$325m). Individual loan funding envelopes for each product were also introduced).	be drawn in 2020-21									

### **Governance**

The RIC is a Corporate Commonwealth Entity with an independent Board. A CCE is a body corporate that has a separate legal personality from the Commonwealth. It can act in its own right, exercising certain legal rights such as entering into contracts and owning property. CCEs are established through legislation and are subject to the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

The RIC has 2 responsible Ministers being the Agriculture Minister and the minister who administers the PGPA Act. The responsible Ministers are currently the Hon David Littleproud MP, Minister for Agriculture, Drought and Emergency Management and Senator the Hon Simon Birmingham MP, Minister for Finance.

### **Legislative framework**

The key pieces of legislation for the RIC are the RIC Act and the Regional Investment Corporation Operating Mandate Direction 2018 (Operating Mandate). The Operating Mandate sets out the directions from the responsible Ministers on how the RIC must perform its functions. The RIC Act outlines the main functions of the Corporation, which are:

- to administer farm business loans
- to administer, on behalf of the Commonwealth, grants of financial assistance to States and Territories in relation to water infrastructure projects
- to administer programs prescribed by the rules.

The RIC Act states the responsible Ministers may, by legislative instrument, make rules prescribing matters that are required or permitted by the Act or necessary or convenient to be prescribed. To date the following Rules have been made under the RIC Act:

- Regional Investment Corporation (AgriStarter Loans) Rule 2019
- Regional Investment Corporation (AgriStarter Loans) Amendment Rule 2020
- Regional Investment Corporation (Drought Loans Expansion) Rule 2020
- Regional Investment Corporation (Small Business Drought Loans) Rules 2020
- Regional Investment Corporation (Water Infrastructure Project Agreements) Rule 2018 (repealed in December 2020)
- Regional Investment Corporation (Agribusiness Natural Disaster Loans-2019 North Queensland Flood) Rule 2019
- Regional Investment Corporation (Drought and Small Business Drought Loans) (Cessation of Interest-Free Period) Amendment Instrument 2020.

### **Establishment**

States and territories previously delivered the Commonwealth's farm loan schemes. However, when the RIC was established it was necessary to consider the constitutional basis for the Commonwealth's delivery of loans directly to farm businesses. In determining appropriate heads of power, the department consulted with the Department of Prime Minister and Cabinet, the Department of Foreign Affairs and Trade, the Treasury and the Attorney-General's Department.

In May 2018, the RIC Board announced the headquarters for the entity would be in Orange, New South Wales. The RIC did not have any permanent employees in place until February 2019. Prior to this, departmental officers were seconded to the RIC. As at 31 January 2021, the RIC had a workforce of 80 full-time equivalent (FTE) employees, comprising 62 FTE for RIC direct staff, plus an additional 13 labour hire and 5 secondees from the department. These secondees are biosecurity officers displaced from the department's frontline operations at international airports due to COVID-19. In addition to the Operating Mandate, arrangements for administering farm business loans are outlined in a Memorandum of Understanding between the department and the RIC. A timeline of key events in the RIC's establishment and its ongoing operations to date can be found at Appendix B.

### **RIC loans**

The RIC was established to administer farm business loans and water infrastructure loans, providing streamlined and nationally consistent Commonwealth concessional finance to support regional Australia. RIC loans aim to make businesses stronger, more resilient and more profitable. The RIC's current and previous products are listed below, with further detail on the loan products covered in Chapter 2.

#### **Farm business loans**

- Farm Investment Loan: available to farm businesses who solely or mainly sell products into supply chains that are interstate or outside Australia
- Drought Loan: available to farm businesses to prepare for, manage through or recover from drought
- AgRebuild Loan: for farm businesses affected by the North and Far North Queensland Monsoon Trough from 25 January and 14 February 2019 (North Queensland flood). (Loan applications closed on 30 June 2020)
- AgriStarter Loan: for first farmers to purchase a farm business or undertake activities identified in succession planning processes (opened 1 January 2021).

#### **Other loans**

- AgBiz Drought Loan: to assist small businesses that directly provide primary production related goods and services to farm businesses in drought-affected communities
- National Water Infrastructure Loan Facility: (out of scope of the review) water infrastructure loans to states and territories (closed on 6 October 2020).

## **Independent review of the RIC**

### **Context and drivers for the review**

Throughout 2019 and early 2020, the government made a number of decisions about the RIC, including tasking it to deliver new loan products and making amendments to its current loan products. These changes, particularly given the immaturity of the RIC as a newly established agency, increased the government's focus on the RIC's management of risk. Risk, if not well managed, could have significant ramifications for the government in the management of the loan portfolio.

Further, the interest free loans announced by the government in November 2019 resulted in unprecedented (and unpredicted) demand for RIC products. The scale of demand was

demonstrated by the loan funding to support the interest free terms being expected, based on forecasting by the department, to last for 3 years; however, the government ceased the interest free terms on 30 September 2020 (9 months post-implementation) due to the unprecedented demand and also because drought conditions had improved. This demand also came at a time when the RIC was working to embed its processes and improving the capability of its staff, whilst responding to and implementing recommendations from an audit of the establishment of the RIC by the Australian National Audit Office (ANAO). The RIC was not well resourced to meet the unprecedented demand at this time.

The result of the overwhelming demand and inadequate resources to address it was a significant impact on the RIC's service delivery timeframes. To try and address the decline in service delivery timeframes, the RIC worked closely with its LSP, Bendigo and Adelaide Bank (Bendigo), to encourage improvements; however, the situation ultimately highlighted issues associated with the RIC's external service provider model (see section 1.5.2).

During this period, the RIC's inadequate monitoring and tracking of loan applications and approvals resulted in late notice to the government that the entire loan funding envelope was to be imminently exhausted. The RIC commits funding from its annual appropriation each time it approves a loan, with the funds drawn down from the appropriation when the loan is settled. The RIC needed to have sufficient funding available to commit funds (make loan approvals). If this were not rectified in the short term, the RIC would have needed to immediately cease approving loans, and potentially cease accepting applications. This urgency resulted in additional funds being approved (\$2 billion in loan funding in 2020–21, and an additional \$50.0 million in operational funding over 4 years from 2020–21).

The culmination of these issues highlighted some areas of deficiency within the RIC and its operations. There was some concern from government agencies that the need for government intervention at short notice necessitated a review of the RIC, so the government could have greater visibility on how the RIC was managing risk on behalf of the Commonwealth.

In response to these concerns, an Independent Review of the RIC was commissioned by the government, to ensure the RIC is meeting the needs of rural and regional farm businesses and primary production-related small businesses now that it has been in operation for more than two years. The review has been tasked with examining the RIC, its loan products, funding model, overall risk profile, and suite of responsibilities. The review's terms of reference are in Box 1.

### **Box 1 Terms of reference**

#### **1 Governance and suite of responsibilities**

The review will focus on the efficiency and effectiveness of the structure of the RIC as a loan delivery agency and consider:

- the current organisational structure of the RIC as a CCE with a Board to support and deliver its core functions
- the roles and responsibilities of the RIC, the Board and the Departments of State (the department and Finance)
- controls in place and whether they are appropriate to ensure the RIC can deliver on policy intent and operate within Budget and Average Staffing Level rules



- the RIC's current service delivery model that uses a loan service partner to deliver loans to intended recipients
- the RIC's processes to provide sufficient oversight and assurance on the collection of principal and interest from loan recipients and timely and accurate reporting on the loan portfolio.

The review should also examine whether the RIC is best placed to deliver its current loan and advisory functions as required by the government, taking into consideration the RIC's current expertise and resources and the roles and responsibilities of other agencies and advisory groups. Consideration should also be given to the RIC's ability to deliver additional concessional loans.

## **2 Suitability and effectiveness of loan products**

The review will focus on the effectiveness of the RIC's current concessional loan products and consider:

- whether the RIC's concessional loan products are suitably designed to support the government's policy objectives and the Commonwealth's drought responsibilities
- the approach of the RIC in assessing the impact of its loans against the government's policy objectives.

## **3 Suitability of current funding model**

The review will focus on the appropriateness of the RIC's current funding model, taking into consideration its core function as a loan delivery agency and structure as a CCE.

The review will also examine the current method for setting interest rates, whether it is consistent with the government's cost neutral objective and remains practical and suitable.

The review will also consider mechanisms that could be implemented to efficiently allocate the RIC's operational funding so that it remains appropriate to the volume of loans being processed and managed.

## **4 Overall risk profile**

The review will focus on the risks for the RIC and its loan portfolio including financial risks. The review should also focus on the effectiveness of its risk management policies and practices to monitor and manage risks as part of its risk management framework, within both the RIC and its loan service partner.

In reviewing financial risks the reviewer should consider:

- the ways in which the RIC monitors risks within the loan portfolio and the implications of the RIC's risk management policies and practices for the Commonwealth.
- the impact on the financial risk profile for the RIC and the Commonwealth of offering additional concessional terms (such as interest free terms and extended loan periods).
- the application of the credit policies and lending standards to loan assessments.

## **Consultation**

I undertook targeted consultation from October 2020 to January 2021, with stakeholders determined in consultation with the department and Finance. Targeted stakeholder consultation was conducted with the RIC entity, government agencies (the department and Finance), the National Farmers' Federation (NFF), Mr Brent Finlay, Chair, Future Drought Fund Consultative Committee, and the Honourable Shane L Stone AC QC, Coordinator-General, National Drought and North Queensland Flood Response and Recovery Agency. Targeted consultation with stakeholders who were well-placed to inform the review and speak to relevant aspects of its Terms of Reference was appropriate given the timeframe for the review.

Consultation involved face-to-face and virtual meetings and the receipt of a written submission from the NFF. The NFF has multiple committees and provides advice on a range of agricultural

policy areas. The NFF's Economic Policy and Farm Business Committee provided a submission to the review and a follow-up meeting was held with this Committee to discuss their submission.

**Reporting timeframe**

The review commenced in late October 2020. The responsible Ministers are scheduled to report to government on the findings of the review in the 2021–22 Budget context.

**Previous audits and reviews of the RIC**

The ANAO completed the Design and Establishment of the Regional Investment Corporation performance audit in June 2020. This audit examined the effectiveness of the design and establishment of the RIC. Entity responses to the audit were provided from the department, the RIC, Finance and Department of Infrastructure, Transport, Regional Development and Communications.

A consultant completed a loan delivery performance framework review of the RIC in May 2020. The review was undertaken to understand the RIC's loan delivery process and identify potential improvement opportunities, metrics to measure performance and required reporting and analytics capabilities.

# 1 Governance and suite of responsibilities (TOR1)

## 1.1 Establishment of the RIC as a Corporate Commonwealth Entity

In delivering on the RIC election commitment, consideration was given to a range of entity types. During the planning and establishment process, the department explored 7 entity options, including consideration of legal risk, ongoing cost and consistency with the election commitment. The options explored were:

- A new Commonwealth entity established through primary legislation
- A new Commonwealth bank entity established through primary legislation
- Commonwealth delivery of the loan schemes by a new or existing government entity
- Delivery through a contract with a state entity
- Non-corporate Commonwealth entity (statutory body supported by the department)
- Non-corporate Commonwealth entity (separate statutory agency)
- Corporate Commonwealth entity (arms-length commercial governance).

In March 2017, the government decided that the RIC would be established as a Corporate Commonwealth Entity (CCE) with an independent Board, as this was the best option to provide independent oversight of the concessional loans program. The benefits of this entity type included it being arms-length from government, particularly in relation to decisions on individual farm business loans and, should it ever be needed, decisions to foreclose on a farm business as a result of non-repayment of a loan. This corporate structure provides both actual and perceived independent governance in relation to the administration of individual farm business loans, as well as, to some extent, mitigating reputational risk to the government (for example, in relation to declined loans or foreclosure action).

The CCE was the highest cost option the department explored. Given that it was intended that the cost of administering the RIC would be incorporated into the interest rate charged on loans, this contributed to a greater difference between the interest rate charged to farm businesses by the RIC (3.58% upon opening on 1 July 2018) compared to the former Commonwealth concessional loans delivered by the states (for example, the Farm Business Concessional Loans scheme rate of 3.09% as at 1 July 2018).

## 1.2 RIC current governance framework and corporate structure

The RIC was established through the *Regional Investment Corporation Act 2018*. The legislative framework for the RIC also includes the *Regional Investment Corporation Operating Mandate Direction 2018* which sets out the directions from the responsible Ministers on how the RIC must

perform its functions. The RIC is also subject to the *Public Governance, Performance and Accountability Act 2013*.

An independent board, whose role is to ensure the proper, efficient and effective performance of the RIC's functions, governs the RIC. The Board are appointed by the responsible Ministers. The RIC Act stipulates a person is only eligible for appointment if the person has skills, experience or qualifications in agribusiness, banking and finance, water infrastructure planning, issues concerning rural industries and communities, economics, financial accounting or auditing, government funding programs or bodies, law, drought resilience or expertise in an area relevant to a program prescribed under the rules.

As of August 2020, the RIC's governance framework has included a written Statement of Expectations by the responsible Ministers that is to be applied by the RIC in conjunction with the Operating Mandate. The statement includes expectations in relation to the RIC managing its loan delivery within available loan funding envelopes and profiles for loan products; providing loans to businesses in most financial need, as well as being viable into the future; and additional monthly and 6-monthly reporting requirements. This statement was provided to the RIC as a direct result of ministerial concerns about the RIC's ability to adequately monitor, manage and report on loan demand.

### **1.2.1 Efficiency and effectiveness of the current framework and structure**

#### **Oversight by two responsible Ministers**

The RIC has a complex governance framework with additions to or changes in the RIC's loan products or suite of responsibilities resulting in sometimes lengthy and complex processes involving the agreement from two responsible Ministers. This can impact the timeframe in which decisions can be implemented and does involve additional government administration and consultation at both the officer and ministerial adviser level, as well as for RIC staff. In addition, working within such a framework can be challenging for RIC Board members and members of the RIC executive, particularly when different to their own private sector experience, which may involve more flexible and agile decision-making processes. Although the current model may appear somewhat cumbersome and result in some additional administrative burden, given the functions of the RIC in delivering government support through concessional loans, and the need for an appropriate level of government direction and ministerial oversight, there is no need to change the governance framework.

Further, given the significant loan funding and outsourcing of financial risk management to the RIC, the governance framework involving oversight by two responsible Ministers is an appropriate model to maintain.

#### **Corporate structure**

At the time of establishment, the department conducted significant analysis of potential entity options. The rationale for the government's decision to establish a CCE remains. The CCE structure, including an independent board, continues to be a relevant model as it allows the RIC to conduct loan approvals and transactions independent from political influence.

The independent board provides a decision-making process at arm's length of the government. The guidance in the RIC Act ensures that the skill set on the Board is relevant to minimise financial risk to the Commonwealth. This level of oversight and appropriate skill set may not be possible under another model.

Further, an independent board is appropriate as individual loan approvals and transactions are made separate from government and, if in the future, foreclosure action is required, it will occur independent of government (noting that the Operating Mandate requires the RIC to consult responsible Ministers). This will minimise any reputational damage to the government. Regular review of the skill-set of the Board and areas that may need to be strengthened, including in response to unforeseen issues, is a relevant consideration for the responsible Ministers.

Historically, the Board members have had experience in agribusiness, engineering, water infrastructure and experience in the agriculture and food sectors. While this has led to the development of a Board with significant exposure to and understanding of the agricultural industry, it has also meant that some issues have arisen which might have been avoided or more carefully mitigated if the Board had more public governance expertise. As a CCE within the general government sector, the RIC is required to operate within its allocated budget estimates while achieving the government's policy objectives. Further, communications between the RIC and the responsible Ministers and departments of state are necessarily one-sided at times due to Cabinet confidentiality requirements. These requirements are atypical of a private sector lender, but it is crucial that the Board has an inherent and implicit understanding of these standards to ensure that the RIC is compliant with its regulatory and legislative requirements.

While the structure of the RIC as a CCE and its overarching governance arrangements with an independent board and two responsible Ministers remains appropriate, it is clear that the RIC needs to improve its knowledge of government frameworks and processes and how to work more effectively with government. This could be achieved by appointing a person to the Board with strong Commonwealth Government experience and understanding of Commonwealth processes, particularly financial management. In practice, it is likely the government will be able to identify a range of suitable candidates with appropriate qualifications, skills and/or experience that align with one or more of those currently required by section 17(2)(a) of the RIC Act. However, the government could also consider formalising this addition to the Board skill-set by amending the RIC Act to include this experience and skill-set when the next opportunity arises, for example, when the government is pursuing other amendments to the RIC Act.

**Recommendation 1: That the government expand the skill-set of the RIC Board to include senior Commonwealth public service experience.**

### **1.2.2 Community of practice**

As well as benefiting from Commonwealth experience on the Board, the RIC, both at Board and CEO level, could derive benefit from sharing governance experience and learnings with other like entities.

A Statutory Review of the Northern Australia Infrastructure Facility (NAIF) commenced in 2019, with a report published in December 2020. One of its recommendations was that the NAIF should work towards establishing formal Memoranda of Understanding or protocols of engagement with other Australian Government financing vehicles, prioritising the Clean Energy Finance Corporation. This is due to the review finding that the relationships between the NAIF and other agencies could be more collaborative in order to maximise outcomes for the region. It may be useful for this process to include the RIC, as it is also a government financing entity, with the same CCE structure and a similar governance framework to the NAIF.

Whether through formal Memoranda of Understanding or more informal engagement and networking opportunities, establishing a community of practice amongst relevant government entities would allow the RIC to learn from shared experiences. The RIC could benefit from the experience of the NAIF, and other relevant entities such as the Clean Energy Finance Corporation, in working closely with government and their governance practices (as both this review and the NAIF review have identified it would be beneficial to include Board members with Commonwealth public service experience). In addition, useful learnings could be shared around financing mechanisms (though this may be more relevant to any decisions the government may make about the future of the RIC and its functions). The government, through relevant departments, should encourage and support such collaboration between entities to occur.

**Recommendation 2: That the RIC work with other relevant entities to establish and/or participate in a community of practice, to share learnings and facilitate best practice amongst financing entities within the Australian Government.**

## **1.3 Roles and responsibilities of the RIC, the Board and the departments of state**

Consistent with being established under its own legislation with its own, independent Board, the RIC, by virtue of its entity type as a CCE, is considered part of the Australian Government. Its governance arrangements (involving responsible Ministers) and functions (essentially delivering government assistance via concessional loans) also translate in a practical sense to regular interactions with the government (at both agency and ministerial level). In reviewing the roles and responsibilities of relevant parties, it is worth noting that the frequency and significance of some of these interactions do not reflect business-as-usual. Rather, they relate to concerns that have arisen in government about the RIC's ability to appropriately monitor and manage demand for its loan products and the resulting impacts on service delivery. Should the RIC's management of these issues improve to the satisfaction of the government, it would be expected that the significance and frequency of these interactions would decline. This would benefit all parties, given their resource intensive nature on both sides.

A summary of the roles and responsibilities of the relevant entities is that: the RIC is the delivery agency; the department is the policy lead with policy responsibility for the RIC and the products it delivers; and Finance provides policy input, particularly in its areas of expertise and given the role of the Minister for Finance as a responsible Minister. This involves collaboration with the department as lead policy agency. Both the department and Finance provide policy advice and administrative support to their respective ministers to support them in acquitting their roles as responsible Ministers for the RIC.

### **1.3.1 Role of the RIC Board**

The role of the RIC Board has been covered at a high-level (see section 1.2.1). An additional function the Board has under the Future Drought Fund Act is explored in section 1.6.3. The role of the RIC Board also covers specific functions as outlined in the RIC Act and Operating Mandate. These include ensuring the proper, efficient and effective performance of the Corporation's functions. The RIC Board, as the RIC's governing body, is the accountable authority for the RIC under the PGPA Act. This also comes with specific duties and responsibilities, including

governing the entity in a way that promotes the proper use and management of public resources for which the authority is responsible, and promoting the financial sustainability of the entity. Further information on the legislative functions and duties of the RIC Board is at Appendix C. Ultimately, the Board is responsible for the performance of the RIC entity.

### **1.3.2 Role of the RIC**

The RIC has a number of specific functions as outlined in the RIC Act (primarily under s.8: Functions of the Corporation). These include administering farm business loans and programs prescribed by rules. In performing its functions, the RIC is required to act in a proper, efficient and effective manner (section 8(2)). Section 35 of the RIC Act also outlines two specific functions for the RIC's CEO, being to sign, on behalf of the Corporation, loan agreements and otherwise being responsible for day-to-day administration of the entity.

The Operating Mandate directs the Corporation in the performance of its functions on a range of matters, including policy objectives, funding arrangements, loan management, service provision, communication and stakeholder engagement, reporting and corporate governance. Further information on the functions and duties of the RIC is at Appendix C.

The specific functions involved in administering farm business loans are discussed in more detail under section 1.5 concerning service delivery. Broadly, key functions involve assessing and making decisions on loan applications, entering into and managing loan agreements, monitoring and reporting on the loan portfolio and providing advice to the department and responsible Ministers to inform loan policy.

### **1.3.3 Roles of the departments of state**

#### **Department of Agriculture, Water and the Environment**

The Administrative Arrangements Order (AAO) states that the RIC Act is administered by the Agriculture Minister. Flowing from this, the department is considered the lead policy agency in relation to the RIC. The department's role includes managing the legislative and policy environment that underpins the RIC's service delivery. In practice, this involves leading on the development of new policy, including the drafting of advice and submissions to support ministerial and government consideration, actioning any legislative changes, and liaising with Finance and the RIC to acquit these functions effectively. The department also monitors the RIC's loan portfolio through the provision of detailed monthly reporting from the RIC (see section 1.4.4). The department undertakes this role through a small policy team within the Financial Policy and Farm Business Support Branch, Drought and Bushfire Response Division.

The department's Finance Division also liaises with the RIC in relation to funding matters, including its appropriation management, to facilitate the flow of loan and operational funding, accounting recognition of the loan portfolio and ongoing financial assurance activities. The department's relationship with the RIC is underpinned by a Memorandum of Understanding between the agencies.

#### **Department of Finance**

The Department of Finance also has a policy role in supporting its minister as a responsible Minister for the RIC. As a responsible Minister, the Minister for Finance has joint responsibility for issuing written directions to the RIC and appointing RIC Board members.



In addition, Finance is responsible (by virtue of the AAO) for administering the PGPA Act. In line with its broader role in fostering leading practice in public sector governance and resource management, Finance assists with providing strategic oversight of the RIC's loan portfolio and management thereof, seeking to ensure that the RIC's funding is sustainable while enabling its commitments to government and managing financial risks to the Commonwealth.

This has included significant consultation between Finance and the department from the time of the RIC's establishment (including Finance executive membership on RIC establishment committees). This has continued with monthly meetings at First Assistant Secretary, Assistant Secretary and Director level on current RIC matters and Finance's close monitoring of the RIC's monthly reporting on the loan portfolio. In addition, Finance's Budget Group has continued to provide advice to, and work closely with, the department on processes to manage the RIC's loan and operational funding in line with government decisions. This has occurred possibly more frequently and intensively than would be the case for other similar entities or under a 'business as usual' scenario for the RIC. In particular, this has included advice on best practice for seeking additional resourcing through the Budget process, engagement to address rapid changes in demand for the RIC's loan products and seeking to mitigate ongoing or unexpected RIC funding issues through the instigation and close monitoring of the RIC's now monthly reporting to responsible Ministers.

#### **1.3.4 Efficiency and effectiveness of roles**

Given the rationale for the RIC's establishment and the government's policy intent for it to deliver assistance, in the form of concessional loans, to support farm businesses and rural and regional Australia, there is nothing within the RIC's legislated functions that appear unreasonable. Similarly, the roles of the departments flowing from the legislated role of their respective responsible Ministers under the RIC Act, or ministerial or departmental responsibilities under the AAOs are appropriate.

However, all parties would agree that a 'business as usual' state has, to date, never been possible for the RIC to achieve. It was originally envisaged, in hindsight – possibly naively, that, post seconded departmental officers leaving the RIC in February 2019, the RIC would focus on completing any remaining establishment tasks and administering its two core programs: farm business loans (comprising Farm Investment Loans and the original Drought Loans) and the NWILF. This did not happen. In response to natural disasters – namely the North Queensland floods of February 2019 – and prolonged and worsening drought conditions, the RIC was tasked with implementing additional loan products and amending its existing Drought Loans.

#### **1.3.5 Performance of the RIC Board and entity**

Since operation (see Appendix B), the RIC executive and staff have developed a strong subject matter knowledge including in relation to their client base. Further, through regular interactions with the department, their appreciation and knowledge of relevant government frameworks has also grown. The unprecedented demand arising from interest free terms has proved challenging for the RIC. In discussing these challenges, and the impact on the RIC's performance, it must be noted that the original demand estimates for interest free Drought Loans that informed the government's decision in early November 2019 were made by the department, not the RIC. In the limited time available, the department estimated that loan volumes would fall within existing loan appropriation limits to 2022–23. This was based on the fact that loans were undersubscribed for both the RIC's loans in its first 15 months of operations and prior concessional loan schemes delivered through the states (see Figure 1). In addition, the RIC's

interest free AgRebuild loan product launched earlier that year had not received the volume of applications expected, in what was a low interest rate environment.

The department estimated \$1.3 billion in interest free Drought Loans and \$224 million in small business Drought Loans would be made available to 2022/23. However, from the announcement in November 2019 to August 2020, the RIC received \$1.8 billion in applications for Drought Loans alone. This fully exhausted the department's longer-term estimate.

Subsequent to the government's decision in early November 2019, the RIC and department worked closely together on implementation, including on the development of Rules to underpin the new AgBiz Drought Loan and amendments to the Operating Mandate to enable interest free terms for Drought Loans. A key role for the RIC in delivery post-implementation was monitoring actual demand and forecasting future demand including as informed by application numbers and enquiries. Through January to April 2020, the RIC and department worked together on a scheduled Administrative Cost Review that was to examine the appropriateness of the RIC's operational funding 18 months after it opened for business. A number of government decisions in 2019 had deferred consideration of the RIC's operational resourcing to this cost review. The RIC's review submission to responsible Ministers of 2 March 2020 included expected demand requiring loan funding of \$720 million per annum ongoing (while interest free terms were available) based on an anticipated 1,200 applications per year. Due to the emergence of COVID-19 and deferral of the 2020–21 Budget, the Administrative Cost Review did not proceed.

The unprecedented demand subsequently highlighted the inadequacy of the RIC's loan monitoring and reporting framework (see section 1.4.4), and also required the diversion of resources to address poor service delivery. This in turn exacerbated issues associated with deficiencies in the RIC's corporate systems (improvements to corporate systems were planned by the RIC as part of completing establishment tasks).

This review does not consider that there has been any disregard by the RIC Board, CEO or entity as a whole in relation to acquitting its functions. Rather, what appears to have transpired is that the RIC, as a new entity, has never been given the breathing space to finalise establishment tasks nor bed down its internal controls and test their effectiveness in a business-as-usual environment. Instead, while still immature, it has been required to amend its loan products, deliver multiple new loan products and deal with unanticipated demand that emanated directly from the government's decision to introduce an interest free period for RIC loans. This has substantially contributed to the RIC Board and entity performing some of its functions to a lesser standard than perhaps the government and responsible Ministers would normally expect. A key example is the apparent lack of capacity within the RIC to closely and effectively monitor loan applications in a timely manner to provide reasonable notice to government that it expected to commit its full \$2 billion loan funding allocation by the end of June 2020. Between March and April, the RIC's advice to the department about the timeframe in which it expected to fully commit its loan funding changed from 18 to 2½ months.

Also relevant and lacking in this case was the RIC's ability to proactively manage demand for its loan products in a timely manner using the levers it did have available, including through the assessment of financial need (see section 2.3.1).

Based on this experience, which culminated in an urgent government submission process leading to the government's decision in late May 2020 to provide additional loan (\$2.075 billion)

and operational (\$50 million over the forward estimates, front-loaded) funding to the RIC, it is imperative the Board and the RIC demonstrate improved performance that assures the government it will not be put in a similar situation again. Ultimately, the Board is responsible for the performance of the RIC entity and improving deficiencies. The Board is also responsible for holding the CEO accountable in delivering on necessary improvements.

For effective outcomes, the review concludes that some stability for the RIC, including no new loan products (see section 1.7.4) will be one of the best ways the government can support the RIC Board and entity to improve its performance. The cessation of interest free terms and resulting very low demand for RIC loan products since October 2020 will also provide the RIC with some much-needed breathing space.

Over the next 6 months, the government should closely monitor the situation and assess the RIC's performance in relation to:

- service delivery improvements, including achieving its stated target of 80% of loans assessed within 65 days (RIC processing time) by 30 June 2021
- improved monitoring of the loan portfolio
- timely reporting and advice to government.

To support this monitoring, the RIC's monthly reporting to responsible Ministers should include explicit measurement of the RIC's progress against its key service delivery target. This monthly reporting will also support an assessment of loan processing timeframes at the end of the first quarter of 2021 to determine whether the recent additional operational funding is creating a pathway toward achievement of the RIC's key 65-day KPI, as recommended by the NFF in its submission to this review.

The Board should also report to responsible Ministers promptly after 30 June 2021 on the progress achieved in improving the entity's performance. This report should also outline any areas that continue to require attention and the planned actions and timeframes for addressing any outstanding significant or residual performance issues.

Should the RIC's performance be found deficient, responsible Ministers should consider taking more definitive action, including in relation to the Board. This may go to further consideration of the required skill-set (in addition to the Commonwealth public service experience recommended in section 1.2.1). Other possible actions include the Board reviewing staffing arrangements.

**Recommendation 3: That the government assess the RIC's performance in relation to service delivery, monitoring of the loan portfolio, and advice and reporting to government over the next 6 months, with a report from the Board on these matters after 30 June 2021. Should the RIC's performance be found wanting, the government and/or the Board should take further action.**

### **1.3.6 Resourcing and streamlining**

The range of new government decisions affecting the RIC since that time has had a resourcing impact not just on the RIC, but also both departments (particularly the Department of Agriculture, Water and the Environment), requiring resources well beyond that originally envisaged to be dedicated to policy development and administration in relation to RIC matters.

In both cases, the departments have absorbed this and reprioritised resources to focus on RIC issues as needed.

Continuous improvement that includes seeking efficiency gains should be pursued as part of good government and business practice. However, until the RIC has worked through its application backlog, improved its service delivery and the government has considered the RIC's future (see section 1.8), any opportunities for significantly streamlining how these roles are undertaken in practice are unlikely to arise. Rather, the departments should accept that, in the short-term, the resourcing to undertake RIC-related policy and administrative functions is likely to remain high and, if anything, already regular and constructive engagement may need to be further enhanced. Once the above issues have been worked through, the departments and the RIC should revisit opportunities for streamlining in a more business-as-usual context.

### 1.3.7 Communication

The RIC and the department have established a predominantly positive and constructive working relationship at all levels that is improving the recognition and understanding of the respective roles of the agencies in delivery and policy. However, communication and collaboration between agencies can always be built on and improved to effect better outcomes. The nature of government decision-making, where it may not be possible for communication of, let alone collaboration on, all potential options the government may be canvassing in relation to a RIC decision can prove challenging at times. However, it should be noted that the RIC find it difficult to work on the practical side of implementing programs with limited information flow and would value playing more of a role in policy development. A greater opportunity to provide input at that earlier stage would also contribute to more effective roll-out and outcomes as the RIC would have some buy in to the development and lead time of any loan product amendments or new loan products.

Wherever possible, the department should seek the RIC's input, particularly from an operational perspective, to policy development at an early stage. This is especially important for the development of new products or significant amendments to existing RIC products. While in some cases this may be challenging in practice as RIC staff are not employed under the *Public Service Act 1999* and for the most part do not hold security clearances, these should not prove insurmountable. If the RIC is to be increasingly involved in policy development, the government needs to have confidence in the information being relied upon. To be an effective provider of useful information to better inform government decision-making, the RIC needs to improve the accuracy, timeliness and quality of its advice and reporting to government (see section 1.4). There is significant opportunity here, but a staged and prioritised approach needs to be taken. While the RIC could no doubt provide useful insights from its operational experience now to inform future policy development, it needs to focus on collecting and reporting standard information in a timely manner, and then build on that, including building confidence with ministers and government that such data can be relied upon.

**Recommendation 4: That the department draw upon the RIC's operational experience as early as possible in the policy development process for new products and/or significant amendments to existing products, to better inform government decision-making.**

## 1.4 Effectiveness of RIC processes and controls

In the context of examining the RIC's governance arrangements, this review has been tasked with considering the controls in place to ensure the RIC can deliver on policy intent and operate within Budget and ASL rules; as well the RIC's processes to provide sufficient oversight and assurance on the collection of principal and interest from loan recipients and timely and accurate reporting on the loan portfolio. The RIC has a suite of internal governance arrangements and controls in place, including in relation to its LSP. In the RIC's experience, contractual constraints with the LSP have somewhat limited the RIC's ability to deliver on policy intent but efforts continue and improvements have been made. While repayment assurance processes are in place, improvements are required to provide assurance of accuracy at the individual loan level. The RIC's reporting to government on its loan portfolio is improving, but more work is needed, particularly in relation to forecasting demand.

### 1.4.1 RIC internal governance framework and controls

The RIC seeks to have an internal governance framework that supports information flow, emphasises accountability for functions and deliverables and contributes to assurance processes.

#### **RIC Board**

Further to discussion of the Board's role and functions under section 1.3.1, the Board sets the strategic direction of the RIC, determines its corporate governance structure, sets its risk appetite and determines the policies to be followed by the RIC. The Board is responsible for compliance with legislation and regulatory requirements that apply to the RIC. The Board's duties cover strategy, risk management and governance, management and reporting, people and culture, and management of the CEO.

The Board is required to meet at least 4 times a year. In the calendar year of 2020, the Board met 13 times and attended to 17 matters through out-of-session voting. The typical format of Board meetings is a bi-monthly meeting covering full business line reports (CEO, Corporate, Program Delivery, Transformation & Engagement), Audit, Risk & Fraud reporting, as well as attending to matters at appropriate times of the year regarding the Board's PGPA obligations as the Accountable Authority. In the intervening months, the Board has a strategic update teleconference to keep apprised of monthly financial information and loan data reporting. The frequency of Board meetings was increased to monthly in response to the heightened and sharp increase in loan demand arising from interest free terms.

#### **Executive Leadership Team**

The ELT comprises the CEO and Executive Directors of the RIC's 3 functional areas (Program Delivery, Transformation and Engagement, and Corporate Services) and is accountable for overseeing: business unit performance against strategy; financial strategy and current financial position; people strategy and current people position; enterprise risk strategy and current risk position; stakeholder engagement strategy and project group progress against approved projects. In the 2020 calendar year, the ELT had a weekly, monthly and quarterly meeting schedule. The ELT agenda was adjusted to focus on service delivery improvements following the sharp increase in demand.

### **RIC Audit Committee**

The Audit Committee assists the Board to discharge its responsibilities under the RIC Act and PGPA Act in respect of financial reporting, performance reporting, risk oversight and management, internal control and compliance with relevant laws and policies. The Committee must meet at least 3 times per year. In the 2020 calendar year it met 5 times. A typical Audit Committee agenda covers items such as: a report from the CEO (including on service delivery performance); financial reporting – including financial results, financial statements audit progress and sign off; performance reporting – performance results as they pertain to annual performance reporting and also data pertaining to the performance of the loan program; systems of risk oversight and management – enterprise risk and fraud reporting; and systems of internal control – internal and external audit recommendations and implementation progress.

### **Internal Audit Function**

The RIC currently outsources its internal audit function to an independent service provider (McGrathNicol). The RIC's internal audit functional planning framework consists of two key documents developed to provide assurance on the integrity of internal controls, business systems and accountability mechanisms. This includes: a Strategic Internal Audit Work Program which details the broad direction of Internal Audit over the medium term (3-year outlook) in alignment with the RIC's strategic risks and requirements; and an Annual Internal Audit Work Plan, which includes an Internal Audit Work Schedule of audits to be undertaken over the next 12 months.

In response to significant changes experienced by the RIC in 2019–20, the RIC commissioned two internal audits specific to the management of the LSP contract including: the RIC's management of the LSP (completed in April 2020); and the LSP's compliance with the Originations and Service Agreement (completed in October 2020). The RIC accepted all recommendations arising from the audit (with one partially accepted) and has actioned most recommendations within the agreed timeframe.

Other internal audits completed as part of the 2019–20 annual internal audit plan included Annual Performance Statements (completed in March 2020) and Financial controls and compliance (completed in February 2020). Internal audits planned (and underway) as part of the 2020–21 internal audit program include fraud control, records management and protective security arrangements. The RIC currently progresses the implementation of all internal audit recommendations through a regular acquittal of the internal audit register which is presented to the ELT, Audit Committee and Board on a quarterly basis and ensures all recommendations are progressed and actioned in a timely manner.

### **RIC governance arrangements with the LSP**

The RIC's governance arrangements with the LSP include multiple feedback mechanisms to facilitate communication and support monitoring, assurance and problem escalation and resolution. A range of regular (for example, weekly or fortnightly) discussion fora occur between various RIC management levels and staff (including the CEO, Program Delivery Executive Director and Senior Credit Managers) and their LSP counterparts covering all aspects of the LSP's functions. These fora support the setting of performance expectations, timely two-way feedback and smooth operations, the discussion of strategic operational and policy matters, general communication and relationship building, and addressing ad-hoc matters as they arise.

### **Improvements made**

In response to the situation that arose in April 2020, the RIC has strengthened a number of its internal reporting arrangements. In relation to reporting on loan demand, daily reporting on actual and forecast demand against the RIC's farm business loan facility was introduced to ensure RIC loan approvals had explicit funding available to support those decisions within the current financial year. This reporting also provides early signals on the need to rephase funds across the estimates. In addition, the RIC has increased the granularity of lending performance reporting, introducing monitoring of the 7 key stages of the loan life cycle, compared to the previous focus on 'decision' and 'settlement' segments. This improvement was introduced to facilitate better targeting of services from the LSP, and a better allocation of RIC resources. Both these serve to target effort to queues and bottlenecks in particular segments of the loan life cycle.

As outlined above, the RIC has also intensified its governance and oversight arrangements with the LSP, including refocusing its engagement. This has included elevating seniority and frequency of engagement between the RIC and the LSP and targeting discussions to service delivery performance and future service delivery requirements (in addition to standing contract management issues such as reporting, invoicing, and staffing).

#### **1.4.2 Delivering on policy intent and operating within Budget and ASL rules**

The RIC is aware of its allocated ASL and operates within its authority. To date, the RIC has not exceeded its ASL cap and is not forecasting to do so in future years at this stage. ASL caps for the current and forward years are monitored by the RIC's Human Resources team. ASL caps are explicitly considered in the formulation of recruitment strategies, position advertisements and employment offers. This includes careful consideration of employment arrangements, including whether positions are best stood up through ongoing, non-ongoing or labour hire arrangements, and whether positions are best suited to full time or part time engagement. The RIC tracks ASL on a monthly basis, results are routinely reported to the ELT on a monthly basis, and to its Board on a quarterly basis.

The RIC has not previously adhered to its annual funding appropriation, necessitating government intervention to avoid premature closure of the RIC's loan program whilst farm and small businesses were still experiencing the impacts of drought. The RIC has made a range of improvements to its internal governance arrangements, particularly enhancing its engagement with the LSP to better deliver on the government's policy intent of providing streamlined concessional finance to businesses most in need. This should also improve the RIC's ability to demonstrate it can operate within Budget rules going forward.

#### **1.4.3 Oversight of the collection of principal and interest**

The RIC's farm loan portfolio is held on the department's balance sheet. The RIC is responsible for ensuring it collects repayments as and when due and that these are remitted to government in a timely manner. It also needs to report on repayments in an accurate and timely way. The RIC has a loan repayment system that involves remittance of funds and also a two-step reconciliation process that aims to provide reasonable assurance to the government as to the accuracy of repayments. The process includes the following:

- As the RIC receives loan principal and interest repayments from farm businesses, the funds are held by the RIC until a single monthly cash transfer is made to the department. The



transfer is supported by bank statements and a bank reconciliation where all balances must agree prior to the receipting of funds in Finance's Central Budget Management System (CBMS).

- A secondary reconciliation process then occurs where the balance of outstanding and repaid loans according to the bank reconciliation are agreed to the RIC's monthly reporting. Through this process, the department gains assurance that all balances as reported by the RIC are consistent and reliable.

From the department's perspective, the process works well and no major issues have been identified. However, the department (or the RIC) does not currently have sufficient oversight as to the accuracy of the loan repayment amounts calculated and debited for individual loans (see section 4.3).

#### **1.4.4 RIC reporting on the loan portfolio**

The previous inability of the RIC to track loan applications and prospective loan volumes in a timely manner during the period of unprecedented demand and report this to government has eroded confidence within the government of the RIC's ability to accurately monitor applications and approvals. The RIC has dedicated resources and improved its processes to support more accurate and timely reporting. In addition, the RIC is now in a much lower demand environment which is assisting it to work through its backlog of applications. As outlined above, the government should monitor improvements in the RIC's reporting and advice to government and take action if required.

A range of issues and suggested improvements in relation to the RIC's reporting to government are canvassed below.

The RIC's reporting framework to the government, includes:

- detailed monthly reports to the department including a range of information to support monitoring of the loan portfolio, advice to the Minister for Agriculture, and broader government reporting (for example, on drought assistance measures)
- monthly, quarterly and 6-monthly reports to responsible Ministers
- annual report to responsible Ministers, for presentation to the Parliament (as required by section 46, PGPA Act)
- advice to responsible Ministers on the outcomes of 6 monthly interest rate reviews.

In addition, the RIC provides advice (as requested, though also RIC-initiated) to the Minister for Agriculture on specific matters (for example, on progress in implementing its Transformation Strategy, see section 0).

#### **Streamlining, context and ownership**

The RIC has noted that it provides a lot of reporting and it is not sure all the information provided is useful for the government's monitoring of the loan portfolio and related uses. The department and the RIC are working together to streamline reporting requirements, including amalgamating reports where possible and reducing data to be provided where it is not used. These discussions should continue as needed.

When additional information is sought by the department, the RIC has also noted that the context for the request is often missing, despite very specific questions being asked. It is therefore difficult for the RIC to respond effectively sometimes, not knowing the intended audience and the purpose for which the information is being sought. Where possible, the department should provide greater context around its requests for information to the RIC, including audience and purpose.

The RIC has expressed the need to better understand its ownership in developing reports to make them fit for purpose. The RIC should actively contribute to reporting template development processes facilitated by the department, and ultimately the RIC must take ownership of the content of any report it provides to responsible Ministers. However, given the considerable consultation between departments and ministerial offices to ensure reporting meets the requirements of both ministers, the RIC should ensure it adheres to requested reporting formats. The RIC can provide supplementary information and further useful context as it deems necessary.

### **Timeliness**

The timeliness of the RIC's reporting to government is subject to its arrangements with its LSP. The RIC is reliant on its LSP to generate a range of reports from its operating system on a scheduled basis. The RIC then needs some time to transpose this into the required reporting formats, hence, the monthly reporting to the department and responsible Ministers is due on the 15<sup>th</sup> business day of the month. This generally creates a lag of 3–4 weeks before data is provided to government, which, in a high demand environment, can quickly reduce the currency of the monthly reporting provided. While timelier reporting would be beneficial, the much lower demand environment post-interest free terms minimises these issues going forward. In addition, the RIC has undertaken to provide monthly reporting, in draft form, to the department earlier whenever possible to assist the department to meet its reporting deadlines.

In relation to the provision of monthly and quarterly reports to responsible Ministers, the RIC should seek to improve and streamline, where possible, its internal processes (whether coordination or clearance, but not in relation to data accuracy verification which should be prioritised) to ensure reports are provided to ministers as soon as possible, and no later than the agreed deadline.

The Operating Mandate does not provide a due date for quarterly reports to the responsible Ministers. The department and the RIC should agree an appropriate deadline for these reports and reflect this in their Memorandum of Understanding (MoU) to support more timely provision of quarterly reporting to responsible Ministers.

### **Emerging issues and improved forecasting**

Understandably, no delivery agency wants to cause undue concern to their minister based on early data. However, given the situation that arose in April 2020, this review recommends the RIC errs on the side of caution and communicates any possibility of an unexpected issue relating to the loan portfolio or call on loan or operational funds (or any other matter of concern) to the department as soon as possible. The department can then raise matters with advisers and Finance as appropriate while data is verified, prior to formal advice being provided by the RIC to ministers.

One area where it is clear the RIC needs to improve is its ability to forecast demand and provide more accurate reporting on this to the government. Forecasting demand for government support programs can always be challenging. However, the RIC now has 2½ years of operational experience, including in the delivery of new loan products to different target cohorts in response to different causes of need (for example, AgRebuild Loans for flood-affected farm businesses in North Queensland and AgBiz Drought Loans for primary-production related small businesses impacted by drought). It has also experienced the demand outcomes of amended loan terms (for example, 2-year interest free Drought Loans). The RIC should bring all this experience to bear in seeking to more accurately forecast demand going forward. In doing so, the RIC should reflect industry and seasonal influences (including farm business planning and tax return cycles) that can cause fluctuations in monthly demand, rather than averages. This can better assist government decision-making and will also increase confidence in demand forecasts if monthly predictions better align with actuals on a month-by-month basis. Providing the departments with detailed assumptions that underpin forecasting should also improve confidence in the RIC's forecasting ability.

The RIC's addition of two dedicated data analysts to its staff recently has already seen improvements in the format of reporting, as well as the RIC's internal data verification processes. It is hoped, over time, these resources can be usefully directed to mining the RIC's rich data source on its significantly growing loan portfolio and providing analysis on trends to support demand forecasting and input into future policy development. The RIC is also engaging with industry participants to better inform its forecasting and is considering engaging the services of a rural data intelligence provider, as well as improving collaboration with other departmental agencies (Bureau of Meteorology, CSIRO), to assist in determining expected uptake based on seasonal conditions. The RIC also notes that criteria related to specific loan products is also a big driver of expected uptake. This is further discussed in section 1.7.2 in relation to the RIC's new AgriStarter loan product.

**Recommendation 5: That the RIC improve its reporting to government, particularly its ability to more accurately forecast demand.**

## 1.5 Effectiveness of the RIC service delivery model

This review has been tasked with examining the efficiency and effectiveness of the RIC's current service delivery model that uses a LSP, that is, a third-party external service provider, to deliver loans to intended recipients. To enable consideration of these matters, it is important to have an understanding of the context in which this service delivery model came about and how the model operates in practice. It should be noted that the RIC, in response to the unprecedented demand for Drought Loans and the impact this has had on service delivery timeframes, is implementing a range of initiatives including adjustments to, and alternative arrangements in place of, the LSP model (see section 0). Many of these changes are in place now, with some having commenced as early as January 2020.

Excessive loan application processing timeframes were a key concern raised by industry stakeholders in this review. However, there was also an acknowledgement that these issues were primarily operational and therefore relatively straight forward to address. As long as improvements resulted from the RIC's operational changes supported by the additional funding from the government, further action would not be needed.

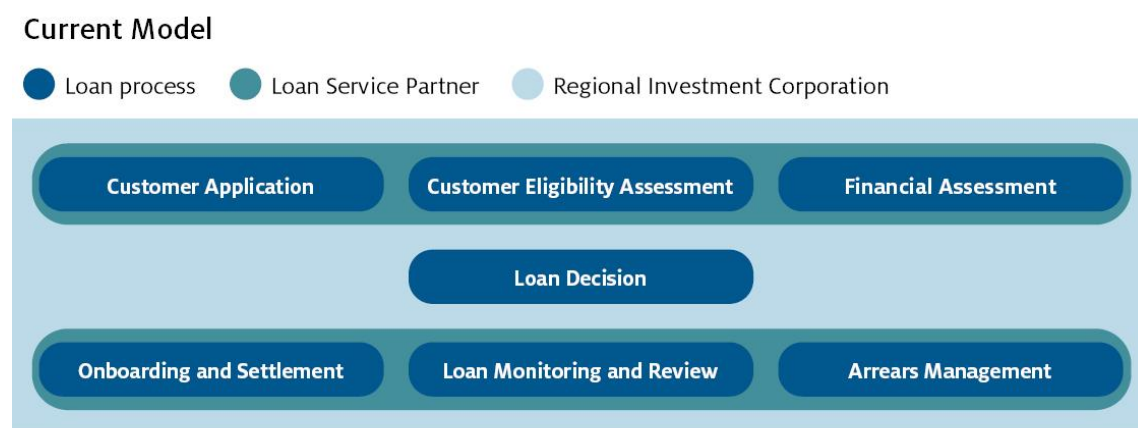
For the purposes of this discussion, the RIC's service delivery model refers to the arrangements in place from the RIC's opening of business on 1 July 2018 whereby RIC loan applications are assessed by the LSP, the RIC makes a loan decision (to approve or decline) and the LSP undertakes loan documentation and settlement arrangements for approved loans. This model is explained further in section 1.5.1.

### 1.5.1 RIC service delivery model

#### Role of the loan service partner

The RIC's service delivery model uses a contracted LSP for customer enquiries and application receipt, application assessment (both against eligibility criteria and the assessment of financial information), onboarding and settlement (including loan documentation and disbursement of funds), ongoing loan monitoring and review and general arrears management. As outlined in Figure 2, this reflects the majority of the RIC's farm and small business loan functions.

**Figure 2 Loan processes undertaken by the loan service provider**



Once application assessments are completed by the LSP, it provides a recommendation, with supporting information, to the RIC to approve or decline an application. This recommendation may include changes compared to what the loan applicant has requested (for example, a recommendation to approve a lower loan amount). The RIC then reviews the recommendation, makes a decision to approve or decline the loan application and advises the LSP of the outcome. The LSP will advise the applicant of the outcome and proceed to the onboarding and settlement stage for approved customers. Once loan funds are disbursed, the LSP monitors clients' payment of interest and principal in line with its loan contract and reports any payment arrears to the RIC for appropriate follow-up. Under the model, the LSP is also responsible for an annual review of a client's loan which may be a streamlined or full review, depending on the risk of the loan and/or the number of years the loan has been in place. The LSP's monitoring and review function also involves actioning any client-initiated variations to loan agreements (for example, due to changes to business name, directors or security). The general arrears management function is also undertaken by the LSP, though the RIC manages decisions around debt mediation and would also closely monitor any loans in difficulty.

It is important to note that, despite the majority of loan processes being undertaken by the LSP, all LSP interactions are branded as the RIC. That is, from a customer's perspective, no distinction is made between dealing with a RIC officer or an LSP officer. For all intents and purposes, a loan

applicant or approved customer is dealing directly with the RIC in relation to their application or loan at all times. This matter goes to some of the reputational issues discussed further in section 1.5.2.

### **Context for implementing the LSP model**

Before discussing the effectiveness of the LSP model, including a range of deficiencies and constraints that have come to light during the model's implementation in practice, it is important to outline the context in which the LSP model eventuated. It must also be made clear that the service delivery model the RIC wishes to operate with is a decision for the RIC and its independent Board. While the government has an interest in the effectiveness (including government assistance reaching farm businesses in hardship) and efficiency (including timely delivery at reasonable cost) of any service delivery model the RIC uses, it is not the decision-maker.

During the establishment process for the RIC and to support initial ministerial decision-making, the department looked into a range of delivery mechanisms, including in-house, a hybrid model, and out-sourced service delivery. It also looked at potential government providers, such as the Commonwealth's export finance entity. Due to the considerable task of setting up a new entity and the tight timeframes involved, the department anticipated the need for external expertise to run the RIC's farm business loan delivery function and, to this end, undertook a market analysis process in 2017. Participants included banks, as well as existing state delivery agencies. Feedback indicated limited capacity in the commercial market to meet the expected start date of 1 July 2018 for farm business loan availability through the RIC (ANAO, 2020).

As outlined in the introduction and 0, despite the introduction of the RIC Act to Parliament in June 2017, it did not pass both Houses of Parliament until February 2018, receiving Royal Assent on 20 February 2018. Informed by the market analysis process and following the passing of the RIC Act, the department ran a Request for Interest (RFI) process for a third-party service provider to undertake farm business loan assessment and management functions. Following the appropriate government process for significant appointments, the RIC Chair and Board were appointed in April 2018 – being less than 3 months prior to the scheduled opening for business of the RIC on 1 July 2018.

Upon appointment, the RIC Board convened a number of times prior to 1 July 2018 to make a range of necessary governance, corporate and operational decisions. This included the RIC's service delivery model. The Board was presented with a full report on the outcomes of the market analysis process, as well as the outcomes of the RFI process. The Board agreed to the external delivery (LSP) model and that a second stage of the tender process (a Request For Refined Responses) be undertaken.

In June 2018, the RIC Board agreed to finalise a service agreement with the Bendigo and Adelaide Bank, with a contract signed on 28 June 2018 – two days prior to the RIC opening for business. The initial term of the contract is to June 2021, with the term able to be extended for an additional two years to June 2023.

It is clear that, irrespective of the significant preparatory work of the department including market research and an RFI process to support decision-making by the RIC Board, the very short timeframe from appointment of the Board to the RIC's opening for business was less than ideal for undertaking key decisions relating to core business such as the service delivery model for

farm loans. One RIC Board member provided input to this review indicating that, by the time the Board was appointed, given the looming deadline for opening, work was too far progressed to stop an external service provider model proceeding, despite concerns about impacts this may have on flexibility into the future. It is also clear that such a short timeframe was not ideal for undertaking a detailed and complex negotiation on a significant contract covering a large part of the RIC's core functions and it is likely this timeframe contributed to some of the subsequent issues discussed in section 1.5.2.

### **1.5.2 Issues with the LSP model**

The context for the RIC's LSP model, including tight timeframes, have undoubtedly affected the RIC operationally. It is worth noting that many of these issues have arisen as a result of the unprecedented demand arising from interest free terms. Some key deficiencies with the broader LSP model are discussed below.

#### **Contractual constraints**

In the RIC's operational experience to date, a number of issues have arisen that go to its contract with its LSP. These include:

- **Scalability** – The RIC has found that the current contractual arrangements are not appropriate for the high volume of loan enquiries and applications received by the RIC. The RIC has found that the contract, and LSP model, is not sufficiently scalable against the increased volume, diversity and complexity of the changing RIC loan portfolio.
- **Lack of effective penalties and performance levers** – The RIC has found that the contract's targets and the levers available to the RIC to manage and drive better performance are very limited.
- **In LSP's favour** – Through operational experience, the RIC has found the contract to be fundamentally one-sided in the LSP's favour.

#### **Overarching issues with the model**

Irrespective of some of the contractual challenges the RIC has to grapple with, it appears there are a number of related issues that are broader than the contract as currently drafted and go more to the actual LSP model.

- **Reputational risk** – As all interactions undertaken by the LSP on behalf of the RIC, including with customers, are under the RIC's branding, the RIC incurs all associated reputational impacts arising from those interactions – both positive and negative. In the situation that has developed since January 2020 with unprecedented demand for Drought Loans and resulting poor service delivery, this has overwhelmingly been negative.
- **Unforeseeable events** – It may be difficult for contracts (by virtue of being the outcome of a negotiation) to include all necessary performance carrots and sticks or foresee the extent to which in-built flexibility will be sufficient to cover off on every conceivable (or possibly inconceivable at the time) eventuality. The unprecedented demand arising from interest free terms is an example of a situation where it may be unlikely that any contract, or LSP, would have had the ability to contend with it, without a significant impact on service delivery.
- **Efficacy of outsourcing core function** – As noted by the RIC Chair (who was appointed in March 2020) most organisations would not consider it wise to outsource the most

important aspect of its business. If the core part of a business is outsourced, it is essential to ensure that the contracted provider can perform and produce the outputs and work needed, but also be flexible, including being able to flux up or down efficiently in line with service requirements. If that is not possible, the best practice approach is to not out-source.

While it is understandable that the RIC Board decided to outsource service delivery, given the timeframes involved to the opening of the business, ideally it should have applied for a limited time only and allowed the opportunity to put in place a longer-term model. The RIC's experience with an LSP model has resulted in negative impacts on loan delivery and the service provided to RIC customers.

### **1.5.3 Initiatives to address service delivery issues**

It is clear that the RIC has been as concerned as the government about the service delivery impacts on its customers. It appears that the RIC has pursued improvements as much as possible within its LSP contract parameters, including engaging the goodwill of Bendigo to pursue improvements beyond the contract. In particular, the RIC has pursued a range of initiatives over the past 12 months to improve service delivery, engaging external expertise to identify improvement opportunities and map out a transformation plan to reduce processing timeframes to acceptable levels. The RIC should be commended for these efforts, but also held accountable for achieving the intended key service delivery target of 80% of loan applications assessed within 65 days (RIC handling time) by June 2021. The RIC's performance in meeting its service delivery target and improvement initiatives currently being implemented are discussed below.

#### **Moving front-end processes and customer service in-house**

In early 2020, the RIC examined its loan processes and commenced implementing service delivery improvements to provide appropriate engagement and support to loan applicants, and improve the timeliness of loan delivery. These improvements involved customer service functions being undertaken directly by the RIC, including the initial assessment of loan applications for completeness and eligibility against core criteria. This freed up resources within the LSP to focus on financial assessments, loan documentation, settlement and on-boarding procedures, as well as loan monitoring and review.

The RIC initially implemented these improvements on a short-term, interim basis. However, the surge in demand exacerbated the need for the improvements to be embedded and scaled-up to enable the RIC to efficiently process its huge backlog in applications. Under this approach, the RIC sought to take ownership and control of the customer experience rather than relying on a third party.

Service delivery improvements which saw the RIC taking greater front-end responsibility increased the need for enabling infrastructure to drive better customer outcomes, organisational efficiency and meet the government's expectations for the efficient delivery of its concessional loans. To this end, in addition to resourcing for service charges and loan assessment staff and associated property and overheads, the RIC sought additional operational funding for supporting corporate systems and functions, including to improve data integrity and reporting.

The government's decision in May 2020 to provide an additional \$50 million in operational funding to the RIC enabled it to progress implementation of the above in-house initiatives on a more ongoing basis, as well as improve its systems. However, the RIC still requires further certainty about its future to enable it to make informed investment decisions that go to service delivery improvements on an ongoing basis.



### **RIC's Transformation Strategy**

As the service delivery impacts of the unanticipated demand due to interest free terms became apparent, discussions between the Minister for Agriculture, RIC and the department concluded that the RIC would need external expertise to assist in identifying a way forward to resolve the issues. The department was tasked with procuring an independent consultant to review the RIC's loan delivery process and identify improvements, develop appropriate service level standards to allow benchmarking and consider the RIC's data needs for its loan portfolio. A consultant conducted a review of the RIC's service delivery and provided its final review report to the department and the RIC in May 2020. The report highlighted a number of findings and recommendations relating to the RIC's processes and arrangements, including that 95% of the time an application spends in processing is waiting in a queue for attention. The report noted that this is no worse than commercial lenders who have not implemented strategic improvement processes. The report also validated the RIC's intention to insource more work as this was found to be most likely to deliver the best result for the RIC if there was a sufficient increase in operational funds for the RIC and if the LSP also increased staffing numbers.

The RIC made some key business improvement decisions in response to the report including:

- A transition towards a new operating model whereby the RIC owns the front end of the application process through to and including the assessment of applications
- Critical reporting metrics for Key Performance Indicators (KPIs) covering the loan delivery process and loan portfolio management have been agreed by the RIC Board
- The RIC Board has also agreed to a top line organisation structure to drive the RIC's transformation strategy
- The RIC has also undertaken significant recruitment (including 40 new staff being on-boarded in February), implemented more efficient triage and quality assurance, implemented 'strike teams' to address applications with longer lead times and worked with banks to speed up settlements.

One of the key recommendations arising from that review was the development of a Transformation Strategy for the RIC. The RIC worked with the consultant to develop an enterprise-wide Transformation Strategy, which outlined key milestones and deliverables for the RIC to enable the RIC to lower time to decision and enhance customer satisfaction. The Board approved the Transformation Strategy in October 2020. In addition, the RIC Board agreed to a KPI of a 65-day turnaround to be achieved by 30 June 2021 for the RIC's part of the application (excluding third parties) for 80% of their loans. This KPI has been referenced publicly a number of times by both the RIC (Australia, Senate Estimates Rural and Regional Affairs and Transport Legislation Committee 2020) and Minister for Agriculture (Bernasconi, A 2020). The RIC's processing timeframe for its part of the loan process has been trending downwards since October 2020 but, as of December 2020, it has not yet achieved its KPI (refer Table 2).



**Table 2 Processing times (in median days, including weekends) for loan applications from lodgement to settlement up to 31 December 2020**

Step	Category	Apr. 2020	May 2020	June 2020	July 2020	Aug. 2020	Sep. 2020	Oct. 2020	Nov. 2020	Dec 2020	Benchmark Days	Variance of benchmark to November
Total time	Time with RIC	213	231	279	324	337	352	309	286	284	65	219

**End-to-end trial**

The RIC commenced an end-to-end trial of its ability to process loan applications from application receipt to loan disbursement on 16 November 2020. To date, the RIC have successfully progressed a small number of applications through to decision. It is important to note that the RIC is yet to complete settlement for any applications in the trial. The trial has yielded positive results to date with early indications of a significant reduction in processing time through to approval. However, further processing is required for the RIC to complete an evaluation of the trial.

The RIC has also put in place 'strike teams' to focus on specific aspects of the loan processing pipeline, such as weekly engagement with aged files and liaison with banks to progress and speed up settlement. The RIC's strike team also follows up directly with customers on the status of their loans.

**Findings**

In the RIC's operational experience, the current outsourced service delivery model is limiting and in the LSP's favour. It is clear the arrangements do not support good customer service outcomes, particularly in the context of unprecedented demand and needing to work through a significant application backlog beyond the RIC's early establishment.

With significant additional operational funding support from the government, the RIC is undertaking a range of initiatives to improve its service delivery (see Appendix D) and should be commended for the progress made. This review supports the RIC's implementation of the Transformation Strategy and its end-to-end processing trial. Subject to the final outcome of the trial, work on processing a greater percentage of loan applications through to settlement would be beneficial.

It is important to note that the RIC's current loan funding profile ends on 30 June 2023. The RIC therefore requires greater certainty about its future to make appropriate decisions about fundamental changes to its service delivery model (or aspects thereof) and whether it is worthwhile making the related necessary investments.

**Recommendations 6 and 7:**

**That the RIC implement its Transformation Strategy and, subject to the final outcome of its end-to-end trial, process a greater percentage of loan applications in-house.**

**That the government, as soon as possible within 2021-22, determine its ongoing plans for the RIC over the (minimum) forward estimates to provide certainty to the RIC to enable investment decisions to be made, particularly relating to future service delivery.**

## **1.6 RIC delivery of its current loan and advisory functions**

In examining whether the RIC is best placed to deliver its current loan and advisory functions, consideration was given to the RIC's current expertise and resources as well as the requirements of the functions themselves and, in the case of advisory functions, the RIC's ability to add value. Consideration was also given to the role and responsibilities of other agencies and advisory groups.

### **1.6.1 RIC delivery of its loan functions**

As outlined above, the RIC has experienced some challenges in acquitting its farm and small business concessional loan delivery function. That said, as these service delivery related issues can primarily be attributed to the unprecedented demand arising from the government's announcement of a 2-year interest free period for the RIC's Drought and AgBiz Drought Loans, this review has not found any evidence to fundamentally suggest the RIC is not well-placed to continue its loan delivery function.

Rather, the significant injection by the government to the RIC's operational funding, and the substantial improvement initiatives the RIC has planned or underway, should, over time, go much of the way to rectify the current poor processing timeframes and other issues, including the need for improved reporting. This includes the RIC's recruitment of additional staff, Board endorsement of a top-level organisational structure to drive the transformation improvements, and the RIC's implementation of ICT systems (for example, a Customer Relationship Management system) to support delivery of its core function.

As discussed above, additional certainty from the government about the RIC's future role in loan delivery beyond June 2023 (should there be one) would also drive investment decisions that should improve and reinforce the capacity and capability of the RIC to acquit its loan delivery function effectively.

While there are other Commonwealth agencies that have a loan delivery function (e.g. the Clean Energy Finance Corporation, Export Finance Australia, the Northern Australia Infrastructure Facility, and the National Housing Finance and Investment Corporation), these organisations have their own policy rationale and functions, target markets and expertise tailored to their loan delivery business. Similarly, given its core function of delivering farm business loans, the RIC has sought to recruit relevant expertise in agri-finance and farm lending and build on the capability of its workforce to understand its clientele.

Given the significant resources, time and energy the government has invested to date in establishing the RIC, transferring its functions to another Commonwealth agency is unlikely to produce a more efficient outcome and superior return on investment, particularly in the short to medium-term. Despite the criticism levelled at the RIC around processing timeframes, agricultural industry stakeholders are unlikely to welcome the closure of the RIC and the transfer of its functions to another entity lacking in specific agribusiness finance expertise, particularly so early in its life. It is more likely that a transfer of the RIC's functions would, in the short-term, exacerbate processing timeframes through, for example, application file transfers and irritate clients through new contact and assessment officers having to get across the details of their application and business.

### 1.6.2 RIC delivery of its advisory functions

In reviewing the RIC's advisory roles, emphasis has been placed on the RIC Board's legislated advisory role under the *Future Drought Fund Act 2019* (the FDF Act). The RIC also has advisory functions under Section 8.1(f) its own Act and Operating Mandate, including providing advice and assistance to: borrowers in relation to approved loans; and prospective borrowers in relation to loans. As this advisory role forms part of the RIC's loan delivery function, it has not been considered further here.

Other advisory functions under Section 8.1(e) of the RIC Act include providing advice, either on its initiative or at the request of a responsible Minister, on the activities that are or could be undertaken by the Corporation. Further, Section 17 of the Operating Mandate, in addition to the reporting requirements outlined in Section 16, requires the RIC to provide other advice to the Commonwealth and responsible Ministers in relation to:

- matters that will improve the operation and policy outcomes of farm business loans (proactive advice to the Commonwealth)
- the application of the Operating Mandate to an emerging issue or industry crisis, including how, where appropriate, the Corporation can respond (advice to responsible Ministers on request).

As these advisory functions are directly related to the RIC's core loan delivery function, RIC is the best-placed agency to undertake these functions (as opposed to them being undertaken by another agency) and provide relevant and useful advice from an operational perspective. Noting of course that this does not preclude the department, within its broader function of providing policy advice to the government of the day, providing advice to the minister (whether inclusive of, or separate to, RIC advice) on these matters. In addition, the government will continue to have other sources of advice on these issues, including industry stakeholders.

As outlined above, the RIC Board has expressed a desire for the RIC to be a useful source of information and advice to the government to feed into future policy development, noting that the organisation's current data management systems and capabilities do not yet support the RIC to effectively do this. As the situation improves, the RIC should seek to acquit these advisory functions in a transparent and collaborative manner with the department, to ensure the advice is in the most appropriate form to successfully feed into the policy development process. For efficiency, it may be appropriate for advice to be included with regular reporting requirements to ministers, assuming, on a case-by-case basis, that avenue still allows for the provision of timely advice.

Similarly, once an appropriate level of confidence has been achieved in the RIC's reporting, responsible Ministers (supported by the departments) should seek advice from the RIC as and when useful to inform policy development.

### 1.6.3 RIC Board's Future Drought Fund advisory role

Under sections 28 of the *Future Drought Fund Act 2019* (FDF Act), and consistent with section 15(e) of the RIC Act, the RIC Board has a legislated advisory role to provide advice to the Drought Minister on:

- the making of arrangements and grants under section 21 of the FDF Act
- the entering into agreements under section 22 of the FDF Act.

In performing this role, the RIC Board must comply with the Drought Resilience Funding Plan for 2020 to 2024 (the Plan) (section 28 of the FDF Act). The Plan sets out an approach for making arrangements or grants in relation to drought resilience, or entering into agreements in relation to such grants. The current Plan does not provide any detailed guidance on the RIC Board's role, but states that the minister must seek independent technical expert advice from the RIC Board – and other expert advice if necessary – on the making of individual grants or arrangements.

The original rationale for this advisory role, in terms of seeking to have suitable governance arrangements and transparency around the expenditure of the Fund, remains relevant and appropriate. However, in practice, the role is at best somewhat awkward and at worse problematic. In addition, it is questionable whether it is achieving its objectives as originally envisaged and potentially creating governance issues of its own for the RIC Board.

The issues stem from the fact that, at the point in time that advice must be sought from the RIC Board on proposed grants, arrangements or agreements, funding priorities and programs have already been determined based on the advice of the Future Drought Fund Consultative Committee and other requirements of the FDF Act (e.g. an obligation to consult on a draft Funding Plan). Further, individual projects have been identified and assessed through grant, procurement or similar selection processes, governed by the Commonwealth Grant Rules and Guidelines, and Commonwealth Procurement Rules (which impose obligations to ensure effective and accountable use of public funds). For example, for the proposed arrangements on which RIC Board advice has been sought to date, the proposed projects had already been assessed on their merits through a competitive process that involved the assessment of potential projects by an independent selection advisory committee.

The ability of the RIC Board to provide any useful input at this late stage is limited. By the Chair's own admission, the RIC Board does not appear to add value in this role, as the outcomes appear to be essentially pre-determined through a robust, independent assessment process to determine proposed successful projects. A key challenge for RIC Board members is to provide technical expert advice with limited understanding of the projects themselves. Further, the concept of expert advice is broad and can be interpreted differently by different people. It may be that the expectation amongst stakeholders, interested members of the public, and FDF program applicants (including those who are unsuccessful through the assessment process and therefore not considered by the RIC Board) of expert advice to be provided by the RIC Board to support transparency and governance around expenditure of the Fund goes beyond the role as currently being performed.

For example, the RIC Board's advice to the minister in relation to projects under two programs it has been asked to assess so far are one page in length with the advice essentially confined to one paragraph in which the Board states a view that, "on the information provided...it does not see any evidence that the proposed projects are inconsistent with the Drought Resilience Funding Plan...". While there is nothing to suggest that the RIC Board do not take this role seriously, it is not adding much, if any, value.

The department signed a MoU with the RIC on 27 January 2021 outlining the arrangements for the RIC Board in fulfilling its role under the FDF Act. In particular, the MoU provides a shared understanding of: the roles of both parties; the support to be provided by the department; the processes and timeframes for obtaining the RIC Board's advice; and the arrangements for

managing potential and actual conflicts of interest. While this arrangement supports clarity and governance, it doesn't change the fundamental issues associated with the RIC Board's advisory role.

The RIC Board's advisory role is intended to provide a check and balance, particularly given the significant funding available for projects under the Fund. However, the fact that the RIC Board itself is struggling to perceive how it can add value in this role indicates that, in practice, the objectives of the role are not being achieved. It may be a greater risk to the government of having a function and process that is intended to be a check and balance being perceived as a 'tick and flick' in practice, than having the function at all.

It is possible that, at least in part, the need for the role in terms of providing some transparency and independent reassurance of funding decisions being free of political influence may have been overcome by the significant work undertaken by the FDF Consultative Committee in developing the Funding Plan through a consultative process, as well as their ongoing role advising the Drought Minister on program design.

A further concern for the RIC Board is whether this advisory function actually creates additional responsibility for the RIC that comes with its own potential governance implications. For example, should problems occur with a project during implementation and/or the project fails to deliver outcomes as planned resulting in a situation inconsistent with the Funding Plan.

Finally, given the significant workload the RIC is under and the service delivery improvement task they must tackle, consideration needs to be given to ensuring the RIC's time and resources are focused on its core business. This advisory role for the RIC Board, including the time required by RIC staff and the department to support it in undertaking the role, does not appear to be the best use of resources at this time, particularly for an outcome of questionable value (at least from the RIC Board's perspective).

**Recommendation 8: That the government amend the Future Drought Fund (FDF) Act and the RIC Act to remove the RIC Board's advisory role in relation to proposed grants, arrangements and agreements under the FDF Act.**

If the advisory role is to remain, the RIC Board's ability to provide useful and value-adding advice in this role could potentially be enhanced if the RIC Board were involved more up-front in, for example, program design or subsequent project selection. It should be noted, however, that under the FDF Act, it is the role of the FDF Consultative Committee to provide advice to the Drought Minister on program design. Any additional formal or legislated role for the RIC in this area would therefore duplicate this existing function, and add to the already complex governance arrangements applying to the FDF. For this reason, the most appropriate solution may be to engage the RIC Board in program design as a key stakeholder (alongside others). Should the government agree to the recommendation above however, the need to involve the RIC Board in program design to enable them to add value in their legislated project advisory role becomes unnecessary.

## 1.7 RIC ability to deliver additional concessional loans

As well as its current functions, this review has been tasked with considering the RIC's ability to deliver additional concessional loans. In doing so, consideration has been given to the policy

development and implementation process necessary to deliver a new RIC loan product. The RIC's most recent loan product, AgriStarter, has been examined as a brief case study to indicate what is involved in delivering an additional RIC loan product, including the expertise and resources required for both the RIC and also within the government. Drawing upon this case study, and taking into account the current context and challenges the RIC is working through in terms of the application backlog and significantly reducing service delivery timeframes, conclusions are drawn about the RIC's ability to deliver additional concessional loans. This includes reference to the RIC's ability to deliver Plantation Loans, as flagged in a 2019 election commitment.

### **1.7.1 Policy development and implementation considerations**

On face value, the RIC appears a relatively straight forward entity with clearly articulated governance arrangements and only one core function (at least since the government's decision to conclude the NWILF in October 2020). However, developing and implementing a new loan product and sometimes even just amending an existing loan product, can be a complex and resource intensive undertaking, requiring consideration of policy, legislative, funding and operational matters. This is not a linear process – most, if not all of these matters need to be thought through as part of the policy development stage to ensure the best chance of successful implementation and to minimise unintended consequences once the product is launched.

### **1.7.2 AgriStarter Loans – a case study**

#### **Background**

As part of the Pre-election Economic and Fiscal Outlook 2019, the Australian Government announced a new concessional loan product to assist new entrants into farming (Commonwealth of Australia, 2019). The new loan product, known as AgriStarter Loans, is to support farmers to buy their first farm and support succession arrangements within farming families. It is intended that new entrants to farming get the support they need and farming families would be able to discuss succession arrangements and plan for the future – recognising succession planning has always been difficult and costly for many farmers.

The RIC's AgriStarter loan product launched on 1 January 2021. The loans can be used for a range of purposes, including funding the purchase of farm businesses (such as land, infrastructure and other farm business assets), buying out relatives during farm business succession, paying costs associated with the succession planning process and refinancing certain existing debt.

Many of the product's key loan settings (term, interest rate, maximum amount) and eligibility criteria align with the RIC's other farm business loan products. This includes, for example, applicants holding sufficient security, being able to demonstrate their capacity to repay the loan and also holding existing commercial debt.

#### **Policy development and implementation process**

In relation to AgriStarter, the loan product was developed and implemented over a particularly busy period of expansion for the RIC. Launch of the loan was therefore delayed while the department's RIC Policy team and the RIC focussed on developing, implementing and administering two other new loan products (AgRebuild and AgBiz), a range of policy changes for existing loan products (for example, two years interest free terms for Drought and AgBiz Loans,

and removing the affected area map requirement for Drought Loans), as well as working through the significant and unprecedented number of applications for Drought Loans.

Reflecting initial tight timeframes for policy development and product launch (that was later revised as outlined above) the AgriStarter Rule involved 3 registered iterations (registered in April 2019, October 2019 and December 2020) that also reflected additional policy development work including further clarifying the intended cohort within the Rule, in line with the policy authority.

While the Pre-Election Economic and Fiscal Outlook had originally flagged that AgriStarter Loans would be funded from within the RIC's existing appropriation, on 22 July 2020 the government announced that AgriStarter Loans would commence on 1 January 2021, with an additional \$75.0 million in loan funding and \$1.9 million in operational funding for the loan product in 2020–21. This additional funding was reflective of the change in the RIC's funding situation during the 13-month period from April 2019, with the RIC's Drought Loans fully subscribing its loan funding and requiring a \$2 billion 'top-up'.

To underpin development of the AgriStarter Rule and subsequent program guidelines, the department and the RIC worked closely together to understand the demands of the market and to ensure that the AgriStarter Loan would meet market expectations as much as possible, within the parameters of the policy authority, legislative and the RIC's responsible lending requirements. However, it is possible that further work will be needed to ensure AgriStarter Loans meet the original policy intent, including assisting the target cohort, while still appropriately managing financial risk to the Commonwealth. This need may arise from the fact that some new entrants to farming may find it more challenging (compared to existing farm business recipients) to demonstrate their eligibility against standard RIC criteria such as holding sufficient existing commercial debt and security and being able to demonstrate capacity to repay the loan.

### **Monitoring implementation**

It is important to monitor any new program or assistance measure to ensure it is achieving its intended outcomes. Prior to the launch of AgriStarter on 1 January 2021, the RIC received almost 2,000 registrations of interest for further information on the program from stakeholders and potential applicants. Noting some of the potential issues flagged above, there may be unmet expectations from potential applicants that could result in criticism and reputational risk to both the RIC and the government.

Although the product has only recently been launched, the RIC has been discussing possible options with key stakeholders to consider any improvements that may be needed to the loan product. Both the RIC and the department will closely monitor the uptake of the product, including reasons for decline, and work with key stakeholders to consider improvements (if any) to the product and ensure it meets its objectives.

As flagged above, working through options to improve loan products can require extensive policy development, and potentially in this case, further policy authority to pursue amendments to key current loan settings or eligibility criteria. However, close monitoring and proactive engagement between the department and the RIC, as well as with stakeholders, should assist in managing any reputational risk.

Should AgriStarter Loans need adjustments, the government should seek to thoroughly work through the policy development and implementation process to minimise reputational risk, demonstrate agility and responsiveness in the RIC's delivery of its concessional loans (noting AgriStarter provides an opportunity for the RIC to repair its reputation damaged through poor service delivery timeframes) and ensure the product meets its intended objectives.

**Recommendation 9: That, if needed, the government adjust the AgriStarter Loan product to ensure the product meets its intended objectives.**

### **1.7.3 Plantation Development Concessional Loans**

The above case study of the RIC's new AgriStarter Loan provides an example of the complexities involved in RIC delivering a new product within its core function cohort, i.e. farm businesses. This section examines a potential loan product where the intended cohort is well outside the RIC's current area of expertise.

#### **Background**

The Plantation Development Concessional Loans (Plantation Loans) initiative is a 2019 election commitment that aims to support the achievement of the Australian Government's goal of a billion new plantation trees in the next decade supported, in part, by a new concessional loan product delivered by the RIC. The initiative would make available up to \$500.0 million in concessional loans to encourage the establishment of new timber plantations in Australia and the replanting of fire-damaged plantations.

The proposal aims to encourage the forestry industry and investors to maintain and grow Australia's plantation estate, which has not increased significantly over the last 20 years. Government support in this area is expected to encourage foreign and domestic investment in this long-term crop at a time when demand for wood products is projected to increase and the area of plantations is stagnating. This will underpin growth in Australia's renewable timber and wood-fibre industry. Government assistance is seen as a necessary support to increase the plantation by a billion trees.

The 2019–20 summer bushfires are reported as having burnt 130,000 hectares of plantation forests. While most of the plantation forests burnt were owned by state forestry agencies, a number of privately owned plantations were also burnt and now require replanting. Replanting of these burnt plantations is critical to ensure ongoing wood and fibre supply to regional processing plants.

In November and December 2019, the department undertook consultation with industry on the most effective way to deliver the proposed Plantation Loans program. The department met with some 50 stakeholders and received 19 written submissions.

While the exact details of the loan product are yet to be determined given the long lead-time until income generation, the loan settings are expected to differ significantly from the current farm business loans offered by the RIC.

#### **Implementation complexity and risk**

There are a number of considerations which add complexity and risk to the RIC delivering Plantation Loans. These include that the proposed loan product will involve lending to a completely new cohort of loan recipients and therefore requires expertise in a different area



than the RIC's current skill-set. The RIC will need to recruit both expertise and capacity to ensure proper assessment of those plantation projects.

Lack of expertise in these areas can increase the financial risk to the Commonwealth of these loans. However, financial risk may also be increased by virtue of different loan settings, for example. if the loans are for a longer term and therefore there is a greater concessionality for this industry. In addition, this may be seen as inequitable to agricultural and other industries.

#### **Ability of the RIC to deliver Plantation Loans**

The complexities and risks involved in the policy development and implementation process are greater when tasking the RIC with additional products that are outside its current expertise and have significantly different loan settings to their current product suite.

Further, and perhaps even more pertinent given the core function of the RIC in delivering assistance to farm businesses, and its current issues with, and efforts to resolve, unacceptable service delivery timeframes, now is not the time to direct the RIC to implement such an additional loan product.

Further to the significant operational funding injection of an additional \$50.0 million over 4 years, the RIC needs to be given some breathing space to invest the significant time, energy, and resources required to reduce service delivery timeframes, as well as improve its performance reporting. The RIC is making good progress in this regard, but the complexity of an additional product like Plantation Loans would divert effort, impacting how quickly the RIC can address its current issues, and, worst case scenario, potentially derail efforts and set-back the progress made to date.

**Recommendation 10: That the government not direct the RIC to deliver Plantation Loans at this time.**

#### **1.7.4 Ability of the RIC to deliver additional concessional loans in the future**

The RIC is still a relatively young entity that is maturing and adapting to a significantly increased loan portfolio and the government expectations that go with that. Its service delivery model has not coped with increased demand and the RIC needs time to demonstrate that its improvement initiatives will translate to sustained service and reporting improvements.

Monitoring, and adjusting as and if required, the RIC's new AgriStarter Loans, provides an important and timely opportunity for:

- The RIC to demonstrate its ability to deliver additional concessional loans, including potentially positive impacts on its somewhat battered reputation
- The government to work closely with the RIC to maximise successful implementation of a new loan product
- The government to assess the RIC's ability to deliver new loans.

It is possible that the AgriStarter experience will demonstrate that the RIC has a sound to strong ability to deliver additional loan products within its current expertise. On the back of such an assessment, the government may determine that the RIC's ability to deliver additional loans

(including potentially outside its current expertise) could further improve (for example, over the medium term) once its current operational challenges are fully worked through.

In the future, there may be scope for the RIC to widen its remit to deliver a broader range of loan products. However, given the time and complexity involved in developing and implementing the RIC's AgriStarter Loans, a farm business loan product within the RIC's current remit, any additional loan products would be an unwanted distraction to the RIC in the short-term.

**Recommendation 11: That, to provide stability to the RIC, and ensure it can successfully deliver its current suite of loan products, the RIC not be tasked with delivering any new products within the next 12 months.**

## 1.8 RIC future – possible considerations

During review consultations, stakeholders provided a variety of views about the RIC's future. These ranged from questioning whether there would be a continued need for the RIC to deliver concessional loans beyond its current loan funding profile (expiring 30 June 2023) given the easing of drought conditions, to a longer-term vision of the RIC along the lines of Farm Credit Canada – a financially self-sustaining commercial Crown corporation that is Canada's largest agricultural term lender. NFF members noted they were expecting a long term funding commitment for the RIC (with associated long term monitoring and evaluation). The NFF's submission recommended the government develop a plan for funding the RIC beyond 2023. Further stakeholder views on the RIC's future is at Appendix E.

This review has recommended the government determine its ongoing plans for the RIC to provide certainty to enable investment decisions. Additional considerations include the 'boom and bust' nature of loan demand the RIC has contended with. This is likely to be the case into the future as well. Adverse seasonal and worsening drought conditions or industry crises can cause widespread financial need and resulting high demand for RIC loan products. This is generally followed by improved conditions and/or resolution of crises reducing demand during more favourable periods for the agriculture sector.

Once the RIC's loan funding is allocated or unspent funds are returned to the Commonwealth's Consolidated Revenue Fund (CRF) and it is no longer open for business delivering a concessional loan program, its remaining function will be ongoing management and recoup of its 10-year loans. With no applications to assess, the RIC's resourcing will significantly reduce and staff will move on. Should climatic conditions worsen, or an industry crisis arise in the future, and the government seek to recommence a RIC concessional loan program, it may be quite difficult for the RIC to ramp up staffing and activate supporting systems and resources in a timely manner to be responsive and effective in delivering assistance to farmers.

There has been a significant reduction in demand post the cessation of interest free terms, with just 9 applications received in December 2020. This is despite the RIC's very low interest rate: 1.92% reduced to the current rate of 1.77% on 1 February 2021. The RIC expects this demand to rebound to 50 applications per month in February and March on the back of AgriStarter's launch on 1 January 2021. While it is too early to determine the uptake of AgriStarter Loans, it is possible there will be unspent (and uncommitted) loan funds at 30 June 2023. Noting the boom-and-bust issues outlined above, there may be an opportunity for the government to re-profile the RIC's unspent loan funds into future years rather than return the funds to CRF. This could

more closely align the RIC's loan funding to its original intended 8-year program (though with a lesser volume of loan funding available each year) as advised to stakeholders during consultation on the RIC's original farm business loans program. This would better align with industry stakeholder expectations, provide greater certainty for the RIC to make investment decisions based on further longevity (if not additional loan funding) and mitigate to some extent the risk of having to reopen the RIC for a new loan program if needed – noting the significant lead time that may require.

The RIC has advised it is on-track to achieve its target loan processing KPI by the end of this financial year. Based on loan data to 31 December 2020, the RIC expects to work through assessing and decisioning the majority of its application backlog by July 2021. However, the LSP is unable to settle loans as quickly as they are approved and it is likely a significant number of loans approved this financial year will settle next financial year (requiring a commensurate movement of loan funds).

From the RIC's establishment to 31 December 2020, loans approved have totalled \$1.757 billion. Of the applications awaiting a decision, loans to the value of approximately \$1.424 billion are expected to be approved. This equates to a \$3.181 billion call on the RIC's total loan funding of \$4.075 billion, leaving \$894 million of loan funding available for applications received from 1 January 2021.

An indicative funding profile is provided for illustrative purposes, noting it does not factor in required movement of funds due to lagging settlements and would need to be revisited once better information is available, including about the demand for AgriStarter Loans.

**Table 3 Indicative RIC funding profile for forward years to 2025–26 (for illustrative purposes only)**

Funding	Event	2018–19 (\$m)	2019–20 (\$m)	2020–21 (\$m)	2021–22 (\$m)	2022–23 (\$m)	2023–24 (\$m)	2024–25 (\$m)	2025–26 (\$m)	Total
July 2018 (Original)	RIC opened	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0	2,000.0
July 2020 Current position	Increased funding	28.5	409.7	2,900.3	500	236.5	0.0	0.0	0.0	4,075.0
Indicative forward profile	–	28.5	409.7	2,525.3	600.0	240.0	100.0	100.0	71.5	4,075.0

The indicative forward profile figures in Table 3 are based on:

- an approval rate of 66%.
- for 2020–21 – \$885 m approvals in the first 6 months of 2020–21, \$180 m per month forecast for March quarter, \$250 m per month for June quarter, plus \$325.3 m carryover from 2019–20.
- for 2021–22 – \$220 m approvals for outstanding applications as at December 2020, 125 applications received in March quarter 2021, and 30 applications received per month over for the remainder of the year.
- for 2022–23 – 30 applications per month.

- for 2023–24 onwards – \$271.5 m to be available for loan approvals over the remaining 3 years.

**Recommendation 12: That, as part of the government’s consideration of the RIC’s future and decisions to provide loan funding beyond 2022–23, the government re-profile unspent RIC loan funds into future years to better align with industry expectations and address continuing farm business need.**

Such re-profiling would also better align with the legislative review of the RIC Act to be finalised on or before 1 July 2024 and which must consider the scope of the RIC’s activities after 30 June 2026 and the appropriate governance arrangements for the Corporation after that date.

## 2 Suitability and effectiveness of loan products (TOR2)

This chapter explores whether the RIC's loan products are suitably designed to support the Australian Government's policy objectives and drought responsibilities and evaluates the effectiveness of concessional loans as a farm business assistance measure.

It first focuses on the RIC's objective of national consistency and whether this has been achieved. Second, the chapter examines the RIC's policy objectives outlined in its Operating Mandate and key RIC loan settings and eligibility criteria with a particular focus on how the RIC assesses financial need and ongoing viability. Third, the chapter examines the key benefits and risks associated with RIC loans and evaluates how the loan products can be enhanced. The chapter then examines the RIC's approach in assessing loans against government policy objectives and concludes with a discussion about alternative finance instruments for providing investment into the agriculture sector.

### 2.1 Policy objectives of the RIC farm loans program

#### 2.1.1 The national consistency objective

The RIC was established to administer Commonwealth concessional loans in a streamlined and nationally consistent way and meet the needs of the agriculture sector. As outlined in the Introduction, previous concessional loan schemes required the Commonwealth to negotiate with the states and territories to change existing arrangements or deliver new schemes to farm businesses. The establishment of the RIC allowed the Commonwealth to design and implement a consistent farm business concessional loan program across the nation without having to negotiate with each of the states and territories. The other advantage of the RIC was that it presented an opportunity to streamline the application process for Commonwealth concessional loans, and ensure that applications were assessed in a nationally consistent way. The concept of national consistency refers to the fact that applicants from different states and territories are treated in the same way irrespective of where they are located. It still allows for changes to loan products and settings over time to adapt to client demands provided that applicants are treated in the same way at a given point in time.

#### 2.1.2 Has national consistency been achieved?

The RIC has achieved the goal of national consistency in the delivery of Commonwealth concessional loans. Farm and small businesses applying for a RIC loan go through the same application process and are subject to consistent eligibility criteria and administrative processes at the RIC. Although stakeholder consultation revealed that the RIC's service delivery timeframes were a key concern for stakeholders, there were no concerns raised in regards to inconsistent service delivery. Rather, for the most part, the feedback was that it was consistently too slow. It is also worth noting that under the recent RIC Board initiative to change their assessment of the 'in financial need' criterion, applications assessed to date will likely be treated differently to applications assessed into the future. This change may result in inconsistencies in the way RIC loan applicants are treated over time.

Although the RIC has demonstrated national consistency to date, it is important that a focus on the RIC's original national consistency objective is maintained into the future. This is particularly critical given the recent tightening of the 'in financial need' criterion and also as new loan products are potentially developed and delivered through the RIC in the future. For example, ideally, the need for legislative heads of power to support direct loan delivery by the Commonwealth through the RIC should not inadvertently undermine national consistency in how loan applicants are treated.

### **2.1.3 Relationship between RIC loans and legacy schemes**

As reflected in the RIC's loan product guidelines, during the RIC's establishment the government agreed that state administered Commonwealth farm business concessional loans could refinance with the RIC.

Following the RIC's establishment, a large number of applicants with Commonwealth or state concessional loans under previous schemes have sought to refinance with the RIC, rather than the commercial sector. This includes both applicants with loan facilities approaching maturity requiring to be refinanced and mid-term loans seeking the attractive interest free period offered by the RIC.

## **2.2 RIC policy objectives**

The Operating Mandate provides the main directions to the RIC about the performance of its functions, including setting the policy objectives, loan specifications and eligibility criteria for the original farm business loans administered by the RIC (Farm Investment and Drought Loan products). Subsequent rules that prescribe additional programs, which in effect are additional loan products, substantially replicate sections of the Operating Mandate relevant to those additional programs. In accordance with the policy objectives outlined in the Operating Mandate, the RIC seeks to deliver farm business loans that will:

- support the long term strength, resilience and profitability of Australian farm businesses by helping them to build and maintain diversity in the markets they supply, and take advantage of new and emerging opportunities across Australia and overseas, or
- assist farm businesses to prepare for, manage through and recover from periods of drought.

The RIC's farm and small business loans are intended to provide low cost finance to businesses that are in financial need of assistance, to recover from short term hardship, but are assessed as financially viable over the long term and able to repay.

The RIC's AgriStarter loan product is intended to assist first farmers to purchase or establish their new farm and support succession arrangements within farming families.

## **2.3 Key RIC loan settings and eligibility criteria**

A number of loan products have been delivered through the RIC to date in line with the policy objectives in the Operating Mandate, as well as the specific purposes and objectives as outlined in the relevant Rule (where applicable) and/or program guidelines. These loan products include the Drought Loan, Farm Investment Loan and AgRebuild Loan for farm businesses, the AgriStarter Loan for new entrants to farming and those seeking to undertake succession

arrangements and the AgBiz Drought Loan for farm-dependent small businesses. A summary of these loan products including policy objectives and loan specific eligibility requirements are presented in Table 4 and a detailed summary of each loan product and associated eligibility criteria can be found at Appendix F.

An overview of the number of loan applications made and approvals provided for these products can be found in Figure 3 and Figure 4. It can be seen that demand is currently highest for the RIC's Drought Loan (see Figure 4) and this has been the case particularly since the introduction of interest free terms from 1 January 2020 through to 30 September 2020.

**Table 4 Overview of RIC loans and associated policy objectives**

Loan	Policy objective	Description	Loan specific eligibility requirements	Loan terms
<ul style="list-style-type: none"> <li>Drought Loan (available since 1 July 2018)</li> </ul>	<ul style="list-style-type: none"> <li>Assist farm businesses to prepare for, manage through and recover from periods of drought</li> </ul>	<ul style="list-style-type: none"> <li>To help eligible farmers prepare for, manage through and recover from drought</li> </ul>	<ul style="list-style-type: none"> <li>Drought Management Plan</li> </ul>	<ul style="list-style-type: none"> <li>Up to \$2 million</li> <li>10-year term; 5 years interest only and 5 years principal and interest</li> <li>2-year interest free terms became available for the Drought Loan on 1 January 2020. However, these interest free terms were ceased for applications made after 30 September 2020.</li> <li>1.77% variable interest rate (as at 1 February 2021)</li> </ul>
<ul style="list-style-type: none"> <li>Farm Investment Loan (available since 1 July 2018)</li> </ul>	<ul style="list-style-type: none"> <li>Support the long-term strength, resilience and profitability of Australian farm businesses by helping them to build and maintain diversity in the markets they supply, and take advantage of new and emerging opportunities across Australia and overseas</li> </ul>	<ul style="list-style-type: none"> <li>To help eligible farmers build and maintain diversity in the markets they supply, and take advantage of new and emerging opportunities across Australia and overseas</li> </ul>	<ul style="list-style-type: none"> <li>Farm businesses that mainly supply outside their state or territory (through interstate or overseas supply chains); or, with the loan funds, intend to do so in future.</li> </ul>	<ul style="list-style-type: none"> <li>Up to \$2 million</li> <li>10-year term; 5 years interest only and 5 years principal and interest</li> <li>1.77% variable interest rate (as at 1 February 2021)</li> </ul>
<ul style="list-style-type: none"> <li>AgBiz Drought Loan (available since 20 January 2020)</li> </ul>	<ul style="list-style-type: none"> <li>To mitigate the effects of drought on small businesses to help ensure profitability and productivity into the future.</li> </ul>	<ul style="list-style-type: none"> <li>Assist small businesses to manage through drought</li> </ul>	<ul style="list-style-type: none"> <li>Cannot be a farm business</li> <li>Needs to have fewer than 20 FTE employees</li> <li>Supply primary production related goods or services to</li> </ul>	<ul style="list-style-type: none"> <li>Up to \$500,000</li> <li>10-year term; 5 years interest only and 5 years principal and interest</li> <li>2-year interest free terms became available for the AgBiz Drought Loan on 20 January 2020. However, these interest free terms were ceased for</li> </ul>

Loan	Policy objective	Description	Loan specific eligibility requirements	Loan terms
			farm businesses in affected areas	applications made after 30 September 2020 <ul style="list-style-type: none"> <li>1.77% variable interest rate (as at 1 February 2021)</li> </ul>
<ul style="list-style-type: none"> <li>AgRebuild Loan (12 June 2019 – 30 June 2020)</li> </ul>	<ul style="list-style-type: none"> <li>Support the long-term strength, resilience and profitability of Australian farm businesses</li> </ul>	<ul style="list-style-type: none"> <li>To help eligible farmers to restock, replant and refinance after the Monsoon Trough experienced in North Queensland in early 2019</li> </ul>	<ul style="list-style-type: none"> <li>For farm businesses affected by the January and February 2019 floods in Queensland</li> </ul>	<ul style="list-style-type: none"> <li>Up to \$5 million</li> <li>10-year term; 2 years interest free, 3 years interest only and 5 years principal and interest</li> </ul>
<ul style="list-style-type: none"> <li>AgriStarter Loan (available since 1 January 2021)</li> </ul>	<ul style="list-style-type: none"> <li>Assist new entrants to farming looking to purchase, establish or develop their first business and support farming succession arrangements.</li> </ul>	<ul style="list-style-type: none"> <li>To encourage and support people in obtaining their first farming business, or to assist with farm business succession planning and giving effect to succession plans.</li> </ul>	<ul style="list-style-type: none"> <li>First farmers require 3 years of on-farm experience or equivalent</li> <li>Those applying for a succession loan must demonstrate that:</li> <li>Farm business is undertaking or has undertaken succession planning, and</li> <li>Loan is to support succession arrangements (that is, the succession planning process and the activities identified in the succession planning process).</li> </ul>	<ul style="list-style-type: none"> <li>Up to \$2 million</li> <li>10-year term; 5 years interest only and 5 years principal and interest</li> <li>1.77% variable interest rate (as at 1 February 2021)</li> </ul>

As outlined in Table 4 some eligibility requirements are specific to a particular RIC loan product. For example, the Drought Management Plan requirement is unique to the RIC Drought Loan. Farm businesses applying for a RIC Drought Loan are required to develop a Drought Management Plan and the plan needs to outline the activities to be funded with the loan, as well as the farm business's drought preparedness, management and recovery strategies. The requirement for a Drought Management Plan for the Drought Loan links back to the government's overarching policy objective of promoting drought resilience in the agriculture sector. This requirement was carried over from pre-RIC drought concessional loan schemes and was supported by industry during consultation on the RIC's initial Drought loan product during the establishment phase.

The RIC Farm Investment Loan requirement to solely or mainly supply, or intend to solely or mainly supply, products into supply chains that are interstate and/or outside Australia links to the policy objective of helping farm businesses to build and maintain diversity in the markets they supply, and take advantage of new and emerging opportunities across Australia and overseas (see Table 4).



Although a few eligibility requirements are unique to an individual loan product as noted above, other requirements are similar and apply to all loans. For example, farm and small businesses need to hold (or be able to obtain) commercial debt and provide sufficient security for a RIC loan. In addition, farm or small businesses must be in financial need but be viable over the long term and have the capacity to pay back the loan (see Appendix E).

This definition of financial viability for farm businesses is consistent across the Drought Loan, Farm Investment Loan and the AgRebuild Loan program guidelines. The AgBiz Drought Loan has a similar definition of financial viability contextualised for small businesses.

A farm business is considered financially viable when the business generates sufficient net profit after fixed and variable expenses to:

- service borrowings at commercial interest rates
- provide an adequate standard of living for relevant members of the farm business
- allow investment on-farm to maintain the farm's productive assets
- provide funds for investment to increase long-term productivity.

Under the AgBiz Drought Loan Guidelines, a small business is considered financially viable when the business generates sufficient net profit after fixed and variable expenses to:

- service borrowings at commercial interest rates
- provide an adequate standard of living for relevant members of the business
- allow investment to maintain the business's productive assets
- provide funds for investment to increase long-term productivity.

For the 3 loans for existing farm businesses (Drought, Farm Investment and AgRebuild Loans), the farm businesses must be involved within the agricultural, horticultural, pastoral, apicultural or aquacultural industries and undertake all primary production aspects of the business wholly within Australia. The requirements for the AgBiz Drought Loan are slightly different whereby the small business must be, or has been supplying goods or services relating to primary production to farm businesses located in a drought-affected area. The small business also needs to be registered in Australia for tax purposes.

**Figure 3 Total value of approved RIC loans since establishment of RIC, as at 31 December 2020**

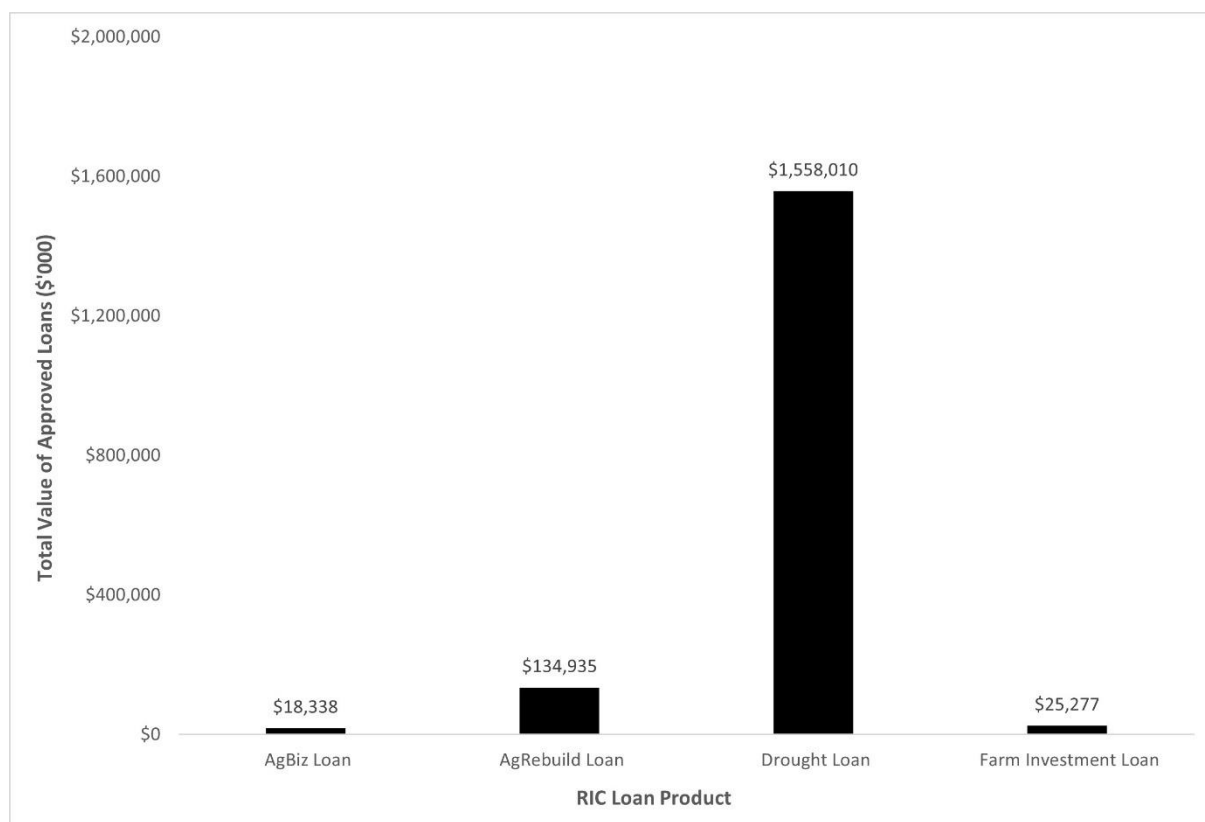
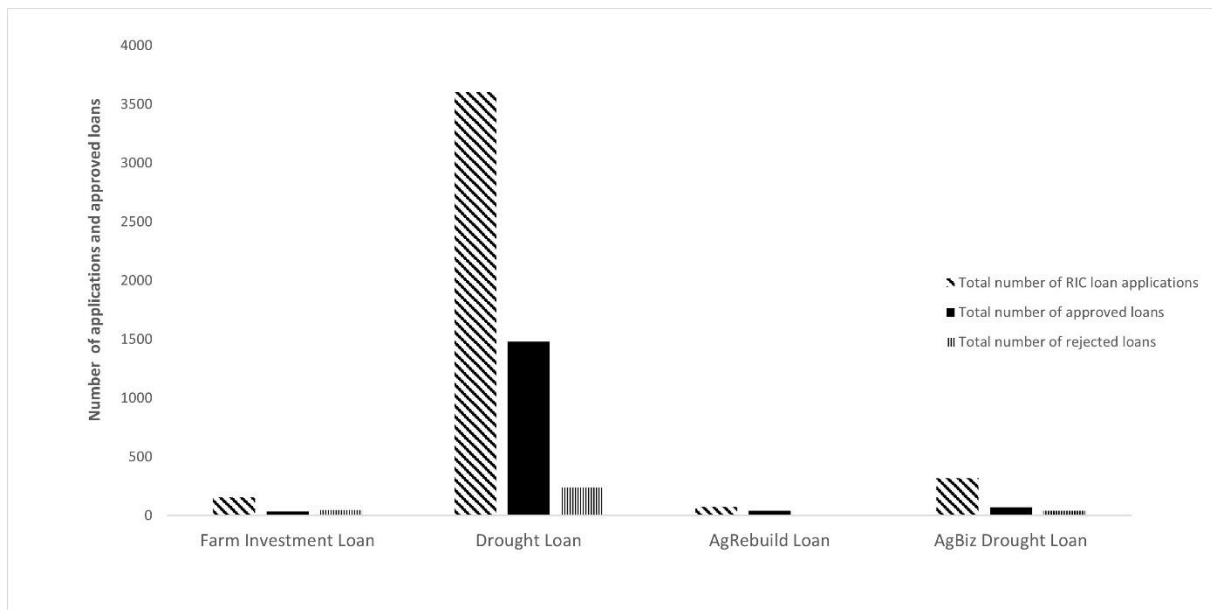


Figure 3 does not include indicative approvals. For clarity:

- Indicative approval – a loan that may be approved subject to specific conditions that need to be met, prior to a formal approval (e.g. an updated valuation). At the indicative approval stage, loan funds are not yet committed.
- Approval – a loan that has been given unconditional approval, meaning all credit conditions have been met and the required records are held. At the approval stage, loan funds are committed.

**Figure 4 Total number of applications, approved and rejected Loans by RIC loan type since establishment, as at 31 December 2020**



In Figure 4:

- applications do not include those currently being processed in the system, nor withdrawn and lapsed applications
- approved loans does not include indicative approvals
- rejected loans category includes applications declined or deemed ineligible
- declined applications are those where a decision has been made during the credit decisioning stage, where the RIC assesses the strength of the client's application based on factors such as lending value, need, risk, equity and capacity to service
- ineligible applications are those where a client does not meet the minimum requirements for the loan. This is generally determined during the vetting and assessment stage (for example, the applicant does not meet the RIC's Guidelines). Examples of an ineligible application would include when the industry is not suitable or the applicant does not meet Australian citizenship or permanent residency requirements.

### 2.3.1 RIC assessment of financial need and ongoing viability

When determining eligibility, the RIC is required to consider the farm business applicant's financial position. This includes the assessment of two key eligibility criteria, being 'in financial need' (i.e. suffering some form of financial hardship as a result of drought or some other event outside the control of the farm business) and having 'sound prospects of ongoing financial viability'. For the RIC's Farm Investment and Drought Loans, these requirements are set out in the Operating Mandate Direction (Schedule 1, 'Mandatory eligibility requirements'). For subsequent RIC loan products, these requirements are set out in the relevant rule.

These two criteria are closely related. If a farm business's financial position is too strong, they may not be considered to be 'in financial need'. Alternatively, if a farm business's financial position is too weak, they may not be considered to have 'sound prospects of ongoing financial viability'.

Providing RIC loans to farm businesses that do not have 'sound prospects of ongoing financial viability' is likely to result in:

- unacceptable financial risk to the government that loans cannot be repaid (this issue is discussed further in Chapter 4)
- the government acting as a 'lender of last resort' and potentially impeding structural adjustment. Part 2 section 9 (5) of the Operating Mandate notes that, 'the Corporation should be mindful that the Commonwealth is not seeking to impede structural adjustment nor be the lender of last resort to the farming sector'.

Providing RIC loans to farm businesses that are not 'in financial need' risks:

- undermining one of the government's key program objectives, outlined in Part 2 section 6 (2) of the Operating Mandate as, 'provide low cost finance to farm businesses that are in financial need of assistance, to recover from short-term hardship
- the government competing with commercial lenders.

The RIC's Operating Mandate (or rules) do not outline specific detail regarding the application of these eligibility criteria. In drafting guidelines and developing assessment processes, the RIC has flexibility to interpret and apply these criteria – and to refine them over time. In providing this flexibility, the government sought to ensure that:

- both the government and the RIC were able to adjust loan eligibility parameters quickly (without the need to amend legislation) in response to issues that may arise in the future, such as evolving seasonal conditions.
- the RIC retained an appropriate level of independence over the farm loan program it administered, particularly given the entity type the government had chosen for it (i.e. a CCE with an independent board)

As reflected in the original policy objectives and mandatory requirements set out in the RIC's Operating Mandate, it is clear the government intended loans to be targeted towards farm businesses in genuine financial need (with a similar target cohort as previous loan schemes delivered by the states).

During the establishment of the RIC, the department prepared draft program guidelines for consideration by the incoming RIC Board. The departmental officers who led the drafting of these guidelines were experienced in drought policy, the administration of previous loans schemes delivered by the states and other government assistance measures to farmers. The development of the 'in financial need' eligibility criterion in program guidelines was strongly based on the previous schemes, though some improvements were made to reflect stakeholder feedback.

The RIC's assessment of 'in financial need' is discussed below. Issues associated with the RIC's assessment of 'ongoing financial viability' are discussed in section 4.2.

#### **RIC assessment of financial need and ongoing viability July 2018 to December 2020**

Similar to other commercial lenders, in determining the probability of default, a credit risk grade (CRG) is generated from data input to the loan system and the assessor's judgement. Data covers such measures as financial performance, equity in operations, future budgeted performance, key

credit metrics, repayment ability, management ability and other key characteristics. In the RIC's system, the data fields are weighted, some fields can be adjusted manually by the assessor and the system automatically generates the CRG based on the input. The assessor is required to provide a brief comment on why this rating was attributed. The RIC's rating system has a range of CRGs from A to H, where A represents a strong credit with low probability of default, and H represents an impaired credit. Whilst a commercial bank would generally originate agribusiness loans at CRGs of 'A' (Exceptional) to 'D' (sound), depending on the loan product type and applicant profile, the RIC has been approving loans to a much larger range (CRG B to H).

In addition to loans that carry a higher probability of default, the review has also considered the security positions of individual loans within the loan portfolio. The RIC has adopted an alphabetical system known as the Security Cover Grade (SCG) to indicate the level of debt against discounted security value and therefore the overall strength of the security position. The SCG rating is calculated by determining the proposed level of RIC debt against any remaining discounted security value, after consideration of the current debt level and any buffer allowances of all prior mortgagees on title. As per normal lending practice, the RIC applies a discount to the valuation assessments to determine the maximum secured loan size. Note that this is not the only determinant of loan size – the RIC primarily consider the ability to repay the loan and are also limited by the policy that the maximum amount of RIC debt is up to 50% of the applicant's total debt position. The discounting allows some buffer for the lender to generally account for movements in property value over time and a potential price reduction in a forced sale scenario, but may also cover any accrued interest and arrears that may occur and also the property selling costs in a security realisation scenario. SCG ratings are classed A – F (with a separate rating of U for unsecured). SCG A is the strongest available security position.

From July 2018 to December 2020, it appears that the RIC took a fairly broad approach to the assessment of financial need. During this time, if a 'significant financial impact' (relating to an event outside the control of the applicant) could be identified, the applicant would be assessed as being 'in financial need'. Under this approach, it appears that some loans may have been approved to applicants with substantial private resources and/or the capacity to access commercial finance on reasonable terms. Similarly, it appears some loans were made to applicants who, whilst in financial need, had little capacity to repay the loan and/or had limited security for the RIC in the event of default. Overall, it appears that around 30% of approved loans were provided to applicants beyond the originally envisaged target cohort during this time. However, the majority of loans were approved to farm businesses in genuine financial need and with sound prospects of ongoing financial viability within the term of the loan.

#### **RIC assessment of financial need and ongoing viability December 2020 onwards**

As outlined in Chapter 1, in August 2020 responsible Ministers provided the RIC with a Statement of Expectations. This statement included the expectation that the RIC, 'manage delivery within available loan funding' and target loans to 'businesses in most financial need and viable into the future'. In response, the RIC Chair wrote to responsible Ministers outlining how the RIC would tighten its assessment processes to remain within required funding envelopes. These changes included significant improvements to the assessment of financial need. In particular, the RIC:

**Redesigned its 'Loan Risk Assessment Profile'** – Under the new profile, applicants with risk ratings at the stronger end of the spectrum (e.g. good ability to repay, good security and/or a low loan to value ratios – CRG A, B and some C in

- Table 5), will now be triaged for potential decline on the basis they are likely not in financial need.
- **Implemented a new structure for its credit team** – Under the new structure, the RIC has dedicated two experienced staff members to undertake case-by-case assessment of applications triaged for decline. The RIC has advised that it has not set specific financial thresholds (i.e. percentage reduction in cash flow or percentage decline in yield) to determine financial need – given a ‘one-size-fits all’ approach would not suit the broad range of farming operations and agricultural industries. However, the creation of these two specialist positions helps to bring a consistent approach to the case-by-case assessment of financial need based on an applicant’s individual circumstances.
- **Shifted approach from focusing on identifying ‘a significant financial impact’ to assessing the financial impact in the context of ‘genuine financial need’** – RIC had previously approved loans to applicants experiencing ‘a significant financial impact’, with limited consideration of genuine financial need. Although some applicants to the RIC are able to demonstrate a ‘significant financial impact’ related to an event outside their control – if they have significant private resources and/or the capacity to access commercial finance and/or the ability to continue operations without government support (i.e. likely categories ‘BA’ though CC’ in

- Table 5), they will no longer be assessed as 'in financial need'. Whilst this had been part of assessment policy previously, the direction provided by the Board has allowed a renewed focus in ensuring approvals are targeted to those in genuine financial need.

These changes also included the decision to not originate loans to those entities graded CRG G, H and some F. As at 31 October 2020 (and prior to the Board directive approved the following month), there were 29 loans with a CRG G (doubtful) or below indicating a high probability of default and potential loss for the government. From a risk perspective, reducing exposure to CRGs F, G and H is prudent for the RIC to minimise the potential loss to the government through the various loan programs. This review recommends the RIC should not lend to CRG A and B either, as those clients may fail to meet the in need requirement. An estimated 95% of the loan portfolio should fall within CRG C, D and E and up to 5% in CRG F. No loans should be originated in CRG G and H grades. There could also be some argument to limit exposure to other F grade clients, which by definition are substandard. These loans have an increased likelihood of needing to realise security to recover the value of the loan. There may also be an argument to limit some C grade clients from a policy perspective of providing loans to those in need.

The RIC estimates that the changes implemented in response to the responsible Ministers' Statement of Expectations will increase decline rates from 15% to approximately 34%. Interestingly, this would align the RIC's approval rate more closely with that averaged by the previous state-delivered schemes, of approximately 70%.



**Table 5 RIC loan risk assessment profile – risk ratings (implemented December 2020)**

Legend: Applications in these Risk Categories to be automatically declined										
Credit Risk Grade	Security Cover Grade	Measure	\$	Volume (no. of apps)	Average	Declined (\$)	Declined #	Declined %	Potential approval (%)	Potential allocation
A = Exceptional	A	BA, BC, CA, C, B	\$51,683,209	69	\$749,032	n.p.	n.p.	3%	97%	\$50,185,144.97
B = Very Strong	B	CC	\$195,080,842	215	\$907,353	n.p.	n.p.	1%	99%	\$193,266,136.49
C = Strong	C	CE	n.p.	n.p.	n.p.	n.p.	n.p.	0%	100%	n.p.
D = Sound	D	CF	n.p.	n.p.	n.p.	n.p.	n.p.	67%	33%	n.p.
E = Satisfactory	E	DA, DB	\$46,730,664	54	\$865,383	n.p.	n.p.	4%	96%	\$44,999,898.67
F = Substandard	F	DC	\$319,908,147	269	\$1,189,250	n.p.	n.p.	1%	99%	\$317,529,647.77
G = Doubtful	–	DD	\$47,714,158	38	\$1,255,636	n.p.	n.p.	0%	100%	\$47,714,158.00
H = Impaired	–	DE	\$24,365,000	21	\$1,160,238	n.p.	n.p.	0%	100%	\$24,365,000.00
–	–	DF	\$22,220,575	24	\$925,857	n.p.	n.p.	4%	96%	\$21,294,717.71
–	–	EA, EB	\$54,074,059	59	\$916,509	n.p.	n.p.	7%	93%	\$50,408,021.10
–	–	EC	\$258,331,488	224	\$1,153,266	n.p.	n.p.	3%	97%	\$251,411,894.57
–	–	ED, EE	\$73,573,551	51	\$1,442,619	n.p.	n.p.	2%	98%	\$72,130,932.35
–	–	EF	\$28,901,424	24	\$1,204,226	n.p.	n.p.	29%	71%	\$20,471,842.00
–	–	FA, FB, FC	\$93,953,390	84	\$1,118,493	n.p.	n.p.	17%	83%	\$78,294,491.67
–	–	FD, FE, FF, FU	\$43,705,573	40	\$1,092,639	n.p.	n.p.	25%	75%	\$32,779,179.75
–	–	All G, H	\$96,836,451	115	\$842,056	\$67,374,373	82	71%	29%	\$27,787,851.16
–	–	Totals	<b>\$1,370,393,781</b>	<b>1,301</b>	–	–	–	–	–	<b>\$1,244,756,499.54</b>
–	–	–	Number of declined applications	439	–	–	–	Declined dollars	–	<b>\$304,018,312.37</b>
–	–	–	Declined rate (%)	34%	–	–	–	Declined \$ (%)	–	22%

n.p. Data not provided. Due to low numbers, data cannot be disclosed due to privacy reasons.

### Off-farm and liquid assets

Under its previous assessment process (July 2018 to December 2020) it appears the RIC approved some loans to applicants with substantial private resources. In particular, this included applicants with substantial off-farm assets and/or liquid assets. The RIC has advised that a threshold has been set for off-farm and liquid assets allowing applicants to hold an amount for prudent risk management, reflecting the eligibility criteria in program guidelines that ‘All members of your farm business must not have more non-farm assets and liquid assets than the amount needed for prudent risk management.’ The RIC noted that this can result in approved applicants holding large investments/assets. This is particularly the case for large operations. The RIC’s threshold was not amended in December 2020 when other aspects of the assessment process were tightened. However, the RIC noted that – given the new ‘Loan Risk Assessment Profile’ and case-by-case assessment by specialist officers – applicants with significant off-farm and liquid assets would now generally be declined. Nonetheless, it may be beneficial for the RIC to further consider whether the current threshold for off-farm and liquid assets is appropriate.

### Movement of funds

Following on from the responsible Ministers’ Statement of Expectations – including that the RIC ‘manage delivery within available loan funding’ – the review notes that, in practice, it would be beneficial for the RIC to be afforded some flexibility to re-profile funding across financial years (within reason and through the usual government process). While recent changes implemented

by the RIC (including the tightening of its assessment process) will help to better manage funding allocations, the numbers of applicants seeking loan funding is likely to rise and fall year on year in response to seasonal conditions. In years where the RIC does not exhaust its funding allocation (for example, the number of applications in 2021–22 may be lower than previous years given the recent return to favourable seasonal conditions), it would be beneficial to allow this funding to be rolled forward to future years in which seasonal conditions may deteriorate (or vice versa).

**Recommendation 13: That the RIC and the department continue to monitor loan uptake, as well as feedback from industry and applicants, to ensure the assessment of the financial need criterion continues to align with the government’s target cohort.**

## 2.4 Commonwealth drought responsibilities

The RIC’s concessional loans are part of a broader suite of Commonwealth drought assistance measures. Indeed, the Commonwealth, along with state and territory governments, has a long history of supporting farmers through periods of drought, particularly as the length and severity of a drought increases and the ability of some farmers to manage through unassisted is eroded.

The following section provides an overview of the Commonwealth’s drought policy responsibilities and evaluates the effectiveness of RIC loans as a farm business assistance measure and in meeting Commonwealth drought policy objectives (see section 2.7), including whether more needs to be done. This review notes that the RIC’s loan products are generally fit for purpose to meet the Commonwealth’s drought policy responsibilities. To further promote drought resilience, the government and RIC could consider in more detail whether RIC Drought Loan applicants should provide more evidence of farm business planning (e.g. through the application process).

### 2.4.1 National Drought Agreement

The Commonwealth’s drought responsibilities, as well as those of state and territory governments, are outlined in the National Drought Agreement (NDA). This agreement, signed by the Council of Australian Governments on 12 December 2018, sets out a joint approach to drought preparedness, response and recovery, with a focus on accountability and transparency. The NDA replaced the 2013 Intergovernmental Agreement on Drought Program Reform (IGA).

The NDA recognises that drought is one of many hardships that can affect farm businesses and notes that government policies and programs should support farming businesses, farming families and farming communities to prepare for drought and enhance their long-term sustainability and resilience. To this end, the NDA has a greater emphasis on the changing climate and facilitating preparedness rather than providing reactive in-drought assistance. Where in-drought assistance is required, the NDA outlines a set of principles and processes to guide the provision of in-drought support.

Under the NDA, the Commonwealth is responsible for, amongst other things, providing continued access to incentives that support farming businesses’ risk management, including concessional loans. Although the NDA refers to the provision of concessional loans as a support measure, it also notes that the Commonwealth should facilitate adjustments in the agriculture

sector, avoid creating market distortions and avoid being positioned as the 'lender of last resort' for businesses when providing in-drought support.

## **2.4.2 Drought Response, Resilience and Preparedness Plan**

Further to the NDA, the Australian Government has outlined in more detail how it is helping farmers and rural communities prepare for and manage through drought in its Drought Response, Resilience, and Preparedness Plan (the Plan), signed 7 November 2019. As outlined in the Plan, the Australian Government's approach towards drought and drought preparedness is focused on 3 parts:

- 1) Immediate action for those in drought
- 2) Support for the wider communities affected by drought
- 3) Long-term resilience and preparedness.

### **Immediate action for those in drought**

The RIC is responsible for, and is delivering on, action 1.3 of the plan – continue to provide concessional loan products to support farm businesses prepare for, manage through and recover from drought. Drought loans to farm businesses not only deliver on this element of the plan, but also the objectives of the NDA with respect to drought preparedness, response and recovery.

### **Support for the wider communities affected by drought**

The RIC is responsible for action 2.3 of the plan – the RIC to develop a Small Business Drought loan product. The RIC's AgBiz Loans, launched on 20 January 2020, deliver on this action – assisting small businesses that directly provide primary production related goods and services to farm businesses in drought-affected communities.

### **Long-term resilience and preparedness**

In line with Part 3 of the Plan, the RIC's Drought and AgBiz Drought Loans aim to help eligible farm and small businesses improve their long-term drought resilience and preparedness. The RIC's concessional loans are part of a broad suite of measures during drought and other challenging times. Other support measures provided to farm businesses through the Australian Government include but are not limited to the Farm Household Allowance scheme, the Rural Financial Counselling Service, the Drought Communities Program and Farm Management Deposits.

## **2.5 RIC Loans as a farm business assistance measure – benefits and risks**

There are a number of short-term and long-term benefits for farm businesses who obtain a RIC concessional loan. There are also potential risks associated with RIC loans when considering them as a farm business assistance measure. These benefits and risks associated with RIC loans are discussed in this section.

### **2.5.1 Short-term benefits of RIC loans for farm businesses**

Targeted stakeholder consultation conducted with the NFF indicates that there are clear short-term benefits of concessional loans as a farm business assistance measure. For example, at a meeting with the NFF's Economic Policy and Farm Business Committee, a committee member noted that RIC loans provide liquidity for businesses going through hardship. Indeed, farmers

have noted that the RIC's concessional loans have allowed them to change their enterprise mix, refinance bank debt and start thinking about succession planning.

RIC clients who are refinancing are able to invest the interest savings back into the business. The interest free period introduced for RIC's Drought Loans allowed farmers to save thousands of dollars and utilise those savings in other areas of their business. To illustrate, case studies published on the RIC's website indicate that the savings associated with the interest free period have enabled farm businesses to maintain their existing stock, purchase additional stock or equipment (where appropriate), put more pasture in and fertilise more. These actions can drive greater levels of production down the line and increase the profitability of farm businesses as a result.

By providing additional access to discounted finance during drought, the NFF considers that the RIC's loan products can de-risk the farming sector to a certain extent and, by extension, reduce the risk inherent in the agricultural loan book. The NFF argues that there is no evidence that the RIC induces borrowers to borrow at a higher level than their own risk preferences would allow or that it discourages self-reliance strategies to manage through drought.

### **2.5.2 Long-term benefits of RIC loans and their impact in improving the preparedness, resilience and profitability of farm businesses**

Stakeholder feedback obtained from the NFF suggests that RIC Drought Loans are largely fit for purpose and may drive greater levels of drought preparedness over the long term. For example, the NFF considers that the eligibility criteria attached to RIC loans may facilitate greater levels of drought preparedness due to certain loan eligibility criteria (for example, Drought Loan applicants are expected to develop a Drought Management Plan).

It is important to note that the RIC is still a young agency and further work is required to ascertain whether: (1) the RIC's loans are contributing to drought resilience over the long term and (2) whether the loan settings and eligibility criteria are appropriate to support the government's policy objective of supporting the long-term strength, resilience and profitability of farm businesses. Although RIC Drought Loan applicants are required to prepare a Drought Management Plan, the effectiveness of the plan in contributing to drought preparedness and resilience over the long term is not clear and further monitoring and evaluation (M&E) work is required in this regard (see further discussion on M&E at section 2.8).

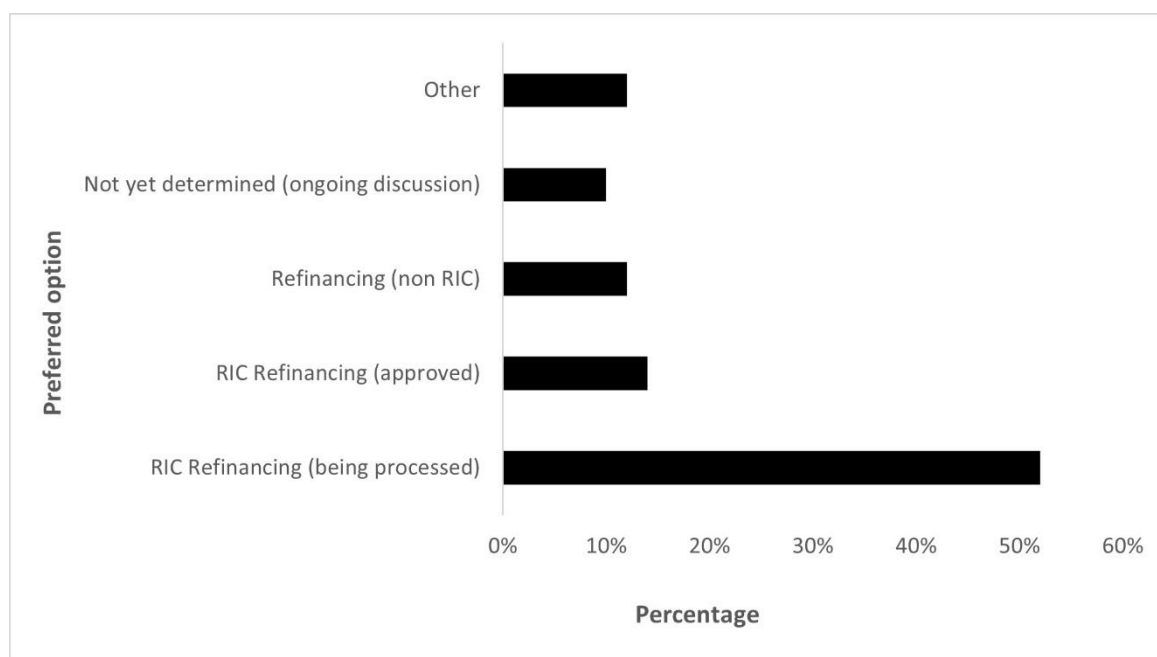
### **2.5.3 RIC loans – potential risks**

#### **Perpetuation of lending at concessional rates**

Although there are a number of benefits of RIC loans, there are also potential risks associated with them. For instance, a large number of applicants with Commonwealth or state concessional loans under previous schemes have sought to refinance with the RIC, rather than the commercial sector. This includes both applicants with loan facilities approaching maturity requiring to be refinanced and mid-term loans seeking the attractive interest only period offered by the RIC. Data collected indicates that, as at November 2020, around 66% of matured concessional loan recipients (where loans had not yet been repaid) were seeking to refinance their loans through the RIC. This cohort of 66% is comprised of 14% who have already had their application approved with the RIC and 52% who are looking to refinance with the RIC but have not yet had their application approved (see Figure 5). Only 12% of matured concessional loan recipients are

looking to refinance with other lenders, as was originally intended when the loan schemes commenced. It is important to note that Figure 5 only provides the proportion of legacy loans which are overdue at maturity and have not yet been repaid. This doesn't necessarily represent the population of legacy loans, as loans seeking to refinance with the RIC are disproportionately represented in the matured loan sample due to the extended assessment times, comparative to other payout methods.

**Figure 5 Preferred options for people with matured concessional loans that have not yet been repaid as at November 2020**



Note: Graph does not represent the population of legacy loans.

This perpetuation of lending at concessional rates is a major risk, as it is likely to impede appropriate structural adjustment in the agriculture sector and undermine the government's policy objective of fostering self-reliance and long-term drought resilience. In addition, it suggests that the ability to repay the loans is at risk 'down the track', thereby increasing financial risk for the RIC and the government.

Although the RIC's concessional loans are an important support mechanism for farmers in the face of drought, it is important that the RIC considers an applicant's history before making a decision to approve a loan. The RIC noted that its assessment of financial need is the same for all applications and there is no distinction made between applicants who have accessed previous loan schemes and those who have not accessed them. In addition, consultation with the RIC revealed that it will refinance all types of debt as long as the debt falls within the government's product rules and guidelines.

This review does not suggest that an applicant who previously benefitted from a concessional loan should automatically be ineligible for a RIC loan. However, it is recommended that the RIC strengthen its assessment process where an applicant has previously benefited from a concessional loan. In particular, the RIC should carefully consider each applicant's history with previous concessional schemes and, given the limited loan funding available, make a decision about which applicants are in most financial need but still viable over the long term. The long-

term viability criterion should also be looked at very carefully where an applicant is seeking to refinance a prior concessional loan, to ensure the RIC does not become a lender of last resort for applicants who are unable to refinance on commercial terms.

**Recommendation 14: That the RIC strengthen its assessment processes where an applicant has previously benefited from a concessional loan (Commonwealth or state), to consider the term over which they benefited, when assessing an applicant's financial need and viability over the long term.**

## **2.6 RIC loans as a farm business assistance measure – avenues for improvement**

Consultation with the NFF indicated that RIC loans are perceived by stakeholders as fit for purpose. The NFF also indicated that no changes to the RIC's Drought and Farm Investment Loans were necessary.

The RIC put forward a few suggestions for improvement when consulted about concessional loan settings and eligibility criteria. The suggestions from the RIC include consideration of how loan funding for operating expenses is provided, developing loan products more fit for purpose for short term drought management and recovery purposes and considering a loan product focused specifically on drought preparedness. Each of these options are discussed below.

### **2.6.1 Funding for operating expenses through short term loan products**

The RIC noted that, from a prudent lending perspective, funding operating expenses over 10 years is not good practice. This is because operating expenses are incurred for a short-term purpose that should be cleared in the short term through the operating cycle of the business. If funding is provided for long term purchases such as the purchase of infrastructure that lasts for multiple operating cycles or land, then it is appropriate that repayments are over multiple operating cycles and funding can be provided through a longer term 10-year loan.

The RIC put forward the option of a shorter-term RIC loan product for operating expenses to assist farm businesses with managing through drought and the drought recovery process. This review sees merit in this option, provided that it is accompanied by excluding operating expenses as a loan purpose for existing loan products.

As part of the government's consideration of the RIC's future, this review recommends that government should remove operating expenses as a loan purpose from existing farm loan products and replace it with a shorter-term RIC loan product for operating expenses to assist farm businesses with managing through drought and the drought recovery process. In this instance, it would be useful to have a restricted loan size for distinct purposes (e.g. restocking and to fund operating expenses) with simple eligibility criteria. This type of simple loan product would allow the RIC to respond faster in drought and be most beneficial when farm businesses require a loan for a short-term purpose immediately after a drought.

A short-term loan product that focuses on helping farmers manage through drought aligns with the Commonwealth's policy objective of helping farm businesses manage through and recover from drought. For instance, the Drought Response, Resilience and Preparedness Plan

emphasises immediate action for those in drought – focused on measures to support farmers and communities facing prolonged drought conditions.

**Recommendation 15: That as part of the government’s consideration of the RIC’s future, the government remove operating expenses as a loan purpose from existing loan products and instead implement a shorter-term RIC loan product for operating expenses to assist farm businesses with managing through drought and the drought recovery process.**

## 2.6.2 Concessional loans for drought preparedness

The RIC considers that, in order to foster greater drought preparedness and resilience over the long term amongst farm businesses, providing loans specifically for this purpose is most beneficial from a loan perspective. The RIC’s current Drought Loan is available for drought preparedness, management and recovery activities.

Although the concept of a drought preparedness loan was put forward by the RIC, it did not indicate whether a drought preparedness loan would best be achieved through modifications to its existing Drought Loan product or through the development of a new loan product. This review considers that there is merit in the concept of a concessional loan for drought preparedness particularly with regard to meeting the Commonwealth’s drought responsibilities. However, again, further research would be required on appropriate loan settings for a drought preparedness loan prior to it being delivered by the RIC. In addition, given the RIC’s backlog of Drought Loan applications, a loan focused on drought preparedness would best be delivered by the RIC after the Drought Loan applications currently in the system are processed.

## 2.6.3 Flexibility with refinancing

The RIC noted that it is in a low interest rate environment and 50% of loan funding is for refinancing which ends up creating competition with commercial banks. The RIC therefore advised that there might need to be some flexibility included that will allow a greater percentage of the loan to be refinanced from the bank in certain situations, and a lesser percentage of the loan refinanced in others. For instance, if a client was considered more in need of a loan but still viable over the long term, they may be able have a greater amount refinanced from commercial lenders. However, for applicants who are considered to be less in financial need, they may have a lower amount refinanced from commercial lenders. In this case, the degree of refinancing would be dependent on individual circumstances, loan product (e.g. AgriStarter) and the general rural finance environment and economic climate. This review does not recommend this concept given that it might undermine national consistency over time.

## 2.6.4 Revenue contingent loans and the incentivisation of multi-peril crop insurance

The NFF’s formal submission to this review noted that no changes to the RIC’s loan products were necessary. However, at a meeting with the NFF’s Farm Business and Economic Advisory Committee, two potential options to change RIC loans were discussed. These include:

- RIC concessional loans could be better designed to incentivise the uptake of other financial risk management tools (such as multi-peril crop insurance) in the agriculture sector. As an example, the RIC could amend its loan products to provide farmers who have taken out

multi-peril crop insurance (or other forms of insurance) a slightly discounted interest rate. Similarly, there may be other options for the RIC to provide more lenient loan terms to farmers who utilise appropriate financial risk management tools

- The suite of loan products could include revenue contingent loans (RCLs) – the advantage of the RCL model is that farmers do not need the equity up-front; this may be particularly advantageous for some farmers (e.g. new entrants to farming). During stakeholder consultation, the NFF noted that, whilst it does not hold a view on the Australian Government delivering RCLs, further research into the RCL model was warranted and if investigations found such a model to have merit, consideration be given to delivery of a RCL scheme via the RIC.

The options proposed by the NFF deliver benefits for some cohorts of farmers and may incentivise positive behaviours. However, this review notes that these options present significant financial risks to the Commonwealth and have the potential to create perverse outcomes for the agricultural industry. In regards to the option of incentivising financial risk management tools through RIC loans, although this option was put forward by the NFF, the NFF have also indicated that there is no evidence that the RIC's concessional loans crowd out other financial risk management instruments.

This review considers that there is no need to incentivise financial risk management tools such as multi-peril crop insurance (MPCI) or other forms of insurance since the RIC's loans are already highly concessional and there is no evidence of a market failure in the insurance market for farmers. MPCI premiums are very expensive relative to traditional crop insurance given the high degree of weather volatility in Australia and the risk of widespread drought (Centre for International Economics, 2016). The high premiums associated with MPCI are a major barrier for farmers (Deloitte, 2017). However, farmers often have alternative processes that they go through to manage risks e.g. holding farm management deposits (or another form of cash savings) or named peril crop insurance. For example, named peril insurance has a high uptake (over 75%) by farmers (Deloitte, 2017).

It is important to note that previous programs delivered by the Commonwealth to incentivise MPCIs have not had high levels of uptake among farmers. To illustrate, the multi-peril insurance rebate scheme introduced by the government in 2016 aimed to assist with the costs of a property assessment to determine if insurance was required (there was no subsidy on insurance premiums) but the scheme had low uptake levels. The economic case for government subsidisation of premiums is also not strong (Australian Bureau of Agricultural and Resource Economics and Sciences, 2012). Given the reasons above, this review does not recommend that the RIC needs to incentivise financial risk management products such as MPCI through discounts on its loan products. Further, it is not self-evident that providing a minor interest rate discount for a RIC loan would provide sufficient incentive to drive farm businesses to take-up a risk management product like MPCI given the other barriers (such as high MPCI premiums).

In regards to RCLs, there are clear financial risks associated with such a scheme. For instance, if security was not factored into the loan, this would greatly increase the associated financial risk to the Commonwealth. This is because in the event that the loan is not repaid, there would be no asset to take possession of in recovering outstanding loan funds.



Stakeholders have indicated that the RIC's existing loans are fit for purpose and have advocated RCLs for specific cohorts of farmers such as new entrants. In order to attract new entrants to farming, the RIC is delivering the AgriStarter Loan from 1 January 2021. Given that the AgriStarter loan product will be targeting new entrants, the RIC's immediate focus should be on the implementation of improvement initiatives to reduce loan processing timeframes rather than delivering RCLs which will have resourcing implications for the RIC and may slow down its loan processing times further. In light of this, this review does not support the creation of new RIC loan products at least until the RIC is able to meet its service delivery KPI of assessing 80% of loans within 65 days (excluding the time with third parties).

## **2.7 Suitability of RIC loans to meet drought policy objectives**

The RIC's loans are suitability designed to meet the Commonwealth's policy objectives of supporting farming businesses, families and communities to prepare for drought and enhance their long-term sustainability and resilience. The RIC's loan eligibility criteria such as the requirement for a Drought Management Plan for the Drought Loan are consistent with the NDA principles to support farm businesses' risk management and promote long-term self-reliance and resilience. Feedback from stakeholders also indicates the RIC's concessional loans are broadly consistent with the Commonwealth's drought policy responsibilities.

However, given the high degree of refinancing to the RIC from previous concessional loan schemes, farmers looking to continually refinance concessional loans may lead to challenges down the track for the RIC including in relation to supporting achievement of the government's policy objectives of building drought resilience in the sector. In order to minimise this risk, the RIC may need to consider a loan applicant's history and whether they have benefitted from previous concessional loan schemes when assessing their financial need and long-term viability. Otherwise, the RIC runs the risk of potentially impeding structural adjustment, undermining drought resilience and moving down a trajectory of becoming the lender of last resort for the Australian agriculture sector. This would increase the financial risk to the Commonwealth as applicants would have a greater risk of loan default.

### **2.7.1 Further opportunities for the RIC to achieve Commonwealth drought policy objectives**

The government and RIC could further consider whether RIC Drought Loan applicants should provide more evidence of longer-term business planning in line with mutual obligation requirements (e.g. either through an updated Drought Management Plan to reflect such planning or a revised loan application form). It is important to note that mutual obligation requirements apply to RIC clients already; anyone receiving a RIC loan is required to pay it back and Drought Loan applicants are required to submit a Drought Management Plan.

The RIC's Drought Management Plan requirement appropriately has a strong focus on production aspects (e.g. on-farm management practices) and covers the 3 areas of preparedness (including use of forecasting tools), management (including financial management) and recovery strategies. Whilst this is useful from a practical perspective, the RIC's Drought Loan application process could be enhanced to further support achieving the government's drought policy objectives by placing a greater emphasis on informed risk management and longer-term

planning and preparedness. The incorporation of farm business planning into the loan application process would align with the NDA principle of robust risk management and may further promote long-term drought resilience.

This could involve requiring applicants to conduct broader and more medium to long-term business and strategic planning to better manage risk and consider the various financial and risk management tools and options available to them. This requirement would be included in addition to the existing Drought Management Plan. This initiative could also be relevant to other RIC farm business loans, such as Farm Investment and AgriStarter Loans.

Given that farmers need to choose a combination of strategies that best suits the unique condition of their particular farm and personal circumstances to effectively manage risk (Nguyen, 2007), the RIC's application process should encourage farmers to consider strategies to manage production, financial and other forms of risk.

A greater focus on business planning and financial risk management as part of the RIC's Drought Loan application process would also align with the objectives in the NFF Ag2030 Roadmap. The Roadmap's goals for capital and risk management includes metrics of '90% of family farms have documented business plans, including succession plans' and '90% of Australia's farmers employing multiple financial tools to manage risk' (NFF, 2020).

Potential links could also be made to the Future Drought Fund's (FDF's) \$20 million Farm Business Resilience Program (currently under development) which will provide farm businesses with training to develop strategic management skills and support participants to develop a Farm Business Plan, tailored to their business and situation. The RIC's application process could also encourage uptake and use of risk management tools and technologies that support farm business resilience and planning. This might include the FDF's Drought Resilience Self-Assessment Tool, once fully developed. The online tool will strengthen business planning by enabling farmers to understand their own climate and drought risks, including potential climate impacts on commodities, and self-identify where improvements can be made to increase their resilience, through the provision of authoritative adaptation information. The first phase of the tool is expected to be operational in select pilot regions before 30 June 2021 with further development of the tool occurring within these pilot regions until June 2022. Augmenting the RIC's application process in this way would align with the NDA's prioritisation of objectives and outcomes that enhance the long-term preparedness, resilience and risk management of farming businesses and be consistent with the NDA's mutual obligation principle. However, careful consideration should be given to ensure that additional requirements are as streamlined as possible and do not add an unnecessary administrative burden for RIC loan applicants, nor an unnecessary and time-consuming additional step in the assessment process. Their effectiveness in supporting achievement of the government's drought policy objectives over time should also be measured as part of ongoing monitoring and evaluation.

The department and the RIC should work together, including consultation with the NFF and other relevant agencies such as the National Drought and North Queensland Flood Recovery Agency, to determine the best way to incorporate business planning and risk management requirements into the RIC's application process to further support achieving the government's drought policy objectives. Given improved seasonal and easing drought conditions, and the fact that RIC Drought Loans are available to farm businesses for drought preparedness activities at

all times, including when not affected by or recovering from drought conditions, it would be advantageous to implement such requirements within the next 6-12 months. This could support improved risk management and resilience in a new cohort of applicants focused on preparing their business for the next drought and more frequent and extreme climatic variability.

**Recommendation 16: That the department and the RIC work together, including in consultation with industry and other relevant agencies, to enhance the RIC's loan application process to support farm business planning and the use of risk management tools to further support the Commonwealth's drought policy objectives.**

## **2.8 RIC approach to assessing the impact of its loans against policy objectives**

### **2.8.1 Monitoring and evaluation (M&E)**

Robust monitoring and evaluation will be essential for both the RIC and government to assess whether the RIC's loans are supporting recipients as intended and meeting the government's policy objectives.

The RIC has invested time and resources to revise its first monitoring and evaluation plan which was developed during its establishment. A consultant was engaged to review and revise the existing plan, which resulted in a new Monitoring and Evaluation Plan (MEP-2) in June 2020. The MEP-2 is comprehensive and identifies opportunities for the RIC to monitor, assess and improve its Farm Business Loan Program.

The MEP-2 included a program logic for the RIC's Farm Business Loan Program. The MEP-2 program logic is consistent with the RIC's policy objectives as well as broader Commonwealth drought policy objectives. For instance, the RIC's policy objective of supporting the long-term strength, resilience and profitability of Australian farm business aligns with the long-term outcomes in the program logic of 'RIC assisted farm businesses are resilient in the face of operational uncertainty' and 'RIC assisted businesses are prosperous'.

The success measures and performance indicators identified are appropriate and useful for the RIC to track the impact of its loans against the government's policy objectives. However, there are some areas where the success measures and performance indicators could be improved to better assess the impact of loans against the government's policy objectives.

For example, the long-term outcome of 'RIC assisted businesses are resilient in the face of operational uncertainty' had a success measure of 'Farmers Drought Management Plans have supported them to survive or recover from poor seasons and fluctuating conditions' and a corresponding performance indicator of '% of positive feedback from customers relating to their sustained participation in agriculture'. Given that the Drought Management Plan is a critical component of the Drought Loan, it is important that the RIC develops performance indicators to better understand whether clients are implementing their Drought Management Plans and whether the plans have supported farmers and been an effective tool in building drought resilience over the long term.

Market scanning and continuous improvement are two critical elements of MEP-2. Market scanning refers to the process of continually and actively monitoring the external environment

in order to identify client needs and identify technological changes that will provide new market opportunities or disruptions (Crowley, 2007). Market scanning is important so that RIC can adapt to industry needs. The RIC should therefore work with the department on monitoring and evaluation matters to ensure that its market scanning work and any suggestions in regard to the delivery of its existing loan products or improving loan products can be considered and fed into future policy development.

In addition to developing MEP-2, the RIC's consultant provided additional recommendations regarding consolidating accountabilities, responsibilities and roles relating to monitoring and evaluation, including testing KPIs for reporting.

To date, the RIC has advised that it has commenced implementing work to consolidate monitoring and evaluation accountabilities, responsibilities and roles and integrate MEP-2 with its information strategy and systems. The RIC is committing up to \$120,000 for MEP-2 process evaluation with two staff currently focused on monitoring and evaluation matters. An emerging need is to ensure that the MEP-2 continues to be orientated to emerging data collection needs, for example, the AgriStarter Loan.

Importantly, the RIC has indicated that KPI testing following the development of MEP-2 has been completed and refinement is ongoing. This has resulted in a reduced set of KPIs. Once these projects are finalised and consolidated with the MEP-2, the RIC noted that a further reduced set of mission critical KPIs should result. The RIC should work closely with the department to ensure that relevant data is collected. The KPIs and data can then be utilised to measure the impact of RIC loans against government policy objectives and inform future policy development.

The success of the RIC's ongoing performance monitoring and evaluation of its Farm Business Loan Program depends upon the extent to which actions outlined in the MEP-2 are implemented. It is premature to comment on the effectiveness of the RIC's approach in implementing MEP-2 and assessing the impact of loans against policy objectives at this stage, given that it has only been around 6 months since the delivery of the MEP-2 report. However, the RIC should appropriately prioritise and resource monitoring and evaluation implementation amongst a competing work agenda including service delivery improvements.

**Recommendation 17: That the RIC work with the department on monitoring and evaluation to ensure the impact of RIC loan products against government policy objectives can be measured and fed into future policy development, drawing on the RIC's identification of current and future industry needs.**

## **2.9 Alternative financing mechanisms for the government to deliver support**

The Commonwealth's concessional loans were designed to deliver concessional finance on a cost neutral basis. Administered loan funding would be recovered over the loan maturation period and hence the provision of loans would have a neutral impact on the underlying cash balance (with the exception of any interest repayments, which would have a positive impact and be directed toward covering the costs of administering the loans). Although RIC loans are not currently cost neutral (see section 3.2), the government currently provides concessional finance to primary producers (or primary producers to be in the case of first farmers under AgriStarter

Loans) via the RIC's concessional loans. These loan products serve as one mechanism within the suite of other Commonwealth and state government measures to support primary producers facing hardship (see Appendix G).

However, while some states (notably New South Wales and Queensland) provide assistance through fodder transportation and restocking subsidies, this support is not available to all states and territories. The Commonwealth is also less inclined to provide agricultural subsidies as these would create a market distortion that would increase inefficiency in the agriculture market.

Additionally, much of the existing Commonwealth support is only available to small businesses (which is only a subgroup of the RIC's target cohort), not primary producers. Primary production-related small businesses are eligible for the AgBiz Drought Loans, a product for which lower than anticipated uptake would suggest that small businesses are able to access adequate levels of support through existing mechanisms. However, an assessment may need to be made of the extent to which primary producers (particularly those affected by drought) are adequately supported through existing measures and whether the RIC continues to fill a gap in this support. Further to some of the suggested amendments to the RIC's concessional loans products canvassed above, possible alternative options to concessional loans that the government could use to continue to provide support to the agriculture sector are canvassed below.

### **2.9.1 Grants**

The government could deliver assistance to farm and small businesses by providing one-off grant payments to eligible primary producers. This could be in the form of grant payments for restocking, replanting and other drought resilience and recovery activities, grants to provide relief for farm businesses' operating expenses during times of hardship or as an immediate response to natural disasters such as bushfires (beyond grants governed by current Commonwealth-state disaster recovery funding arrangements). The grants would not exceed the amount of interest saved by recipients if they had instead accessed a RIC concessional loan. These payments would be complementary to the grants provided by the National Drought and North Queensland Flood Response and Recovery Agency and the FDF drought resilience grant programs, which are not available to the cohort of farm businesses that are generally eligible for RIC loans. The advantage of providing farmers with grants is that such payments would be less distortionary to the loanable funds market as they would not contribute towards the crowding out of the market by competing against commercial loans (noting it isn't the intention of the RIC to crowd out the market either, and the banks have indicated that this is not the case through their engagement with the RIC). Grant payments also require less ongoing management and hence require fewer of the RIC's resources than loans, and do not distort investment behaviour (by incentivising overinvestment) in the way that loans and loan guarantees may do.

In accordance with Rule 2.1 of the Budget Process Operational Rules, the responsible Ministers would be required to fully offset any such grant payments. Given the current service delivery timeframes, it is also unlikely that the RIC would be able to deliver grant payments within a timeframe that would effectively provide relief to farm businesses in hardship.

### 2.9.2 Government guarantees

The government could provide a guarantee to lenders for new loans to be used for working capital, similar to the recent Coronavirus Small and Medium Enterprises (SMEs) Guarantee Scheme which guaranteed 50% of new loans issued by participating lenders to SMEs to assist SMEs recover from the impact of Coronavirus. The advantage of a government guarantee is that it would incentivise private sector lending to farm businesses in hardship, however it carries significant financial liability to the Commonwealth if many businesses default on their loans. There is little evidence to suggest that a government guarantee would be necessary, as there do not appear to be significant barriers to farmers accessing commercial lending (see section 2.3). However, the review notes there is anecdotal evidence to suggest that first farmers may find it difficult to access a commercial loan. It can be challenging for first farmers to build up sufficient security despite the ability of some to demonstrate they can manage and run a farm and ensure its viability. In such instances, a government guarantee could play a role.

While farm incomes have declined for those farmers in drought, Rural Bank reports that the median price per hectare of Australian farmland increased by 10.7% in 2018, marking the fifth consecutive year of growth (Rural Bank, 2019). Further, farm equity has been rising over the past 5 years, with average equity ratios of just under 90%, which provides scope for farm businesses to borrow in the commercial market. Rural Bank further notes that values are expected to keep rising due to tighter supplies of available farmland and increased competition for fewer parcels. Farmland ownership secures most of farm debt, underpins a large proportion of farm business balance sheets and is a critical asset that provides an equity base for further growth.

However, drought and natural disaster conditions may place businesses that are otherwise viable (and hence able to acquire a commercial loan) in a position of financial need. The risk that drought and natural disasters pose to these businesses may force commercial lenders to increase their risk premiums, which in turn may lead to loan terms that are not sufficiently reasonable to support the business to recover in a timely manner. In these circumstances, there may be a continued role for the RIC in providing an option for otherwise viable businesses with sufficient security to refinance or seek concessional loan terms that provide them with breathing space to recover.

**Recommendation 18: That the government consider all assistance currently available through commercial and public (Commonwealth and state/territory) sectors when determining whether there is an ongoing need for the RIC to provide assistance to farm businesses.**

## 2.10 Australian agricultural finance market in the absence of the RIC

The vast majority of literature on the agricultural financial market (Mohsin, 2015; Australian Bankers' Association, 2016) suggests that it is a well-functioning market and does not face any particular market distortions. Loans with competitive interest rates (between 3-4%) are available through private sector providers such as NAB, Suncorp Bank and Bank of Queensland (CANSTAR Pty Limited, 2021) for viable and productive farm businesses. Farm businesses unable to access this capital may not be meeting the viability (i.e. capacity to repay) or security requirements of lenders.

However, the NFF identified in its submission to this review that it remains firmly supportive of the government providing concessional finance to the Australian agricultural industry, as there is a capital shortfall of \$6.5 billion to \$13.2 billion per annum. The NFF advises that, while the RIC's loan portfolio of \$4.0 billion over 4 years will not be able to fill this shortfall unassisted, it would be vastly more difficult to fill the shortfall without the RIC, and this would prevent the sector from reaching its \$100 billion Ag2030 target (National Farmers' Federation, 2020). Further, independent research conducted by ANZ bank has identified that there are substantial opportunities for growth in the agriculture sector, but that Australian farmers have faced challenges in raising capital to grow and support their existing business and that new investment is needed to underpin this growth (ANZ, 2017).

It may be the case that, over time, farm businesses' access to capital increases through more diversified funding mechanisms as canvassed below. The government should monitor developments in these areas to determine the extent to which any government intervention is required. It is important that any government intervention in this market does not impede structural adjustment of inefficient farm businesses.

### **2.10.1 Superannuation fund investment**

The 2018 inquiry into superannuation fund investment in agriculture (House of Representatives Standing Committee on Agriculture and Water Resources, 2018) found that there is a lack of superannuation fund investment in the agricultural industry due to a combination of fund manager inexperience, environmental concerns and volatility of the commodities market. In particular, Risk Super noted that 'the impact on the agricultural sector from external or environmental influences poses too great a risk, particularly the sector's vulnerability to environmental and climatic variability'.

However, both the Australian Securities and Investment Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) have indicated that they do not impose any specific regulatory or legislative barriers to agricultural investment (House of Representatives Standing Committee on Agriculture and Water Resources, 2018). Further, it is possible that the perception of risk in the agriculture sector, rather than actual risk, may present a barrier to investment. For example, the ASIC's MoneySmart website states that, 'the high risk of agricultural schemes means you may lose some or all of your money, or make a worse return than a less risky investment'. Industry Super Australia also noted that some high-profile failed investments in the past may have skewed perceptions amongst fund advisers.

Investments in agriculture generally require long-term commitments and can be attractive investments as 'patient capital' used to fund long-term investments with a reduced level of market volatility. However, superannuation fund investors need access to liquid assets due to the requirement to be able to access funds to pay for rollover requests and lump sum option benefits (House of Representatives Standing Committee on Agriculture and Water Resources, 2018). Additionally, there is a lack of agricultural performance and investment data that are catered to superannuation fund managers' investment profiling methods (House of Representatives Standing Committee on Agriculture and Water Resources, 2018), with the NFF also considering that superannuation fund investment in Australian farm businesses could be increased if risks and likely returns could be more accurately calculated through the provision of financial (markets, supply and demand trends) and physical (soil quality, dam levels, climate) data (National Farmers' Federation, 2018). Once better agricultural performance and

investment data exist, liquidity concerns with agricultural investment could be addressed by financing (i.e. using superannuation fund monies to purchase asset-backed securities and financial derivatives), rather than directly funding (i.e. providing capital to primary producers for their businesses) agricultural investments. This would allow superannuation funds to mitigate the risk associated with the volatility in the agricultural sector while maintaining appropriate levels of liquidity through various financing options.

While it may take some time for sufficient levels of agricultural performance and investment data that are catered to superannuation investment profiling to be collected, and fund managers to gain a better understanding of and experience with the actual risks associated with agricultural investment, large superannuation funds which are able to absorb asset flexibility may present a source for agri-business capital into the future.

### **2.10.2 Australian Stock Exchange (ASX) capital markets**

Agribusiness is significantly under-represented in the equity market listings, constituting less than 1% of the ASX, due to investment horizon expectations and variability of returns owing to climatic conditions.

The ASX has not yet been used to raise the capital required in the agriculture sector due to its risk-return portfolio not aligning with that of alternative forms of investment, and due to limited knowledge of the sector amongst fund managers. There is no separate agribusiness index in the ASX, and there is a lack of confidence in managed investment schemes due to various factors such as financial deception, false information in audit reports (Australian Securities and Investment Commission, 2009), tax treatment, insolvency, disclosure falsifications and previous instances of financial deception leading to collapses of large corporations in the industry (Mohsin, 2015).

However, the ASX has thus far served as a platform for the ASX Grain market by providing the Futures and Options Market for Australian grain, and the Commonwealth bank has constructed its own Agribusiness Index for Australian agribusiness. Further, the use of complementary schemes such as the Farm Debt Mediation mechanism, which facilitates discussions between farmers and their lenders to negotiate their financial position, has delivered higher equity outcomes for borrowers (Australian Bankers' Association Inc., 2016). While it is true that agriculture is vulnerable to environmental and production risks, these risks can be incorporated into financial instruments such as derivatives and micro insurance.

If the ASX constructs an agribusiness index to provide market information to investors, and listed agribusiness equity capital markets are developed that have high corporate governance standards, equity capital markets may present a viable source for capital in the agriculture sector.

The presence of private sector service providers and loan products may suggest that there are sufficient alternative options to the RIC's concessional loan products for farmers, and so the RIC may no longer be filling a gap in the market. Rapid rises in food prices and shortages of basic commodities has led to increased attention to food security. Recent government investment in the International Freight Assistance Mechanism and sector-specific support such as the \$4.0 million payment to assist the Australian seafood sector in response to the COVID-19 pandemic has highlighted the importance of the agricultural supply chain. This heightened



interest in the agriculture sector may present more opportunities for profits in the private sector.

### **2.10.3 Natural capital markets**

Both traditional banks and alternative lenders have broadened their product offering to cater to the natural capital market and environmental sustainability outcomes. Alternative providers such as Green Source facilitate environmentally sustainable investment by connecting investors to photovoltaic parks for power production, with expected returns between 10-20% depending on the exit scenario and terms of the bank loan component.

HSBC Pollination Climate Asset Management was recently created to establish a series of natural capital funds to invest in activities that preserve, protect and enhance nature over the long-term and address climate change (HSBC, 2020). Australia's 'Big Four' banks are also starting to incorporate environmental sustainability criteria into their loan products, showing increased interest in building resilience in the agricultural sector to reduce the financial risk associated with agricultural businesses and adapting their practices to address climate change and the impact of businesses on the environment, in line with shareholder expectations.

Although private sector involvement in the natural capital market is still in its initial stages, it may be the case that the sector will continue to evolve over time as the importance of addressing environmental concerns becomes more prominent in both stakeholders and the general public's expectations of businesses and the financial sector as a whole. As such, there may be a potential role for the RIC, or other government financing entities, in the natural capital market into the future.

## 3 Suitability of current funding model (TOR3)

### 3.1 RIC funding model

The RIC's current funding model is designed to be budget neutral over the life of the RIC and its programs. The RIC's interest rate (see section 3.2) intends to cover both the RIC's operating costs and the Commonwealth's cost of borrowing capital and, as such, the RIC (in theory) should not make any profit or loss.

Currently, the RIC's appropriations are transferred to the RIC from the Official Public Account via the department. This is due to the fact that the RIC cannot be directly appropriated funds as its CCE structure means that it is legally separate from the Commonwealth. As such, its funds must be passed through an appropriate Commonwealth entity, which in this case is the department. Further, this requires RIC loans, and their associated interest and principal transactions, to be accounted for on the department's balance sheet. This means that the RIC does not bear the risks and rewards of ownership of these assets and the risk of loss sits with the department, rather than with the RIC. This arrangement also results in a minor administrative burden as the RIC is required to contact the department whenever loans require funds for settlement. As the demand for RIC loans has grown, this contact has become increasingly more frequent.

Given the RIC's functions and the relevant Commonwealth rules and frameworks it must work within, its funding model remains fundamentally appropriate. However, in practice, it has not resulted in a budget neutral entity due to the range of government decisions that have been taken to change the RIC's product offerings. Should the government take decisions to further change the RIC's loan product offering, it should also consider making appropriate changes to the RIC's funding to ensure the RIC is adequately resourced and the true cost of its activities are reflected in the interest rate (or rates) for its loan products.

This review has identified that the RIC's funding model does not require any fundamental changes at this time. However, in the short-term there are opportunities to improve the RIC's flexibility and responsiveness to farmers in need by removing loan product funding envelopes, as well as increase administrative efficiency in the loan funding drawdown arrangements.

#### 3.1.1 Short-term improvements to flexibility, responsiveness and efficiency Loan product funding envelopes

Loan product funding envelopes, as advised in the Statement of Expectations, were introduced to ensure that the RIC did not approve excessive loan applications for one product at the expense of loan applicants accessing the RIC's other loan products. This would also help mitigate future occurrences of large, unforeseen volumes of loan applications that required additional resourcing requests to the government, on short notice, to avoid the risk of loan approvals ceasing or loan programs closing.

However, these product envelopes reduce the RIC's flexibility and agility to respond to higher and lower demand across its product line and could inadvertently impact timely loan approvals

into the future. Section 17(2) of the Operating Mandate requires the RIC to manage demand for finance and ensure assistance is reaching eligible farm businesses that are most in need, and Section 15(3) requires the RIC to ‘work flexibly and constructively... to ensure the implementation and ongoing administration of farm business loans are undertaken in a manner that... supports timely responses to emerging issues and/or industry-specific crises’ (Operating Mandate, 2021). Ministerial approval is required to move funding between allocated loan product funding envelopes (both within a financial year and across financial years through the movement of funds process). The funding envelopes restrict the RIC’s ability to meet these requirements by preventing the RIC from reallocating funding between loan product envelopes in a timely and responsive manner, for example, to address a surge in demand for a product due to a prolonged or acute industry-specific crises (for example, protracted and worsening drought conditions) and unforeseen circumstances which might increase or decrease the cohort of farm businesses that are in need (for example, bushfires and floods or improved market conditions).

Funding envelopes have already caused an issue with AgRebuild loans, as demand for the loans has exceeded its \$20.0 million cap (by over \$70.0 million), and additional funds from underspends in the AgBiz product envelope are being reallocated in order to increase the AgRebuild funding limit to \$100.0 million. This lack of flexibility also proved a hindrance in the previous concessional loans schemes delivered by the state and territory governments. Iterative improvements to these schemes included the Commonwealth having a reserve fund from which additional funds could be allocated to top-up the loan funding of particular jurisdictions to address greater than expected demand. The last scheme - the Farm Business Concessional Loans scheme had multiple loan products (Drought Assistance, Dairy Recovery and Business Improvement). This allowed jurisdictions to allocate funding between the products as required, in recognition of the notorious difficulty in accurately forecasting demand, particularly for new loan products, and the need for flexibility to provide timely assistance to farmers in need.

Once the RIC is successful in significantly reducing loan processing timeframes in line with its 65-day KPI, and the RIC’s monitoring and reporting of loan activity is sufficiently robust to provide necessary confidence to government, consideration should be given to removing this additional bureaucratic process to facilitate the RIC’s ability to adapt to changing circumstances as per its Operating Mandate. The RIC is already making progress on this through its monthly reports to responsible Ministers, implemented as part of the Statement of Expectations requirements.

The government’s requirement for new products to have allocated loan funding could be maintained. This means new products would continue to have an assessment of need and an initial funding envelope allocated. Noting the difficulties inherent in forecasting demand for new products, the funding envelope could be adjusted as needed with agreement from responsible Ministers within the first 12 months. Post-12 months, any loan product funding envelopes for the forward years of a program would be considered indicative and the RIC afforded the flexibility to move loan funds across products as required within a financial year. This approach assumes the RIC would be appropriately targeting the intended cohort for each loan product. Retaining loan funding envelopes for new products would be particularly useful if the products are being introduced asynchronously with the start of financial years. This would mean a product launched, say, mid-way through a financial year (as was the case with AgriStarter Loans, which opened for applications on 1 January 2021) would still have adequate funding to meet initial demand. This would be the case even if there were other products experiencing high

demand in the first half of the year (presumably with an expected drop off in demand in the latter half of the year to fit within the annual loan funding profile).

Generally, annual and overall loan funding profiles should provide sufficient parameters for the RIC to manage demand. Further flexibility is provided by the movement of funds process should re-profiling of funding between years be required.

**Recommendation 19: That the government remove the loan product funding envelope requirement once the RIC has demonstrated sufficiently robust monitoring and reporting of loan applications and approvals.**

#### **Loan funding drawdown arrangements**

To receive loan funds for settlement, the RIC, its LSP and the department must engage in a cumbersome, multi-step process that involves identifying and notifying upcoming settlements; determining the quantum of loan funds required; requesting funds; assessing and providing policy authority; drawing down money from the consolidated revenue fund (CRF); transferring funds to the RIC's bank account; and moving funds to a settlement account.

This process has proven to be administratively burdensome for both the department and the RIC due to the frequent contact required, particularly as the loan portfolio has grown in response to high demand. The RIC has suggested that bulk drawdowns of large sums on a monthly or quarterly basis would be more efficient (noting any accrued interest is already passed back to the department). While this would undoubtedly be the case, the department and the RIC need to work within government frameworks for managing Commonwealth resources, including in relation to the banking and management of CRF money. This may preclude very infrequent drawdowns. However, it is likely some streamlining can still be achieved, including through clarifying the extent it is necessary to use funds for specific loans. This would also minimise any build-up of loan funds in the RIC's account due to settlement of particular loans not proceeding as scheduled. The department and the RIC should seek to improve administrative efficiency in the process where government frameworks allow. Addressing this matter as soon as possible will allow the benefits to be realised as the RIC works to settle the large number of loans arising from the assessment of its application backlog.

### **3.1.2 Possible future funding arrangements: issues and options**

#### **Lack of certainty and control**

In relation to its functions and entity type, the RIC Board has described its funding model as somewhat of a 'unicorn'. From the RIC's perspective, while the current funding appropriation flow through the department is workable, the model creates some uncertainty that is quite restrictive. This has required the Board to question some operational aspects of the model, for example, does the RIC stop approving loans if the (budgeted) appropriation is not yet in place?

Many of the RIC's existing issues are exacerbated by a high degree of uncertainty regarding its continued operation as a loan provider (as opposed to its role in the ongoing management of loans with ten-year loan terms). Ultimately, the RIC's Board and executive would like more certainty about their organisation's future and would welcome more direct control of its funding.

### **Options – medium to long-term (post 30 June 2023)**

As discussed in section 3.1, given the RIC's current functions and the Commonwealth rules and frameworks it must work within, this review has found that the RIC's funding model remains fundamentally appropriate at this time.

However, the RIC's current loan funding profile terminates on 30 June 2023, at which point the 2020–21 Appropriation Acts (i.e. current year appropriations) would also expire. This review recommends that the government make a decision about the RIC's future as soon as possible, including an assessment of whether the agriculture sector requires continued concessional loan support (see section 1.5, section 2.9 and recommendation 7). Should the government decide there is a continued role for the RIC, this section explores some funding model options that may become relevant in the future, depending on what the government determines the RIC's future functions may include. Should these functions be significantly different to the RIC's current functions, they may warrant consideration of a different funding model to ensure the model remains relevant and appropriate.

#### **Option 1 Cease RIC delivery of new loans**

If the government makes an assessment that the agriculture sector has sufficiently recovered and no longer merits government intervention through concessional loan support, the RIC would not be provided with additional loan funding post 30 June 2023 and would cease offering its farm business and small business loan products. The RIC would continue to be provided with sufficient operational funding to manage its portfolio of existing loans until they have matured and are repaid.

#### **Option 2 Extend RIC delivery of loans**

The following options are relevant should the government determine a continued need for the RIC to deliver loans (rather than just manage the existing loans in its portfolio) beyond 30 June 2023.

##### *2A Retain the current funding model*

Benefits from the short-term improvements described in section 3.1.1 would go some way to remove issues and inefficiencies associated with the current model. Further consideration could be given to any processes that could be streamlined between the department and the RIC (and its LSP) to further improve efficiencies.

##### *2B Implement a demand-driven funding model*

Demand-driven appropriations align the appropriations for a program's administered funding to the volume or population of recipients, so that payments for the program can easily adapt to fluctuations in demand for the program. Demand-driven schemes are typically used for programs where the quantity of payments are likely to change for reasons other than due to changes in policy, such as variations in birth/death rates, migration or eligible population size.

A demand-driven funding model does not seem to be appropriate for the RIC. Demand-driven appropriations rely heavily on accurate data and forecasting and would not provide any flexibility for the RIC to seek additional operational funding should forecasts prove to be inaccurate. As the RIC has only been operational since 1 July 2018, it may be difficult for the RIC to accurately forecast demand fluctuations to the extent necessary for demand-driven appropriations.

Further, the most dramatic increases in demand for the RIC's products were seen following a government decision to implement a 2-year interest free loan period. As these fluctuations in demand appear to be primarily due to a government decision to implement a policy change, rather than due to a significant fluctuation in the eligible population, it may not be appropriate to tie the RIC's appropriations to a demand-driven appropriation funding model.

Minor fluctuations in demand for the RIC's loan products can be addressed through existing government processes. Additional administered loan funding can be sought through the estimates variation process undertaken in each economic round, and the RIC can seek additional operational funding (if required) through established Budget processes.

### *2C Implement loan recycling through a Special Account*

Within its current model, a special account would not be appropriate for the RIC. Special accounts are generally created where there is a need to retain and spend funds from outside of government (for example, funds raised through external revenue rather than appropriations). A special account also would not assist in providing additional certainty to the RIC, as government decisions can be taken to cease activities funded through a special account at any time, and special accounts can be abolished through legislative amendment. Further, any adjustments to the timing of payments through a special account would still be subject to a movement of funds decision by the Minister for Finance or the Department of Finance.

Should the government decide to extend the RIC's operation and implement a model where the RIC recycles its loan repayment receipts to issue further loans, then any such receipts/revenue could be appropriately deposited into a special account. The government may also choose to do this if it wanted the RIC to move to a more directly self-funding model where the RIC would charge sufficient interest to cover its operational costs and have somewhat more ownership of the risks and rewards of its financial operations. Such an arrangement may be appropriate if the government saw the RIC as having a more ongoing lifespan for delivering new loans (rather than just ongoing management of existing loans), more closely akin to its name of a corporation investing (long-term) in regional Australia.

As a CCE, the RIC is legally a separate entity from the Commonwealth and hence cannot manage Commonwealth appropriations. However, a special account to manage the RIC's loan recycling could be held and managed by the department, as it is a Non-corporate Commonwealth entity (NCE). For example, the Clean Energy Finance Corporation's special account sits within the Department of Industry, Science, Energy and Resources. In this scenario, a special account would provide a mechanism to retain repayments and disburse them over the timespan of the special account (rather than over the 3-year timespan at the end of which annual appropriations expire).

## **3.2 Current interest rate methodology**

### **3.2.1 A cost-neutral model**

The RIC was designed to operate under a budget neutral model, with the interest receipts from loans to cover the government's cost of capital for the loan funds and the RIC's operational costs over the life of its programs. The RIC's interest rate methodology, which must align with the prescriptive approach outlined in section 8 of the Operating Mandate, was developed during the

RIC's establishment phase to support the achievement of cost-neutrality through appropriate program interest rates.

### **3.2.2 Methodology**

The RIC Board are required to set, and adjust as required, interest rates applicable to loans as directed within legislation and in accordance with a methodology agreed by responsible Ministers. The interest rate is to cover only the borrowing cost to the Commonwealth and the administrative costs associated with the delivery of loans. The current interest rate methodology is detailed in 0. After consideration of the process, this review has concluded that variable interest rates are the most appropriate and straightforward way for the government to track, to a relatively accurate degree, the actual cost of capital incurred by the Commonwealth. A minor criticism of the current methodology is the 3-month lag period between the calculation of the borrowing cost part of the interest rate at 6 monthly reviews and the implementation of any material change in the rate. This has the potential to skew the rate for a given period, either favourably or unfavourably for the loan recipient, relative to market conditions. A change to this part of the methodology would require an amendment to the Operating Mandate. Given this lag does not materially affect the overall neutrality of the model, no change is considered necessary. If the government were making other amendments to the Operating Mandate, it could consider using the opportunity to reduce the lag period from 3 months to, say, one month. One month would be the minimum period recommended given the need to undertake the 6-monthly review and then advise responsible Ministers of the outcome of the review, as well as all clients should there be an interest rate change.

### **3.2.3 Impact of interest free loan terms on cost neutrality**

As flagged above, the RIC was initially intended to operate under a cost neutral model. The decision announced in November 2019 to deliver interest-free loans has meant that the RIC is no longer cost neutral over the life of its programs. The decision meant that the loss of interest income for the first two years of these loans will create a loss to the Commonwealth equivalent to the foregone interest. In line with public announcements by the government, farmers are not being asked to pay this foregone interest (i.e. it will not be capitalised into the loan). Therefore, this foregone interest component cannot be reflected in or recovered via any future RIC program interest rate.

Despite this decision by the government impacting the achievement of budget neutrality, this does not mean the current interest rate methodology itself is unsound. This is particularly so if the government's decision to have interest free terms is considered a one-off response to the prolonged and deteriorating drought conditions experienced by a large number of farm businesses at the time. This review understands that the government's decision to provide interest free terms does not, of itself, reflect an intention by the government to abandon the cost neutral model for the RIC and its programs. Rather, the decision should be seen as a one-off occurrence, and the RIC should continue to operate with both a cost neutrality objective and the current interest rate methodology unless and until the government makes an explicit decision that the RIC and its programs are no longer required to be budget neutral.

This review considers that the current interest rate methodology is sound and fit for purpose and continued use. The pros and cons of some minor improvements are discussed below, as well as the need for the government to update the administrative cost margin and advise the RIC, so the farm business loan programs interest rate can better ensure tracking toward cost neutrality

over the life of the programs. An agreed process for regularly updating the administrative cost margin going forward is also discussed.

**Recommendation 20: That the current interest rate methodology is fit for purpose and the government confirm its continued use by the RIC in setting interest rates for RIC loans.**

In the context of the original intended cost neutral model for the RIC and its programs, it is worth noting the ANAO's audit on the design and establishment of the RIC in June 2020 made one recommendation to the department that:

At the end of each financial year, the Department of Agriculture, Water and the Environment should review the overall difference between the expenses and revenue for the farm business loans and advise the government of the scheme's impact on Commonwealth underlying cash.

The department, in consultation with Finance, has been working to calculate a methodology to determine underlying cash impact. A methodology has been developed for ministerial consideration and is expected to be finalised shortly. This agreed methodology will allow the department to report on the underlying cash impact to the government at the end of each financial year. The impact of interest-free loan terms is discussed further in section 4.2.5.

### 3.2.4 Assumptions

In the RIC's establishment costing, necessary underlying assumptions to inform the costing, and therefore the program interest rates, were made that aligned with those of the previous concessional loan schemes delivered by the state and Northern Territory governments. In addition, Finance estimated the impact of foregone revenue as part of the costing process at the time of the decision to implement 2-year interest free terms. It would be helpful to revisit these assumptions periodically and determine the actual impact of foregone revenue once relevant information is available. This will assist with an accurate calculation of the impact of the loans to the Commonwealth.

### 3.2.5 Revisiting the administrative cost margin

The administrative cost margins for the RIC's loans have not been revisited since the RIC was established. The RIC's current interest rate margin is unlikely to achieve cost neutrality. Corporate costs were initially apportioned across both the National Water Infrastructure Loan Facility (NWILF) and farm loans, but the government's decision to cease the NWILF has resulted in the RIC's farm loans covering the entire operating costs of the business. The department needs to recalculate the margin to take this decision into account so that the program interest rate is reflective of the costs of delivering the RIC's programs.

Even more importantly, given the range of government decisions about the RIC since its establishment, some of which included additional loan and operational funding, it is imperative that the margin for farm loans is recalculated to take these subsequent decisions into account. This recalculation would also provide an indicative estimate of whether the current interest rate margin is likely to lead to a net gain or loss to government over the life of the program and set a program interest rate that is more reflective of the costs of delivering the program.

The interest rates are currently reviewed every 6 months. A more frequent review of this timeline, say quarterly, would result in an interest rate that would better reflect the cost to



government of the RIC. However, this improvement needs to be considered against the administrative burden on the RIC of undertaking an interest rate review on a more regular basis (including that any change in the interest rate needs to be communicated to clients). This is unlikely to be the best use of the RIC's time and resources when it is already trying to reduce service delivery timeframes and improve its performance reporting.

**Recommendation 21: That the department undertake a review of the administrative cost margin to reflect all changes to loan and operational funding since the RIC's establishment. The margin should be reviewed annually, with updated ongoing costs for the RIC's program to be determined through an agreed costing process between the department and Finance.**

### 3.3 Mechanisms to efficiently allocate operational funding

To support future government decision-making, the RIC's operational funding could be guided by a previously determined resource allocation framework. Such a framework would include a work/resource allocation model which calculates the amount of funding required by multiplying the amount of activity the RIC is undertaking by the cost of its resources. This would require an assessment of the RIC's baseline costs (i.e. how much it would cost to keep the RIC operating even if it did not receive any loan applications), and a list of activities that its staff already or will undertake, the amount of time dedicated to each activity and the cost of its staff at each level (e.g. APS 6/EL1 equivalents). Once the RIC's baseline costs have been established, it could seek operational funding for its baseline costs, plus the cost of the forecast additional activities it would undertake each month.

This framework would support an efficient allocation of resources while providing the RIC with an appropriate level of certainty as, no matter the amount of loan applications received, it would have sufficient baseline resourcing to pay for fixed costs. All costings would use the best and most up-to-date information available relating to the RIC's demand and operational requirements when calculating resourcing levels. In addition, such a model would also assist in streamlining any future RIC agreed costing processes and managing the RIC's expectations as to government expectations of additional funding that should be sought. The department should develop such a framework at the earliest opportunity, in consultation with Finance and the RIC.

**Recommendation 22: The department, in consultation with Finance and the RIC, develop a resource allocation framework to support and streamline any future costings processes.**

Determining appropriate operational funding requires historic, current and forecast demand to be taken into account. In particular, the RIC's resourcing will always be dependent on its forecast of demand for its loan products. As outlined in section 1.4.1, forecasting demand can be challenging, and both the department and the RIC have previously experienced difficulty in accurately forecasting demand. However, the recent injection of an additional \$50.0 million in operational funding and changes in reporting frequency and data handling should enable the RIC's forecasting to improve. Further, the RIC now has experience with handling large increases in demand following the surge in applications in the period leading up to 30 September 2020 (the cessation of interest free terms), and may now be more risk averse in its monthly reporting

by incorporating product termination dates into its projections where applicable. To support resourcing decisions, such forecasts also need to consider the impact that loan structures have on demand and the accompanying increased financial risk (see section 4.2.5).

If the RIC overshoots its demand forecasts and consequently its resourcing requirements, the amount of funding it was appropriated will exceed its needs. Excess administered loan funding can be returned to the CRF via the estimates variation process undertaken in each economic round; however, excess operational funding would be retained by the RIC. Prudent financial management would be required to ensure any such funds were retained for future use or redirected to other functions that require additional resourcing. This could also provide the RIC with the flexibility to deliver other products in line with government priorities, without needing to seek additional operational funding to do so.

## 4 Overall risk profile (TOR4)

### 4.1 Introduction

The RIC as an individual entity faces a number of enterprise risks in carrying out its functions. These include risks associated with stakeholder management, program management, people, finances, infrastructure and systems, governance and workplace health and safety. The review was asked to focus on risks for the RIC and its loan portfolio, including financial risks. To the extent possible, an examination of the RIC's policies and processes relevant to risk management was undertaken, including to determine how the RIC was monitoring and managing loan portfolio risks and the implications of the RIC's approach for the Commonwealth.

### 4.2 Portfolio lending risk

#### 4.2.1 Background

This review focused on the financial risks to the Commonwealth of it lending money through the RIC as a CCE and the risks involved in the RIC managing a loan portfolio essentially on the Commonwealth's behalf.

Under the Operating Mandate, the RIC must undertake all aspects of its loan management in a prudential manner to minimise the risk of default. Further, as a government entity, the RIC needs to manage public funds appropriately in accordance with the PGPA Act. For applications that are approved, the RIC needs to ensure that they are appropriately documented, security is registered and enforceable, repayments are collected and returned to the Commonwealth and risk is appropriately managed throughout the life of the loan.

The RIC is not subject to the same regulatory requirements as organisations regulated by the Australian Prudential Regulation Authority due to their status as authorised deposit-taking institutions. That said, a range of usual and best practice banking industry standard risk management processes are relevant to the operations of the RIC as a lender, to ensure that the RIC is best placed to minimise financial loss to the government.

Overall approvals (including indicative approvals) for the RIC are \$1,756.7 million to 1644 businesses as at 31 December 2020, distributed across the nation as illustrated in Map 1. This includes a portfolio of settled loans of \$741.2 million. With a scheduled appropriation of almost \$4.1 billion in loan funding, this loan portfolio presents a considerable asset to be managed by the RIC on behalf of the Commonwealth.

**Map 1 National distribution of approved RIC loans, as at 31 December 2020**

To ensure the RIC meets its legislative obligations as an entity, the RIC needs to appropriately manage its loans and should adopt best practice credit management procedures. The following sections explore how the RIC is executing this in practice.

#### **4.2.2 Establishment of credit policies and framework**

The RIC's establishment team (primarily departmental officers, supplemented with contractors with agri-finance experience) developed credit policies that were to be used as the basis for the assessment of loan applications in conjunction with the loan guidelines on eligibility. These credit policies were to be used by the assessors employed by the LSP, and also for the RIC-employed credit officers that make decisions on loans. The establishment team also had to develop processes to ensure that credit decisions were appropriate and risk was managed. The credit policies were developed with the intention that the incoming permanent staff and management of the RIC would continue to refine and develop these documents as required. By their application, the credit policy settings provide an indication of the level of risk acceptable to the RIC to prudently manage the portfolio. Whilst the RIC is run by an independent board, the RIC has advised that it would value direction from government on the level of risk that the government is willing to accept through the provision of loans. For example, the Operating Mandate requires the RIC to ensure that sufficient security for the loan is provided by the farm business, but leaves the interpretation of 'sufficient' to the Board.

The review considered the RIC's credit policies and how they are being implemented and applied to the lending portfolio, as well as the general practices and processes for managing and reporting on risk. A small file sample of 22 files, representing a cross-section of files from the RIC product suite, was examined as part of the review. As this is a small file sample (reflecting time

constraints), there are some limitations to extrapolating these findings to the RIC's whole loan portfolio. This review of files did not constitute an audit.

### **4.2.3 Opportunities for the RIC to improve portfolio management**

In order for the RIC to manage a best practice loan portfolio on behalf of the government, there is an opportunity for the RIC to improve and enhance its current loan assessment processes and financial risk management. Identified areas for improvement are:

- to improve the quality, clarity, and consistency of credit papers to support a robust credit assessment process, including capacity to repay and loan decision logic
- to implement prudent policies and processes to identify, measure, monitor, report and control or mitigate specific credit risks over the full credit life cycle
- staff to challenge applicant's financial statements and forecast cashflows to ensure they are realistic as this underpins the financial viability and repayment analysis
- to implement monitoring and reporting in line with policy and provide regular, concise and meaningful reports of actual risks relative to risk appetite and the operation and effectiveness of controls
- assess credit risk primarily on the strength of a borrower's repayment capacity and not place undue reliance on collateral provided by the borrower as a substitute for a comprehensive credit assessment
- to undertake independent review and assurance of credit decisions to ensure risks are appropriately identified, assessed and managed
- to consider strengthening its processes by having separate risk functions and duties similar to credit risk and operating risk structures practised by commercial lenders.

### **4.2.4 Key Findings from file sample and credit policy review**

RIC's credit policy and supporting guidance documents appear to be largely fit for purpose. Minor amendments are suggested to enhance the overall quality of loan assessments, the clarity of rationale for lending decisions and the quality of post-decision portfolio monitoring and reporting. However, the review of the small sample of loans indicated that the RIC's loan assessment policies and processes are not consistently applied. This has resulted in variable quality of credit papers and deficiencies when compared to industry best practice.

Key themes within the limited file sample were that the loan assessment template was not adopted and embedded in file assessments. This would allow a consistent format and presentation and ensure key matters are addressed including the assessment of an applicant against eligibility criteria. A lack of long-term cash flow analysis to support financial viability conclusions, and absence of any sensitivity or downside risk analysis was observed. The RIC also needs to ensure loan repayment assumptions and associated risks and mitigants are clearly outlined. Importantly, there was a lack of documented analysis to justify credit rating outcomes, including instances where the system generated score has been overridden by the analyst or does not appear to align with the quantitative and qualitative analysis outlined in the assessment. In some files, the assigned grade was unable to be validated as part of the review. On many files it was noted that there was a lack of independent review and challenge in relation to the LSP credit analysis and loan decision logic. The RIC will need to work closely with its LSP

if deficient assessments are submitted in order to bring about quality change in future file origination.

There is limited evidence of portfolio monitoring or risk reporting in place, which makes it difficult to assess the health of the current portfolio or to proactively manage financial risks which may present.

With respect to loan assessment officers (both within the RIC and its LSP), since its inception, the RIC has been under-resourced relative to the market demand and volume of loan applications. This has led to a significant backlog of loan applications and protracted processing times which the RIC has focussed on improving. With the recent investment in new loan and operational funding, there is a present opportunity for the RIC to address the limitations identified and enhance its financial risk management processes. A full list of suggested improvements are outlined in 0.

#### **Recommendations 23 and 24:**

**That the RIC, in parallel with its transformation agenda to improve service delivery, implement the actions outlined in Appendix I to improve its loan assessment process. This financial risk management work program should be implemented in full by December 2021.**

**That the department commission an independent follow-up audit of the RIC's financial risk management practices in December 2021, to provide assurance that the RIC has successfully implemented the recommended actions.**

This should enable the government to make a more robust, and potentially more favourable, assessment of the RIC's risk management practices and resulting implications for the Commonwealth than was possible within the timeframe for this review.

#### **4.2.5 Financial risk of agricultural lending**

The agricultural lending space is susceptible to a number of high risks, often out of control of the farmer. A combination of factors, including volatility in production, seasonal conditions, fluctuating commodity prices, operating costs and changing personal circumstances can cause significant financial pressure on the business and its debt obligations. A commercial bank active in agricultural lending will have a lower risk appetite than the RIC. Due to industry events over the last 5 years, commercial banks have taken a more cautious approach in providing new loans to the sector. Factors behind this more cautious approach include adverse media on banks enforcing farm loans and the Royal Commission into misconduct in the Banking Superannuation and Financial Services Industry.

The highlighted risks are particularly evident for RIC loan applicants who have suffered a financial impact from events outside of their control, that result in higher credit risk metrics and poorer cash repayment ability. As outlined in section 2.3.1, a probability of default known as a credit risk grade (CRG) is assigned to each loan based on a series of financial, management and industry factors. The CRGs that the RIC is lending at is generally more risky than what a commercial bank would lend at.

The structure of the RIC loan products themselves add complexities and do introduce some unique risks for the RIC. Commercial banks don't have the same legislative restrictions as the

RIC with respect to the product offering and are more suited to tailoring the products to the risk profile of the client. RIC loans provide long term finance with 5-year (principal) repayment holidays for all customers and in some cases, 2-year interest free periods. This in essence leads to the RIC taking a higher underlying long-term risk, given a 10-year loan is a higher risk than a 3 to 5 year loan. RIC loans do not have the protection of financial covenants or bespoke repayment schedules which are an effective credit tool to mitigate risk and give a commercial bank the option to review its position (such as advancing less funds for working capital or requesting higher repayments). In addition, the majority of the RIC's loans are second or subsequent ranking, meaning that the commercial lender is repaid first in the event of default with the RIC only entitled to the remaining security value to cover its debt. If there is a shortfall in proceeds from recovery, then the subsequent mortgagee bears the cost.

Additional concessional terms offered by the RIC since commencement can present an elevated level of risk. The decision by government in November 2019 to provide interest free terms makes it more difficult for the RIC to monitor loans. The RIC has limited visibility on the performance of the business, given that the RIC only provides a portion of debt and doesn't provide transactional banking arrangements for the business. The RIC therefore is largely limited to reviews and monitoring of loan account payments which are both considered lagging indicators of business performance. When there are no repayments at all in the first 2 years of the RIC loan, there is even less visibility for the RIC and they are reliant on the less-frequent annual review process to have an indication as to how the farm business is tracking. The sheer volume of loans approved with interest free terms therefore has increased the level of risk for the government. Other concessional terms such as deferring or capitalising interest for extended periods will have the same monitoring issue.

By having a higher risk appetite, the RIC has to undertake very stringent analysis on liquidity/working capital finance, forward projections and future cash flows to gain comfort with the higher risk and mitigate that higher risk of credit default.

#### **4.2.6 Risk of RIC current lending practices**

In accordance with the RIC's risk management practices, the RIC undertake credit risk and security risk assessments. The details around probability of default and security assessments, and the interpretation of the various ratings, were discussed in section 2.3.1.

With respect to the RIC's security assessments, the RIC employs a range of processes to value security depending on the situation to determine property values. The sample indicated approximately 60% of valuations are a Real Estate Market Appraisal (REMA) which is a desktop internal assessment conducted by the valuation team within the LSP. The justification of this is partially to minimise the cost to loan applicants of obtaining an independent valuation where the risk is warranted. Apart from the risk by their very nature of being desktop analyses with no site visit, a review of these valuations in the sample of files indicated a high degree of variability in quality. Many had a lack of evidence and substance, incomplete property description and value estimates section and a lack of supporting analysis in relation to the calculation. Consequently, the lack of commentary and analysis can make it difficult to understand the assessor's insight and decision logic in valuing the security, and potentially a lack of quality assurance processes and challenge by the LSP and the RIC. This can undermine the file records of the RIC, if they do not reflect an accurate position, which may lead to incorrect assumptions about the overall risk of the portfolio. If the market has fallen or the underlying assumptions of

the valuation are incorrect, then the government is at risk of loss from the non-recovery of the loan. Further, the security position should be validated over the course of the loan (such as through updated REMA assessments) at appropriate review intervals to ensure that the risk is recorded and the position is adequately reported upon.

In general, the RIC should not overlend its position at the point of loan origination given no loan repayments can be structured for the first 5 years of the loan. Only under special circumstances should the RIC overlend. Such areas are by exception and may be where strong and improved viability is likely, there is supporting “makeweight” security offered (security with no assigned file value but likely to provide some supporting value) or imminent partial debt reduction to bring the loan back within acceptable standards. Loans regarded as overlent require detailed substantiation and commentary to ensure the RIC has adequate protection. Such loans should only be approved by appropriate senior delegated authority holders.

What constitutes an acceptable security position is also considered in the context of the assigned CRG. Lower CRGs reflect a higher probability of default. Accordingly, there is also a higher probability that the RIC may need to rely on its security as a secondary source of repayment. In this context, a CRG E is considered satisfactory and implies a performing business but one with potentially less capacity to withstand normal trading fluctuations or shocks and/or is potentially exposed to higher seasonal risks. A CRG F is considered a non-performing business. This review has found that it is not prudent for the RIC to originate CRG F grade loans at an overlent position. For a CRG E, sufficient security cover should be determined on a case-by-case basis. In those instances, where the SCG is D or below, the supporting rationale and mitigants need to be clearly outlined in the credit paper.

Up until December 2020, approximately 19% of RIC loans could be considered overlent according to the RIC’s credit lending policies. All of these individual files were not reviewed and there may be instances where the overlent position is justified. It is important to note that, this may not necessarily contradict the RIC’s Operating Mandate which specifies that the RIC needs to ensure “sufficient security exists for the loan”, however it does raise concerns around the number of some loans that are provided relative to their respective security values, that may warrant some further investigation. Whilst security is not the primary factor for providing a loan, it is a legislative requirement for RIC loans and does provide a fallback position for loans to protect the Commonwealth in the event of default.

**Recommendation 25: That the RIC ensures that it only approves loans where sufficient security exists in accordance with the Operating Mandate and only considers an overlent position at loan origination for lower risk applicants where strong mitigants exist, and the loan is appropriately monitored.**

#### 4.2.7 Risk appetite

The RIC Risk Management Policy and Framework dated November 2020 indicates a ‘moderate’ rating of risk tolerance for credit risk. The RIC has indicated that this risk refers to ‘the default of loans and associated decline in value of security that would result in a loss for the Commonwealth’.

Risk of loss is a function of the probability of default of the loan recipient and loss in event of default as determined by the security position. When loans are approved, this risk of loss is accepted and assumed to sit within the RIC’s risk appetite. However, the RIC have indicated that



to date there has not been clear guidance and communication between the government/department and the RIC of what the accepted risk appetite should be.

There is some guidance provided to the RIC within the Operating Mandate, with references such as only approving loans where there is 'sufficient security' and that the RIC need to 'undertake all aspects of its loan management in a prudential manner to minimise the risk of default'. However, it is acknowledged that the interpretation and application of these terms is up to the RIC and its Board. The recent decision to eliminate new lending to CRG G and H applicants and restricted lending to F grade applicants appears to go some way towards satisfying this Operating Mandate criteria. The finding of this review to generally avoid an overlent position may also be considered.

It may also be worthwhile for the department to provide feedback to the RIC as to the assumptions underlying its impairment review for its annual financial statements. This feedback will assist the RIC to understand the department's views on the riskiness of the portfolio. That said, the impairment review is not an endorsement of risk appetite and decisions made by the RIC, but instead a reflection of the estimated financial risk of the portfolio for the Commonwealth.

Embedding a clear understanding of the RIC's accepted risk appetite within its credit team is essential for sound and consistent decision-making. As highlighted in section 2.3.1, up to December 2020, there was a broad spectrum of approvals given including to some substandard risks and where limited security was provided. Without further details or understanding of the RIC's risk tolerance and its application, it is difficult to say whether all loan approvals to date would fit within that stated tolerance. The description provided indicates that losses seem to refer solely to that arising from the decline in the value of security, rather than other factors. Consequently, it is essential to ensure that the implications of this risk statement are reflected in credit policies and understood by credit officers, with further policy explanation documented as necessary as to its application.

The overall loan risk rating is categorised and reported upon to the department, by a two-letter reference, with the first letter representing the CRG and the second letter representing the SCG. Whilst the review did consider the current risk grades and security grades of a small sample of loans, a detailed audit was beyond the scope of this review and so not conducted on the loan portfolio as a whole to determine the potential loss and undertake impairment assessments. Due to time constraints and the limited sample size, it was not clear whether the sample was reflective of the total loan book in terms of risk characteristics. To undertake a proper analysis, an independent review for watchlist loans should be undertaken by a separate senior team within the RIC to adequately determine potential loss loans. The annual impairment review conducted by the finance team within the department will carry increased importance as the size of the portfolio on the department's balance sheet becomes more significant.

**Recommendation 26: That the RIC ensures it has a clear risk appetite statement for its loan portfolio reflecting the RIC's current interpretation of the Operating Mandate and the Board's recent decision of targeted lending. The statement should be periodically reviewed and the implications firmly embedded within credit policies to ensure sound and consistent credit decisions are being made.**

## 4.3 Financial payment risk

### 4.3.1 Background

Section 3.2 provides an overview of the current process and flow of funds that occurs between the department, the RIC and its LSP and how these are drawn from and repaid to the CRF. Whilst the focus of that section was on the process and the associated administrative requirements, this section relates to the risk primarily in settling to loan recipient accounts and the repayments collected by the LSP and remitted to the Commonwealth via the RIC.

### 4.3.2 Repayment process

Funds are drawn down for settlement and provided to the nominated RIC account as needed. This means that the RIC does not hold excessive loan funds on low interest-bearing deposit accounts at the expense of the Commonwealth. This contrasts to the previous administration of the Commonwealth farm business concessional loan scheme administered by state jurisdictions that received large funding amounts upfront that were to be used for the duration of the scheme. However, the approach adopted by the RIC is in line with the intent of the Operating Mandate (section 7(2)(a)) to only request funds as they are required. This minimises the risk and cost to the Commonwealth.

In relation to the settlement of funds, once loan funds are provided to the RIC account, the LSP needs to ensure that they are disbursed to the correct client bank accounts. Incorrect payments not only lead to reputational risk to the RIC (and to a lesser extent the LSP), but the financial cost can be significant if the funds are incorrectly disbursed and unable to be recovered. There has been no recorded breach of money settling to an incorrect account since the RIC commenced. Given contractual arrangements in place, the risk of loss to the Commonwealth through incorrect settlement is low.

In terms of customer repayments, clients' accounts are automatically debited by the LSP in line with their loan agreement. The established process enables the LSP to efficiently satisfy loan management obligations. Funds are collected by the LSP and remitted to the RIC monthly. These are swept back to the department by the 15th business day of the month with reconciliations provided to the department on a monthly basis. Funds are remitted to the CRF by the department on the day they are received. Whilst there is low risk that payments debited from customers are not returned to CRF, it is not clear that the RIC has adequate oversight of the accuracy of the collection of these funds and their return to the Commonwealth. Consequently, whilst the department is confident that all money from the RIC account is remitted to CRF, the department does not know the accuracy of the amount collected by the LSP. An example of this is the interest rate change that was due to occur from 1 February 2020 was not applied in a timely manner, with the LSP rectifying the error some time later making interest adjustments and providing affected account holders with a small amount of compensation. Whilst there was only a small number of account holders affected by this particular error (which was due to the application of interest free terms on all Drought Loans from 1 January 2020), it raises some concern that the error occurred and was picked up by the LSP and not by the RIC sometime after the event. The RIC have indicated that it does not have ongoing concerns about the LSP's ability to collect payments on behalf of the Commonwealth. However, it would be worthwhile the RIC implementing procedures to provide the assurance that both the correct amount of money is being collected by the LSP and that those payments are being remitted to the Commonwealth in

their entirety. The department should also ensure it has appropriate processes in place to monitor the return of funds.

As raised in the previous section, arrears reports are prepared by the LSP. The credit policy outlines the procedure for following up the arrears which is undertaken by the LSP, with the RIC the decision maker on any proposals to agree to a deferral or an amendment. Whilst the LSP is principally involved in the collection of funds, this role reverts to the RIC during the more advanced stages of doubtful loans and recovery action.

Whilst there are currently two loans in arrears, there have been no loans recorded on the watchlist or requiring intensive management or recovery action to occur. A small number of loans have been repaid beyond those switching from a Farm Investment Loan to the more attractive interest free Drought Loan. The reasons for repayment of loans are not immediately clear. The RIC is still a young organisation with the oldest loan having been in place for approximately two years and still some time before the first principal payments after year 5 are scheduled to be made.

**Recommendation 27: That the department work with the RIC to gain greater assurance around the completeness of repayments**

## 4.4 Overall risk profile

The RIC loan portfolio is forecast to exceed \$4 billion in loans by 2022–23 based on the existing loan product suite. This represents a sizeable portfolio of loans within the department's balance sheet that is managed by the RIC and which has associated financial risk to the Commonwealth Government. The financial risks associated with providing concessional loans to the agricultural industry and the financial risks of the RIC's current lending practices have been highlighted in earlier sections of this report. These risks need to be monitored and communicated with the government on a regular basis, in addition to the financial reporting that already occurs.

There is currently no formal arrangement in place for the regular monitoring and reporting of these identified risks to government. Therefore, a comprehensive RIC loan portfolio risk report should be prepared by the department, in consultation with Finance, and provided to responsible Ministers on an annual basis. This report should encompass a number of financial risk and underlying cash impact elements and be appropriately timed following the conclusion of each financial year. The report should cover the key findings arising from the impairment review undertaken by the department on the portfolio of RIC loans as part of the department's annual financial reporting process. It could also usefully incorporate the estimate of the underlying cash impact of the RIC for the financial year (as per the ANAO recommendation to the department) and the outcome of the annual administrative cost review process. An ongoing understanding of the risks arising from the RIC's loan programs should assist future government decisions and directions relating to the RIC's delivery of concessional loans and its ongoing management of its loan portfolio.

**Recommendation 28: That the department, in consultation with Finance, provide a report to responsible Ministers on the overall risk profile of the RIC's loan portfolio on an annual basis.**

# Glossary

Term	Definition
ABARES	Australian Bureau of Agricultural and Resource Economics
ABS	Agribusiness Banking System
AC	Companion of the Order of Australia
Ag2030	Agriculture 2030
ANAO	Australian National Audit Office
AO	Order of Australia
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investment Commission
ASL	Average Staffing Level
ASX	Australian Stock Exchange
BPORs	Budget Process Operational Rules
CRF	Consolidated Revenue Fund
CRG	Credit Risk Grade
DCLS	Drought Concessional Loans Scheme
DRCLS	Drought Recovery Concessional Loans Scheme
FDF	Future Drought Fund
FDF Act	<i>Future Drought Fund Act 2019</i>
FFCLS	Farm Finance Concessional Loans Scheme
Finance	Department of Finance
Hon	The Honourable
ICT	Information and Communications Technology
KPI	Key performance indicator
LSP	Loan service partner
M&E	Monitoring and evaluation
MPCI	Multi-peril crop insurance
MP	Member of Parliament
MYEFO	Mid-Year Economic and Fiscal Outlook
NDA	National Drought Agreement
NFF	National Farmers' Federation
NPP	New Policy Proposal
Operating Mandate	<i>Regional Investment Corporation Operating Mandate Direction 2018</i>
PGPA Act	<i>Public Governance, Performance and Accountability Act 2013</i>
PSM	Public Service Medal

## Independent Review of the Regional Investment Corporation

<b>Term</b>	<b>Definition</b>
QC	Queen's Counsel
REMA	Real Estate Market Appraisal
RCL	Revenue contingent loan
RIC	Regional Investment Corporation
SCG	Security Cover Grade
The Act	<i>Regional Investment Corporation Act 2018</i>
The department	The Department of Agriculture, Water and the Environment
TSL	Target Service Level

# Appendix A: Background to concessional loans

## History of Commonwealth concessional loan programs delivered by the states and territories

Since 2013, the Australian Government has made concessional loans available to assist farm businesses through a range of schemes, including:

- Farm Finance Concessional Loans Scheme (2013–14 to 2014–15)
- Drought Concessional Loans Scheme (2013–14 to 2015–16)
- Drought Recovery Concessional Loans Scheme (2014–15 to 2015–16)
- Dairy Recovery Concessional Loans Scheme (2015–16)
- Farm Business Concessional Loans Scheme (2016–17 to 2017–18).

### Farm Finance Concessional Loans Scheme

The Farm Finance Concessional Loans Scheme (FFCLS) included funding of up to \$420 million over two years for concessional loans to eligible primary production businesses. The FFCLS aimed to build the ongoing financial resilience of farm businesses that were experiencing debt-servicing difficulties but were considered potentially viable in the longer term. Loans were made available to farm businesses in need for debt restructuring or productivity enhancement activities. Eligible farm businesses could borrow up to \$1 million for a loan term of up to 5 years. All loans that have been provided to farm businesses under the FFCLS are scheduled to mature by September 2021 (extensions to loans of up to 2 years after maturity were available in most states due to extenuating circumstances).

### Drought Concessional Loans Scheme

The Drought Concessional Loans Scheme (DCLS) was initially provided funding of up to \$280 million. However, in May 2015 a further \$150 million in funding was announced for 2015–16 under the Australian Government's 2015 Agricultural Competitiveness White Paper (White Paper). The DCLS aimed to assist farm businesses that were experiencing a significant financial impact resulting from the effects of drought. Loans were made available to drought-affected farm businesses for debt restructuring, operating expenses and drought recovery and preparedness activities. Eligible farm businesses could borrow up to \$1 million for a loan term of up to 5 years. All loans that have been provided to farm businesses under the DCLS are scheduled to mature by November 2022 (extensions to loans of up to 2 years after maturity were available due to extenuating circumstances).

### Drought Recovery Concessional Loans Scheme

The Drought Recovery Concessional Loans Scheme (DRCLS) was initially announced with \$100 million to be made available in 2014–15. However, the government announced a further \$100 million extension for 2015–16 as part of the White Paper. The DRCLS aimed to assist farm businesses to recover from the effects of drought and the impacts of the government-imposed

disruption to live cattle exports (2011) to Indonesia, with the intent of returning farm businesses to commercial viability in the longer term.

Loans were provided to eligible farm businesses for the purposes of planting and/or restocking drought recovery activities (as seasonal conditions allowed) and associated expenses (including refinancing elements of an existing Drought Concessional Loan provided for operating expenses and/or drought recovery and preparedness activities). Eligible farm businesses could borrow up to \$1 million for a loan term of up to 10 years. Interest only repayments were available to loan recipients for the first 5 years. The DRCLS was initially offered in New South Wales, Queensland and then extended to South Australia. All loans that have been provided to farm businesses under this scheme are scheduled to mature by June 2027.

#### **Dairy Recovery Concessional Loans Scheme**

In May 2016, the Australian Government announced a \$579 million dairy support package, which included up to \$555 million in Dairy Recovery Concessional Loans. The loans aimed to assist dairy farmers who were adversely impacted by retrospective price cuts by milk processors Murray Goulburn and Fonterra during the 2015–16 financial year. The loans were available for dairy farmers in Victoria, Tasmania, South Australia and New South Wales. Eligible farm businesses could borrow up to \$1 million for a loan term of up to 10 years. Interest only repayments were available to loan recipients for the first 5 years. All loans that have been provided to farm businesses under the scheme are scheduled to mature by June 2027.

#### **Farm Business Concessional Loans Scheme**

On 5 July 2015, the Australian Government announced the establishment of a new drought concessional loans scheme (later called the Farm Business Concessional Loans Scheme [FBCLS]) as part of the White Paper. The FBCLS was to provide up to \$250 million per annum over 10 years from 2016–17. The scheme ended on 30 June 2018 due to the RIC opening its farm business loans program on 1 July 2018.

The FBCLS aimed to assist farm businesses to manage through, recover from and prepare for droughts, assist with debt restructuring, providing new debt for operating expenses or productivity enhancement activities. Eligible farm businesses could borrow up to \$1 million for a loan term of up to 10 years. Interest only repayments were available to loan recipients for the first 5 years. Three different loan types were offered including business improvement, drought assistance and dairy recovery. All loans that have been provided to farm businesses under the scheme are scheduled to mature by January 2029.

#### **Funding model for previous Commonwealth farm business concessional loan schemes**

Prior to the establishment of the RIC, the Commonwealth provided concessional loans via loan funding and service level agreements with each state and the Northern Territory (NT) governments. Under this arrangement, each jurisdiction was paid administrative (operational) funding to deliver the loans on the Commonwealth's behalf. This funding was appropriated to the department as departmental funding, for distribution to the states. In some cases, particularly where the demand for loans or approval rates were low, the administrative funding provided was in excess of the delivery and ongoing loan management costs of the particular concessional loans scheme in that jurisdiction (and the jurisdiction retained that excess funding). Conversely, in states with significant loan demand and relatively higher approval rates, the administrative funding provided by the Commonwealth was a significant contribution

towards the overall costs of delivery and ongoing management of the loans, with the relevant state picking up the shortfall.

The department was also appropriated administered funding to distribute as loan funding amongst the states and the NT (with New South Wales delivering loans to farm businesses in the ACT out of its NSW loan funding allocation, and Queensland delivering loans to NT farm businesses out of a loan funding allocation specifically for the NT). State demand estimates based on previous schemes and drought conditions informed the amount of loan funding the Commonwealth offered each jurisdiction. In addition, there was often a reserve of loan funding that could be used to top up the loan funding of states experiencing higher than expected demand, for example, due to deteriorating drought conditions. Once each jurisdiction had issued loans to approved clients, any unspent loan funds (and any interest earned on them) were passed back to the department for remittance to the CRF. Similarly, ongoing interest and principal repayments from clients are passed by jurisdictions back to the department and then remitted by the department back to the CRF.



# Appendix B: RIC timeline

**Table B1 RIC timeline – original announcement to January 2021**

Date	Activity	Notes
2016, 22 June	Coalition election commitment for agriculture announced	Establish a Regional Investment Corporation
2016, 16 August	RIC Taskforce established within the department	–
2016–2017	Development of a submission for government's consideration on establishing the RIC	–
2017, 8 February	Water infrastructure loans open	–
2017, 9 May	Government announces funding to establish the RIC as a new corporate Commonwealth Entity	–
2017, 16 May	Minister Joyce (former Agriculture Minister) announces the RIC office is to be located in Orange	–
2017, 14 June	RIC Bill introduced to Parliament (House of Representative)	Bill passed the House 17 Aug 2017
2017 (19 July – 9 August)	Market testing of external service providers for farm loans	–
2017 (26 July – 19 October)	Stakeholder consultation on RIC farm business loans	Public discussion paper on department's website; 60+ meetings with stakeholders
2017, 4 September	RIC Bill introduced to Senate	Bill passed by Senate with amendments 6 Feb 2018
2017, 19 December	Water infrastructure loans transferred to Infrastructure Portfolio	–
2017, 20 December	Minister Littleproud appointed to Agriculture and Water Resources Portfolio (responsible Minister for the RIC, with the Finance Minister)	–
2017 (18 September) – 2018 (6 February)	RIC Bill (amended by Senate)	Passed by the House 6 February 2018. Key amendments: <ul style="list-style-type: none"> <li>• Ministers exercising their powers consistently with the Water Act 2007</li> <li>• The responsibility of Ministers, the Board and the RIC when entering into agreements</li> <li>• Disclosure of interests of the CEO</li> </ul>
2018, 12 February	Request for Interest (RFI) for third party service provider for farm loans	Shortlisting process follows, with outcomes reported to the RIC Board (once appointed) and further decisions made by the RIC Board  An evaluation process followed once the RFI closed. Final decisions on the service provider were made by the RIC Board

# Independent Review of the Regional Investment Corporation

Date	Activity	Notes
2018, 20 February	<i>RIC Act 2018</i> comes into effect	Receives Royal Assent
2018, 4 April	Ministerial appointments to the RIC Board announced	David Foster (Chair) Lucia Cade & Mark Lewis (members)
2018, 16 April	Inaugural meeting of the RIC Board	–
2018, 22 April	Further ministerial appointments to the RIC Board announced	Prue Bondfield (member)
2018, 24 April	RIC Board decides head office location	Orange, NSW is chosen
2018, 25 May	Acting CEO appointed by the Board	Matthew Ryan (to December 2018)
2018, 15 June	RIC Operating Mandate Direction 2018 comes into effect	–
2018, 22 June	Interest rate methodology agreed by responsible Ministers	–
2018, 28 June	Contract signed with Bendigo and Adelaide Bank	–
2018, 13 June	RIC (Water Infrastructure Project Agreements) Rule 2018	–
2018, June – 2019, February	Departmental staff seconded to the RIC until its permanent workforce commenced in January/February 2019	–
2018, 1 July	RIC open and loans available	Farm investment, drought and water infrastructure loans
2018, July	RIC received first applications	Six applications
2018, August 19	Concessional loan funding available per year doubled from \$250m to \$500million	Announced by then Prime Minister Turnbull on 19 August 2018
2018, 15 September	RIC Operating Mandate Direction 2018	Registered – 24 September 2018 End date – 28 March 2019 Key amendments – increased loan limit
2018, 18 September	Increased loan limit from \$1m to \$2m	Announced by then Prime Minister Turnbull on 19 August 2018
2018, September	First loan application approved	–
2018, 13 December	Appointment of CEO announced by the RIC Board	Bruce King
2019, January	First loan application settled	Two settled in this month
2019, 28 February	RIC headquarters opens in Orange	–
2019, 29 March	RIC Operating Mandate (Amendment) Direction 2018	Registered – 14 April 2019 End date – 20 November 2019 Changes to water infrastructure loans – Schedule 2
2019, April	RIC (AgriStarter Loans) Rule 2019	Registered – 11 April 2019 Tabled (House and Senate) – 2 July 2019
2019, 8 April	Final Board member announced	Sharon Starick (member)

# Independent Review of the Regional Investment Corporation

<b>Date</b>	<b>Activity</b>	<b>Notes</b>
2019, May	RIC AgriStarter concessional loans announced as an election commitment	AgriStarter Loans are intended to support farmers to purchase their first farm and plan for intergenerational transfer
2019, May	Plantation Development Loans announced as an election commitment	–
2019, 14 June	RIC (Agribusiness Natural Disaster Loans – 2019 Northern QLD Flood) Rule 2019	–
2019, June – 2020, June	Agribusiness Natural Disaster Loans available	Product name – AgRebuild Loans
2019, 30 July	RIC (AgriStarter Loans) Amendment (Loan Terms and Eligibility) Rule 2019	Amendment to RIC (AgriStarter Loans) Rule 2019 to allow AgriStarter Loans to be made available to farm businesses that intend to be engaged solely or mainly in producing commodities for constitutional trade and commerce Registered – 31 July 2019 Tabled (HR and Senate)– 09 September 2019 Repealed – 15 November 2019
2019, 1 August	RIC (AgriStarter Loans) Rule 2019	Registered – 14 October 2019 Start Date – 01 August 2019
2019, 30 October	Acting RIC Chair (Prue Bondfield)	30 October – March 2020
2019, 21 November	RIC Operating Mandate (Amendment) Direction 2018	Registered – 4 December 2019 End date – 30 September 2020 Amendment – Drought Loans Interest-free Period
2020, 1 January	Interest-free period for Drought and Small Business Drought Loans available	Also available to existing Drought Loan recipients
2020, 17 June	ANAO report – design and establishment of the RIC	Published 17 June 2020
2020, 27 March	Appointment of second Chair of the Board announced	Karen Smith- Pomeroy
2020, 28 March	Government extended Drought Loans to eligible farm businesses located in all areas of Australia	Previously farm businesses were required to be located in the affected area defined by the UN Convention to Combat Desertification
2020, 15 May	Consultant report – RIC Loan Delivery Performance Framework Review	–
2020, 30 June	Closing date for AgRebuild Loan applications	–
2020, 22 July	Government announces additional loan and operational funding for the RIC	Additional \$2 billion in loan funding and additional \$50 million in operational funding over 4 years

# Independent Review of the Regional Investment Corporation

<b>Date</b>	<b>Activity</b>	<b>Notes</b>
2020, 11 September	Consultant report – Transformation Strategy and Business Case	RIC Board sign-off on ‘Backlog and Transformation Strategy’ October 2020
2020, 30 September	Close date for Drought and AgBiz Drought Loans interest-free period applications 1,295 loan applications received for the month	–
2020, 1 October	RIC Operating Mandate (Amendment) Direction 2018	Registered – 7 December 2019 End date – n/a Amendment – cessation of interest-free period for Drought and Small Business Drought Loans
2020, 1 October	RIC (Drought Loans Expansion) Rule 2020	Cessation of interest-free period
2020, 1 October	RIC (Small Business Drought Loans) Rule 2020	Cessation of interest-free period
2020, 6 October	Government announcement that RIC would not be proceeding with the National Water Infrastructure Loan Facility	Budget 2020 announcement
2020, December	RIC (AgriStarter Loans) Rule 2019	Registered- 24 December 2020 Legislation Start Date – 17 December 2020 Program Start Date – 1 January 2021
2021, 1 January	AgriStarter Loans open for applications	–

# Appendix C: Roles and responsibilities of the RIC

Specific functions of the RIC Board as outlined in the RIC Act, PGPA Act and Operating Mandate are set out in Table C1.

**Table C1 Functions of the RIC Board**

<b>Instrument</b>	<b>Functions of the RIC Board</b>	<b>Reference</b>
RIC Act	Deciding, within the scope of the Operating Mandate, the strategies and policies to be followed by the Corporation	Section 3 of the RIC Act
	Ensuring the proper, efficient and effective performance of the Corporation's functions	Section 3 of the RIC Act
	Appointing a CEO for the Corporation. Further the Board may give written directions to the CEO, about the performance of the CEO's duties.	Section 15(d) and Section 35 of the RIC Act
	Deciding the strategies and policies for the terms and conditions on which approved loans are provided	Section .8 of the RIC Act
	Advising the responsible Ministers on directions to be given to the Corporation in relation to a class of farm business loans	Section 13 of the RIC Act;
	Advising the responsible Ministers (as soon as practicable after becoming aware that the Corporation has failed to comply with a direction) and explaining the circumstances in which this has occurred	Section 13(2) of the RIC Act
	Keeping minutes of its meetings and regulating proceedings at its meetings as it considers appropriate	Section 32 of the RIC Act
	Directing and authorising use of the Corporation's seal	Section 7 of the RIC Act
	Any other functions conferred on the Board by the RIC Act, the rules or the Future Drought Fund Act 2019	Section 15(e) of the RIC Act.
PGPA Act (The RIC Board, as its governing body, is the accountable authority for the RIC under the PGPA Act.)	Preparing the annual report	Section 46 of the PGPA Act;
	Governing the entity in a way that promotes the proper use and management of public resources for which the authority is responsible, and promotes the financial sustainability of the entity	Section 15(1) of the PGPA Act
	In governing the entity, the accountable authority must take into account the effect of those decisions on public resources generally	Section 15(2) of the PGPA Act

## Independent Review of the Regional Investment Corporation

<b>Instrument</b>	<b>Functions of the RIC Board</b>	<b>Reference</b>
	Measuring and assessing the performance of the entity in achieving its purposes	Section 38 of the PGPA Act
	Establishing and maintaining an appropriate system of risk oversight and management for the entity; and an appropriate system of internal control	Section 16 of the PGPA Act
	Keeping responsible Ministers informed, including giving reasonable notice if the Board becomes aware of any significant issue that may affect the entity	Section 19 of the PGPA Act
	Reporting requirements such as the preparation of a corporate plan, budget estimates and annual performance statements	Division 2, Part 2-3, Chapter 2 of the PGPA Act
Operating Mandate	Setting a variable interest rate for each program in accordance with a methodology that is agreed by the responsible Ministers	Section 8 of the Operating Mandate
	Ensuring that prudential and arrears management policies and procedures are developed and applied by the Corporation	Section 11(2) of the Operating Mandate
	Ensuring at all times the loan management, arrears management, recovery action, foreclosure arrangements, waiver of debt, write-offs and dispute/complaints handling are undertaken in accordance with those policies and procedures	Section 11(2) of the Operating Mandate
	Making decisions on foreclosure of a farm business loan or to waive an unpaid farm business loan debt, which cannot be delegated	Section 11(4) of the Operating Mandate
	Ensuring that an internal review procedure for decisions to grant or refuse farm business loans is developed and applied by the Corporation	Section 12(1) of the Operating Mandate

The RIC has a number of specific functions as outlined in the RIC Act and Operating Mandate, with sections of the PGPA Act also relevant to how the RIC undertakes its functions. These are set out in Table C2.

**Table C2 Role of the RIC**

<b>Instrument</b>	<b>Role of the RIC</b>	<b>Reference</b>
RIC Act – Corporation	Administering farm business loans	Section 8 of the RIC Act
	Setting and adjusting interest rates applicable to loans	Section 8 of the RIC Act
	Providing advice to responsible Ministers on the activities that are or could be undertaken by the Corporation	Section 8 of the RIC Act
	Providing advice and assistance to borrowers and prospective borrowers in relation to loans	Section 8 of the RIC Act
	Administering programs prescribed by rules	Section 8 of the RIC Act
	In performing its functions, the RIC is required to act in a proper, efficient and effective manner	Section 8 of the RIC Act
RIC Act – Function of the CEO	May sign, on behalf of the Corporation, a loan agreement to be administered by the Corporation	Section 35 of the RIC Act
	Is responsible for the day-to-day administration of the Corporation	Section 35 of the RIC Act
PGPA Act – Corporation	An official of a Commonwealth entity must perform their functions with due care and responsibility	Section 25 of the PGPA Act
	An official of a Commonwealth entity must perform their function in good faith and for a proper purpose	Section 26 of the PGPA Act
	An official of a Commonwealth entity must not improperly use their position to gain personal advantage or cause detriment to the Commonwealth, the entity or another person	Section 27 of the PGPA Act
	An official of a Commonwealth entity must not improperly use information	Section 28 of the PGPA Act
	An official of a Commonwealth entity has a duty to disclose interests	Section 29 of the PGPA Act
Operating Mandate – Corporation	Develop and publish guidelines for each loan program, consistent with Operating Mandate and in consultation with the responsible Ministers	Section 9 and 10 of the Operating Mandate
	Administer loan programs in accordance with the applicable schedules contained in the Operating Mandate	Section 9 and 10 of the Operating Mandate
	Undertake prudential loan management to minimise risk of default	Section 11 of the Operating Mandate
	Develop and implement service levels for the Corporation and external	Section 13 of the Operating Mandate

## Independent Review of the Regional Investment Corporation

<b>Instrument</b>	<b>Role of the RIC</b>	<b>Reference</b>
	service provider to ensure fair, transparent and timely treatment of stakeholders	
	Ensure ongoing engagement with relevant industry stakeholders to ensure loan products can respond to issues as they emerge	Section 15 of the Operating Mandate
	Provide reports to ministers on loan programs on a scheduled basis as well as when requested by responsible Ministers	Section 16 of the Operating Mandate
	Provide advice to the Commonwealth on matters that will improve operation and policy outcomes	Section 17 of the Operating Mandate
	Have regard to best practice principles for corporate governance	Section 18 of the Operating Mandate
	Must not act in a way that is like to cause damage to the Commonwealth's reputation	Section 19 of the Operating Mandate

Note: This table does not reference the Rules made under the RIC Act. The Rules include functions and directions for the RIC but, broadly and for the most part, similar functions are covered in the above table, and so those under the Rules have not been included to avoid duplication.



# Appendix D: RIC Transformation Strategy update

The RIC Transformation Strategy update can be found in the following link:

<https://www.awe.gov.au/sites/default/files/documents/appendix-d-the-ric-transformation-strategy-update.pdf>

# Appendix E: Stakeholder views on the future of the RIC

During review consultations, stakeholders provided a broad variety of views about the RIC's future. These are listed here.

## Regional Investment Corporation

- Could the RIC become an entity like Farm Credit Canada in the future?
- In the future, RIC loans could focus:
  - on environmental outcomes (for example, a stewardship program; issuing a green bond into the market).
  - more on preparedness, rather than recovery, including how the RIC can contribute to achieving the Ag2030 \$100 billion target. This could include higher output, changing land use, transition of wealthy farmers who do not need to push the farm and those who want to drive production further.
- The RIC could recycle its own interest to fund its own operating expenses, and recycle loan funds to then lend out to the market. A revolving fund could sit in the Treasury.
- The RIC could be an administrator of all loan programs for the government.
- The purpose of the RIC's Transformation Strategy is to change the business model, so that when a new loan product comes to the RIC, it is not tied to a particular Loan Service Provider. This will allow the RIC to be more agile in its approach.
- The Board have ideas for the RIC's future that they are keen to pursue. For example, is there an opportunity for investment or equity at the start of a business process to then generate a return for government and the taxpayer?
- The RIC want to be nimble. That is, if they are offering a standardised loan product, they want to be able to implement things quicker. The Board and CEO are trying to set up an organisation that is able and has the flexibility to deliver other things.

## Other stakeholders

- The National Farmers' Federation has been supportive of the intent of the RIC to provide concessional finance to the agriculture industry. The policy intent for concessional finance is sound. There is a lot of research about capital shortfall in industry so the RIC is a sensible, rational and sound initiative.
- The government should develop a plan for funding the RIC beyond 2023.
- Should the government not extend the RIC beyond its current funding envelope, it will be a challenge if we move into something else beyond the RIC, as it will have to get up and running.
  - How do you manage working with the RIC as a lender and existing financier and how do you maintain a good relationship in this situation?

- If the RIC is a time-limited thing, how do you manage that? How do you maintain relationships and trust?
- Long term funding helps an organisation. Hoping for a long-term commitment but with long term monitoring and evaluation.
- Western Australian farming regions have had a 20 percent drop in rainfall in the last 20 years and similar rainfall patterns are projected moving ahead. Farmers have become highly adaptive, but we're wondering where is the next capacity to get another level of adaption to deal with serious climatic change?
- We do not think there can be a credible, staged retreat of a concessional loan scheme while we have these changes and what has been happening with market conditions. Market conditions and volatility in the last few years are the greatest seen in this lifetime.
- We need to understand what is the need for capitalising Australian agriculture? The RIC is only one component - we need a far more strategic approach to capitalise agriculture because the risks are not lessening.
- The Future Drought Fund is being rolled out, with \$100 million a year for 10 years to equip people with skills to manage for the next drought, rather than saying 'here's another grant or loan'. A positive that came out of the Royal Commission is that there is a recognition that we need to step away from the ad-hoc reactive work.
- Unsure if there should be an ongoing need for RIC – it is almost like a lender of last resort. With record low interest rates, perhaps the government/RIC should not be there.
- Traditional and non-traditional lenders will continue in the absence of the RIC, unless the RIC can continue to provide cheaper money to assist expansion and get farmers back on their feet after drought.

# Appendix F: RIC loan settings and eligibility criteria

**Table F1 RIC loan settings and eligibility criteria**

<b>Drought Loan Eligibility Criteria</b>	<b>Farm Investment Loan Eligibility Criteria</b>	<b>AgBiz Drought Loan Eligibility Criteria</b>	<b>AgRebuild Loan Eligibility Criteria</b>	<b>AgriStarter Loan Eligibility Criteria (under first farm category)</b>	<b>AgriStarter Loan Eligibility Criteria (under successor category)</b>
Farm business must be in financial need for a loan	Farm business must be in financial need for a loan	Small business must be in financial need of a concessional loan as a consequence of drought affecting farm businesses in an affected area. As a consequence of drought affecting farm businesses in affected areas, there must have been: (1) a material reduction in the turnover of the small business; or (2) a material increase in unsecured debts to the small business by farm businesses	Farm business has suffered direct damage as a result of the North Queensland flood Farm business is experiencing hardship as a direct result of the North Queensland flood; or Farm business is experiencing extreme hardship because of total or majority loss of stock or crops as a direct result of the North Queensland flood	Loan recipient is in financial need of a concessional loan	Loan recipient is in financial need of a concessional loan
Farm business has to have sound prospects of long-term viability	Farm business must be financially viable in the long term	Small business must be assessed as financially viable, or having sound prospects of a return to financial viability within the term of the loan	Farm business has sound prospects of ongoing financial viability	Farm business must be assessed as financially viable, or having sound prospects of becoming financially viable within the term of the loan	Farm business must be assessed as financially viable, or having sound prospects of becoming financially viable within the term of the loan
Farm business has capacity to pay back the loan	Farm business must have capacity to repay the loan	Small business must be assessed as having capacity to repay the loan	Farm business must have the capacity to repay the loan	Loan recipient must have the capacity to repay the loan	Loan recipient must have the capacity to repay the loan
Farm business must have commercial debt and secure the support of a commercial lender	Farm business must have existing commercial debt and secure the support of a commercial lender	Small business must owe commercial debt – For customers refinancing –small	Unless the farm business is in extreme hardship, have existing commercial debt	Loan recipient must have already obtained, or demonstrate that they will obtain within a reasonable	Loan recipient must have already obtained, or demonstrate that they will obtain within a reasonable

Independent Review of the Regional Investment Corporation

Drought Loan Eligibility Criteria	Farm Investment Loan Eligibility Criteria	AgBiz Drought Loan Eligibility Criteria	AgRebuild Loan Eligibility Criteria	AgriStarter Loan Eligibility Criteria (under first farm category)	AgriStarter Loan Eligibility Criteria (under successor category)
<ul style="list-style-type: none"> <li>For customers refinancing – farm businesses may refinance up to 50% of commercial debt</li> <li>For customers seeking new debt – farm businesses may apply for new debt up to the amount already held as commercial debt.</li> </ul>	<ul style="list-style-type: none"> <li>For customers refinancing – farm businesses may refinance up to 50% of commercial debt</li> <li>For customers seeking new debt – farm businesses may apply for new debt up to the amount already held as commercial debt</li> </ul>	<p>businesses may refinance up to 50% of commercial debt</p> <ul style="list-style-type: none"> <li>For customers seeking new debt – small businesses may apply for new debt up to the amount already held as commercial debt</li> </ul>	<p>and the support of a commercial lender</p> <p><b>For cases of hardship:</b></p> <ul style="list-style-type: none"> <li>applicants may refinance 50% of existing commercial debt</li> <li>applicants may obtain new debt up to the amount they already held as commercial debt</li> </ul> <p><b>For cases of extreme hardship:</b></p> <ul style="list-style-type: none"> <li>applicants may refinance up to 100% of existing commercial debt</li> <li>For new debt, applicants may apply for new debt up to the value of \$5 million without holding commercial debt. (provided they met all other eligibility requirements)</li> </ul>	<p>period, a loan on commercial terms</p> <ul style="list-style-type: none"> <li>For customers refinancing – they may refinance up to 50% of commercial debt (provided the overall amount of the AgriStarter Loan does not exceed \$2 million)</li> <li>For customers seeking new debt – applicants can apply for new debt up to \$2 million, or the amount that would result in half their total debt being held in Commonwealth funded concessional loans – whichever is the lesser</li> </ul>	<p>period, a loan on commercial terms</p> <ul style="list-style-type: none"> <li>For customers refinancing they may refinance up to 50% of commercial debt (provided the overall amount of the AgriStarter Loan does not exceed \$2 million)</li> <li>For customers seeking new debt – applicants can apply for new debt up to \$2 million, or the amount that would result in half their total debt being held in Commonwealth funded concessional loans – whichever is the lesser</li> </ul>
Farm business must provide sufficient and satisfactory security	Farm business must be able to provide sufficient and satisfactory security	Small business must provide sufficient security for the loan	Farm business must be able to provide security for the loan, and that security must be sufficient and satisfactory	Loan recipient must provide sufficient security for the loan	Loan recipient must provide sufficient security for the loan
Farm business must operate as a sole trader,	Farm business must operate as a sole trader,	Small business must be carried on by either: (i) a sole trader (ii) a partnership (iii) a trust (iv)	Farm business must operate as a sole trader,	Farm business must operate as a sole trader,	Farm business must operate as a sole trader,

Independent Review of the Regional Investment Corporation

<b>Drought Loan Eligibility Criteria</b>	<b>Farm Investment Loan Eligibility Criteria</b>	<b>AgBiz Drought Loan Eligibility Criteria</b>	<b>AgRebuild Loan Eligibility Criteria</b>	<b>AgriStarter Loan Eligibility Criteria (under first farm category)</b>	<b>AgriStarter Loan Eligibility Criteria (under successor category)</b>
partnership, trust or private company	partnership, trust or private company	a corporation other than a public company	partnership, trust or private company	partnership, trust or corporation	partnership, trust or corporation
Farm business must be registered for tax purposes in Australia with an ABN and be registered for GST	Farm business must be registered for tax purposes in Australia with an ABN and be registered for GST	Small business must be registered for tax purposes in Australia with an ABN and be registered for GST	Farm business must be registered for tax purposes in Australia with an ABN and be registered for GST	Farm business must be registered for tax purposes in Australia with an ABN and be registered for GST	Farm business must be registered for tax purposes in Australia with an ABN and be registered for GST
Farm business must be involved within the agricultural, horticultural, pastoral, apicultural or aquacultural industries	Farm business must be involved within the agricultural, horticultural, pastoral, apicultural or aquacultural industries	Farm business that the small business supplies primary production goods and services into must be involved within the agricultural, horticultural, pastoral, apicultural or aquacultural industries	Farm business must be involved within the agricultural, horticultural, pastoral, apicultural or aquacultural industries	Farm business must be involved within the agricultural, horticultural, pastoral, apicultural or aquacultural industries	Farm business must be involved within the agricultural, horticultural, pastoral, apicultural or aquacultural industries
Farm business must undertake all primary production aspects of the business wholly within Australia	Farm business must undertake all primary production aspects of the business wholly within Australia	–	Farm business must undertake all primary production aspects of the business wholly within Australia	Farm business must undertake all primary production aspects of the business wholly within Australia	Farm business must undertake all primary production aspects of the business wholly within Australia
Farm business must not be under external administration or bankruptcy	Farm business must not be under external administration or bankruptcy	Small business must not be under external administration or bankruptcy	Farm business must not be under external administration or bankruptcy	Farm business must not be under external administration or bankruptcy	Farm business must not be under external administration or bankruptcy
At least one member of the farm business must: (a) be an Australian citizen or a permanent resident; b) have owned and operated the farm business for at least the past 3 (3) consecutive years; (c) be a farmer who under normal circumstances contributes at least 75% of their labour and derives at least 50% of	At least one member of the farm business must: (a) be an Australian citizen or a permanent resident; b) have owned and operated the farm business for at least the past 3 (3) consecutive years; (c) be a farmer who under normal circumstances contributes at least 75% of their labour and derives at least 50% of	The small business must be carried on by: (i) a sole trader who is an Australian citizen or permanent resident (ii) a partnership, where at least one of the partners is an Australian citizen or resident (iii) a trust, where at least one of whose beneficiaries or unit holders is an	At least one member of the farm business must be: (a) an Australian citizen or a permanent resident (b) have experience in operating a farm business and (c) has the farm business as their principal business pursuit where they contribute the majority of their labour	At least one member of the farm business must be an Australian citizen or permanent resident. To be eligible for a farmer loan, the applicant must have had 3 years of relevant on-farm experience or equivalent and intend to have the farm business as their principal business pursuit	At least one member of the farm business must be an Australian citizen or permanent resident. If the loan is used to support farm business succession, after succession arrangements are carried out: – at least one member of the farm business will have experience

Independent Review of the Regional Investment Corporation

<b>Drought Loan Eligibility Criteria</b>	<b>Farm Investment Loan Eligibility Criteria</b>	<b>AgBiz Drought Loan Eligibility Criteria</b>	<b>AgRebuild Loan Eligibility Criteria</b>	<b>AgriStarter Loan Eligibility Criteria (under first farm category)</b>	<b>AgriStarter Loan Eligibility Criteria (under successor category)</b>
<p>their income from the farm business</p> <p>There are alternative options available for farmers who have recently taken ownership (including part-ownership) of a farm business when criteria (b) and (c) above are not met</p>	<p>their income from their farm business</p> <p>There are alternative options available for farmers who have recently taken ownership (including part-ownership) of a farm business when criteria (b) and (c) above are not met</p>	<p>Australian citizen or permanent resident</p> <p>(iv) a corporation (within the meaning of the Corporations Act 2001 (Cth) other than a public company (within the meaning of that Act), at least one of whose members is an Australian citizen or permanent resident.</p> <p>At least one member of the small business, under normal circumstances must contribute at least 75% of their labour and derive at least 50% of their income from the small business</p>	<p>and where they derive the majority of their income</p>	<p>operating a farm business or a demonstrated potential to operate a farm business and</p> <ul style="list-style-type: none"> <li>– at least one member of the farm business intends to have the farm business as their principal business pursuit.</li> </ul> <p>If the loan is used to support farm asset succession, after the succession arrangements have been carried out, the farm business in which the farm asset successor holds the sole or controlling interest will:</p> <ul style="list-style-type: none"> <li>– have at least one member of the farm business who has experience operating a farm business or demonstrated potential to operate a farm business</li> <li>– have at least one member who intends to have the farm business as their principal business pursuit.</li> </ul> <p>If the loan is to be provided directly to a farm business, at least one member of the farm business must have</p>	

Independent Review of the Regional Investment Corporation

<b>Drought Loan Eligibility Criteria</b>	<b>Farm Investment Loan Eligibility Criteria</b>	<b>AgBiz Drought Loan Eligibility Criteria</b>	<b>AgRebuild Loan Eligibility Criteria</b>	<b>AgriStarter Loan Eligibility Criteria (under first farm category)</b>	<b>AgriStarter Loan Eligibility Criteria (under successor category)</b>
					the farm business as a principal business pursuit
All members of the farm business must not have more non-farm assets and liquid assets than the amount needed for prudent risk management	Farm business must solely or mainly supply, or intend to solely or mainly supply, products into supply chains that are interstate and/or outside Australia	Small business must be, or have been, supplying goods or services relating to primary production to farm businesses located in an affected area	–	<p>A first farmer loan can only be made:</p> <ul style="list-style-type: none"> <li>– in respect of a farm business that is engaged solely or mainly in producing commodities for constitutional trade or commerce, or</li> <li>– for the purpose of encouraging or promoting constitutional trade or commerce</li> </ul> <p>Constitutional trade and commerce is defined in the RIC AgriStarter Guidelines</p>	<p>A succession loan can only be made:</p> <ul style="list-style-type: none"> <li>– to support farm business succession in respect of a farm business that is engaged solely or mainly in producing commodities for constitutional trade or commerce</li> <li>– to support farm asset succession in respect of a farm business in which a farm asset successor holds the sole or controlling interest, and that is engaged solely or mainly in producing commodities for constitutional trade or commerce or</li> <li>– for the purpose of encouraging or promoting constitutional trade or commerce</li> </ul> <p>^Constitutional trade and commerce is defined in the RIC AgriStarter Guidelines</p>



Independent Review of the Regional Investment Corporation

<b>Drought Loan Eligibility Criteria</b>	<b>Farm Investment Loan Eligibility Criteria</b>	<b>AgBiz Drought Loan Eligibility Criteria</b>	<b>AgRebuild Loan Eligibility Criteria</b>	<b>AgriStarter Loan Eligibility Criteria (under first farm category)</b>	<b>AgriStarter Loan Eligibility Criteria (under successor category)</b>
Farm business must have a drought management plan	–	Small business cannot be a farm business. Throughout the 6 months before applying for the loan, the small business must have fewer than 20 employees other than casual employees	–	<p>Applicants for a first farmer loan must be seeking to purchase, establish, or develop a farm business in which they hold or will hold the sole or controlling interest. First farmers cannot have previously held the sole or majority interest in a farm business (other than the recently acquired or established business in respect of which the loan is sought)</p> <p>Note – applicants will also need to use the loan for specific purposes as outlined in the AgriStarter Guidelines</p>	<p>Applicants for a succession must be a farm business, farm business successor<sup>^</sup> or farm asset successor<sup>^</sup></p> <p><sup>^</sup>Farm business successor and farm asset successor are defined in the AgriStarter Guidelines. Those applying for a succession loan must demonstrate that:</p> <ul style="list-style-type: none"> <li>• the farm business is undertaking or has undertaken succession planning, and;</li> <li>• the loan is to support succession arrangements (that is, the succession planning process and the activities identified in the succession planning process)</li> </ul> <p>Note – applicants will also need to use the loan for specific purposes as outlined in the AgriStarter Guidelines</p>

# Appendix G: Existing support measures

**Table G1 Existing support measures**

Program	Funding	Sector	What is provided	Category	Eligibility criteria
Rural Financial Counselling Service	\$104 million from 2016 to 2021 (current round)	Commonwealth	Access to free financial counselling	Financial Hardship	<ul style="list-style-type: none"> <li>be a primary producer or small related enterprise</li> <li>be experiencing or at risk of financial hardship</li> </ul>
Drought Communities Small Business Support	\$12.785 million 2020 to 2021	Commonwealth	Access to free financial counselling. A Professional Services Fund is also available to help businesses access specialist third-party advice (up to \$5000 per client)	Financial Hardship	<ul style="list-style-type: none"> <li>have 19 employees or less</li> <li>are experiencing, or at risk of, financial hardship due to the impacts of drought, bushfire or COVID-19</li> <li>are located within a regional area (i.e. not in a metropolitan area)</li> <li>are ineligible to access services under the existing RFCS program</li> </ul>
Small Business Bushfire Counselling	\$3.5 million	Commonwealth	Access to free telephone financial counselling	Financial Hardship	<ul style="list-style-type: none"> <li>be a small business or sole trader</li> <li>are experiencing, or at risk of, financial hardship due to the impacts bushfire</li> </ul>
Farm Household Allowance	Uncapped and demand driven program – funding adjusts according to need  2020–21 budget is \$111.6 m	Commonwealth	Access to: <ul style="list-style-type: none"> <li>social security payment &amp; ancillary allowances</li> <li>Farm Financial Assessment Supplement of up to \$1,500</li> <li>activity supplement of up to \$10,000</li> <li>a Farm Household Case Officer to help improve clients' financial circumstances</li> </ul>	Financial Hardship	<ul style="list-style-type: none"> <li>be a farmer or partner of a farmer</li> <li>meet the income and assets test limits</li> <li>meet mutual obligation requirements</li> </ul>
Farm Business Resilience Program (Future Drought Fund)	\$64 million in 2020–21	Commonwealth	Participants will develop a Farm Business Plan, tailored to their business and situation, and have the opportunity for professional assessment and feedback on the plan	Drought	Program guidelines currently under development

Independent Review of the Regional Investment Corporation

Program	Funding	Sector	What is provided	Category	Eligibility criteria
			Training will cover areas such as strategic business skills, risk management, natural resource management, and personal and social resilience		
Drought Communities Support Initiative	\$33 million for Round 1 \$148.5 million for Round 2 2019–20 to 2020–21	Commonwealth	Assistance to help meet household expenses for drought affected families, up to a maximum of \$3,000 per family/household	Drought	<ul style="list-style-type: none"> <li>be a farmer, farm worker or farm supplier/contractor facing hardship due to drought</li> <li>live in a drought-affected area</li> </ul>
Country Women's Association - Drought Relief	\$2.5 million	Commonwealth	<p>Assistance to help meet household expenses for drought affected families, up to a maximum of \$3,000 per family/household.</p> <p>Household expenses can include grocery bills, vehicle maintenance, school, electricity, rates (up to \$1000 per instalment), telephone, dental and medical (gap payments or cost of travel to access treatment) etc. for expenses that are current - both paid and unpaid</p>	Financial hardship	<ul style="list-style-type: none"> <li>be a farming business affected by drought.</li> </ul>
Farm Management Deposits (FMD)	Not applicable (foregone revenue)	Commonwealth	<p>The FMD Scheme assists primary producers to deal more effectively with fluctuations in cash flows. The scheme allows eligible primary producers to set aside pre-tax income which they can draw on in future years when they need it, such as for restocking or replanting when conditions start to improve</p> <p>Income deposited into an FMD account is tax deductible in the financial year the deposit is made. It becomes taxable income in the financial year in which it is withdrawn (repaid)</p>	Financial planning	<ul style="list-style-type: none"> <li>be a primary producer</li> <li>earn less than \$100,000 in off farm income</li> <li>be a sole trader or a partner in a partnership</li> </ul>
On-farm Emergency Water Infrastructure Rebate Scheme	\$100 million from June 2018 to 2021	Commonwealth	Eligible farmers can claim up to 25% of expense associated with new purchases and installation of on-farm water infrastructure, maximum of \$25,000	Drought	<ul style="list-style-type: none"> <li>be a primary producer or horticulture farmer</li> <li>be a property owner, share farmer or lease holder</li> <li>be located in an area defined as drought affected</li> </ul>

Independent Review of the Regional Investment Corporation

Program	Funding	Sector	What is provided	Category	Eligibility criteria
					<ul style="list-style-type: none"> <li>• In the grazing or horticulture industries</li> </ul>
North Queensland Restocking, Replanting and On-farm Infrastructure Grant QLD	\$300 million	Commonwealth and QLD Governments	<p>Maximum grant amount available for an eligible primary production enterprise is \$400,000 and can be used to:</p> <ul style="list-style-type: none"> <li>• restock lost livestock</li> <li>• cover freight transport costs associated with replacing livestock</li> <li>• replant lost or damaged crops or permanent plantings</li> <li>• restore or replace lost or damaged on-farm infrastructure</li> </ul>	Flood	<ul style="list-style-type: none"> <li>• primary producers who suffered loss of livestock, or loss or damage to crops, permanent plantings or on-farm infrastructure as a direct result of the North Queensland and Far North Queensland Monsoon Trough (25 January - 14 February 2019)</li> <li>• be in a designated LGA</li> <li>• match grant amount with equal co-contribution</li> </ul>
Small Business Bushfire Grants \$10,000	\$234 million	Commonwealth & state/territory	<p>Financial assistance of up to \$10,000 is available to impacted small businesses for costs associated with meeting standard business costs, seeking financial advice, enveloping the business and extending business reach</p> <p>Program closed for applications by January 2021</p>	Bushfire	<ul style="list-style-type: none"> <li>• be a small business owner in the defined disaster area when they were affected by the 2019–2020 bushfire disaster events</li> <li>• hold an Australian Business Number (ABN)</li> <li>• have suffered decline in revenue of 40% or more in a 3 month period, compared to the same period in previous years</li> <li>• be located in one of the eligible LGAs</li> </ul>
Bushfire Recovery Grants \$50,000	\$68.4 million	Commonwealth & state/territory	<p>The bushfire recovery grant of up to \$50,000 is to help pay for costs associated with the clean-up and reinstatement of a small business or non-profit organisation's operations.</p> <p>Program closed for applications in December 2020</p> <p>This grant replaces the \$15,000 Rural Assistance Authority grant which, if already received, will be deducted from the \$50,000 total</p>	Bushfire	<ul style="list-style-type: none"> <li>• be a small business owner or non-profit organisation in the defined disaster area when affected by the 2019-2020 bushfire disaster events</li> <li>• have suffered direct damage</li> <li>• be primarily responsible for the meeting costs they are claiming</li> <li>• intend to re-establish their small business or non-profit organisation in the defined disaster area</li> <li>• have held an ABN</li> <li>• Farm businesses not eligible</li> </ul>

# Independent Review of the Regional Investment Corporation

Program	Funding	Sector	What is provided	Category	Eligibility criteria
Bushfire recovery grants \$75,000	\$172.7 million to 2019–20 to 20–2021	Commonwealth & State/territory	The Bushfire Response in Primary Industries Grants provide \$75,000 in a grant that can be used for everything from fodder and water, to sheds, fencing and agricultural equipment, where those needs aren't covered by existing insurance policies  Program closed for applications in January 2021	Bushfire	<ul style="list-style-type: none"> <li>• be a primary producer</li> <li>• must have suffered direct damage</li> <li>• earn more than 50% of their income from primary production or goods produced directly from their primary production</li> <li>• spend part of their labour on primary production</li> <li>• carry on with their business at the times of bushfire</li> <li>• not be a corporation</li> <li>• have an ABN, but no need to be registered for GST</li> </ul>
Bushfire recovery grants for wine grape producers	\$5.7 million	Commonwealth, but delivered by state/territories	Grants of up to \$10,000 will be given to wine grape producers affected by smoke taint but who are located outside of disaster declared local government areas  Program closed for applications in December 2020	Bushfire	<ul style="list-style-type: none"> <li>• be a wine grape producer</li> <li>• hold an Australian business number (ABN) and have held that ABN at the time of the eligible disaster</li> <li>• be located outside of the local government areas eligible for the Emergency Bushfire Response in Primary Industries (EBRPI) grant or the Small Business Bushfire Support grant</li> <li>• have had the 2020 vintage of wine grape harvest tainted by smoke from the 2019–20 bushfires and be able to provide evidence to support that claim</li> <li>• have suffered a decline in income of 40% or more since 1 August 2019</li> </ul>
Bushfire recovery grants for apple producers	\$31 million	Commonwealth, but delivered by state/territories	Grants of up to \$120,000 per hectare for eligible businesses are available to assist with re-establishing damaged or destroyed apple orchards  Program closed for applications in December 2020	Bushfire	<ul style="list-style-type: none"> <li>• be an apple grower who is a primary producer or is a person or a partner in a partnership or trust who spends more than 50%</li> <li>• property was within a DRFA disaster activated area of a category C clean-up for the 2019 bushfires</li> </ul>

Independent Review of the Regional Investment Corporation

Program	Funding	Sector	What is provided	Category	Eligibility criteria
					<ul style="list-style-type: none"> <li>• have had apple orchards that suffered direct damage by bushfires since August 2019</li> <li>• have been in active production immediately prior to the fires</li> <li>• able to provide a matching co-contribution to the value of the grant being sought (contributions can be in cash or in kind)</li> </ul>
Bushfire Concessional Loans	N/A (loans will be repaid)	Commonwealth and State/territory Governments	Concessional loans of up to \$500,000 at 0.82% with a ten year loan period. Closed December 2020	-	<ul style="list-style-type: none"> <li>• be a small business, primary producer or non-profit organisations impacted by bushfires</li> <li>• be in an eligible LGA</li> <li>• have suffered significant damage to assets and/or significant loss of income</li> </ul>
Primary Producer Clean-Up and Restoration Grants – VIC bushfires March 2019	\$2.86 million 2019 to 2022 (indicative only)	Commonwealth & State/territory	<p>To provide financial assistance to primary producers located in the local government areas of Baw, Cardinia and Latrobe that were impacted by the bushfires which occurred in February/March 2019. The grant can be used to fund the cost of clean-up and recovery. This assistance is jointly funded by the Commonwealth and Victorian governments under the DRFA, and the grants are administered by Rural Finance</p> <p>The maximum support available under this program is \$10,000.</p>	Bushfire	<ul style="list-style-type: none"> <li>• have suffered the direct impact of the Bushfires that commenced February / March 2019</li> <li>• be located in one of the following local Government areas; Baw, Cardinia or Latrobe</li> <li>• have a right or interest in the land property affected by the bushfires (ownership or lease)</li> <li>• be classified as a primary producer (refer to definitions)</li> <li>• be responsible for the cost of bushfire repair</li> <li>• have re-established the primary production enterprise in the same area or intend to</li> </ul>
Vehicle Rebates for Farmers TAS	N/A	TAS Government	Farmers in Tasmania are entitled to a 40% reduction in Motor Tax on commercial goods vehicles used for agricultural purposes.	-	<ul style="list-style-type: none"> <li>• be a farmer</li> <li>• operate in Tasmania</li> <li>• Other eligibility criteria apply for further discounts on registration and licensing for vehicles</li> </ul>

Independent Review of the Regional Investment Corporation

Program	Funding	Sector	What is provided	Category	Eligibility criteria
			Discounts are also available on registration or licence if farmers present evidence of being entitled to a concession		
AgriGrowth Loan Scheme TAS (Including Young Farmer Support Package)	\$40 million (as at 2018)	TAS Government	Provides loans ranging from \$100,000 to \$3 million to fund projects that otherwise could not be brought forward and/or financed under normal banking arrangements. For eligible farm business and agri-food businesses operating in Tasmania for projects that advance the Agrivision 2050 plan	Financial	<ul style="list-style-type: none"> <li>• be a Tasmanian farm or agri-food business</li> <li>• operate as a sole trader, trust, partnership or private company</li> <li>• demonstrate a clear need for the loan, to the satisfaction of the Department of State Growth, and projects must advance the Government's agri-growth agenda/policy</li> <li>• include a minimum 3 year business plan to the satisfaction of the department</li> <li>• demonstrate ongoing financial viability with the loan application and business plan showing that the venture will be profitable within the agreed loan period</li> <li>• be registered for tax purposes in Australia with an ABN and be registered for GST</li> </ul>
Rural Relief Fund TAS	\$150,000 (2019)	TAS Government	<p>\$150,000 to the Rural Relief Fund (RRF) to assist with direct household and farm business expenses for those in hardship due to drought. The RRF is administered by Rural Business Tasmania</p> <p>Rural Relief Fund Grant - Funds up to \$2,500</p> <p>Rural Relief Fund Drought Assistance – initial funding of \$1,500 with possibility of further \$5,000 of funding</p>	Drought	<ul style="list-style-type: none"> <li>• has a right or interest in land or assets used for the purposes of primary production, small business or fisheries</li> <li>• contributes a significant part (greater than 51%) of their labour and capital to the enterprise</li> <li>• registered with the Australian Taxation Office and have an ABN</li> <li>• is still conducting this enterprise and/or intend to continue/resume in the future,</li> <li>• suffering hardship at the present time</li> </ul>
Pastoral Lease Rent Rebate Scheme SA	N/A	SA Government	All South Australian pastoralists will receive a 50% rebate on pastoral lease rent, no more than \$3,500/financial year	Drought	<ul style="list-style-type: none"> <li>• be a South Australian pastoralists</li> <li>• be eligible for the Farm Household Allowance</li> <li>• have an ABN.</li> </ul>

Independent Review of the Regional Investment Corporation

Program	Funding	Sector	What is provided	Category	Eligibility criteria
Council Rate Rebate SA	N/A	SA Government	Rebate on local council rates of 50% (or maximum \$7,500). Available for 2019/20 and 2020/21 financial years	Drought	<ul style="list-style-type: none"> <li>be a South Australian drought-affected primary producers approved for Farm Household Allowance</li> </ul>
Multi-peril Crop Insurance SA	N/A	SA Government	Waives the stamp duty fees on multi-peril crop insurance	Drought	<ul style="list-style-type: none"> <li>any farmer that has taken out MPCl since January 1 2018 can apply to claim it back</li> </ul>
Grants for Horticulture Netting Infrastructure SA	\$14.6 million	SA Government	Up to 50% of costs associated with installation of new netting or replacement of any damaged netting for horticulture crops, up to a maximum of \$300,000	Horticulture	<ul style="list-style-type: none"> <li>be a primary production business, property owner, share farmer</li> <li>be a lease holder or business that operate as a sole trader, partnership, trust or private company in horticulture</li> </ul>
Emergency Drought Transport Subsidy NSW	\$116 million 2020	NSW Government	Up to \$50,000 to cover the cost of transporting: fodder, water to a property for stock or domestic use, stock to and from agistment, stock to sale or slaughter	Drought	<ul style="list-style-type: none"> <li>own and operator of a farm business in NSW</li> <li>operate as a sole trader, partnership, trust or private company and trade agricultural products</li> <li>registered with the Australian Taxation Office as a primary producer, and have an Australian Business Number</li> <li>earn more than 50% of their gross income from the primary production enterprise under normal seasonal circumstances; or are classified as a "new entrant", meaning they have been operating their farm business for between twelve (12) months to three (3) years and more than 50% of their gross income will be derived from the farm business within 3 years of the date of the application</li> <li>the business is being negatively impacted by drought conditions</li> <li>owners and operators of the business do not have gross off-farm assets exceeding \$5,000,000 (excluding funds in a registered superannuation fund)</li> </ul>



# Independent Review of the Regional Investment Corporation

Program	Funding	Sector	What is provided	Category	Eligibility criteria
Farm Innovation Fund NSW	\$1 billion	NSW Government	<p>Long term, low interest rate loan for NSW farmers for permanent on-farm infrastructure.</p> <p>Farmers can borrow up to a maximum of \$1 million per project, with a total of \$1,000,000 outstanding at any one time to build on-farm infrastructure, including stock containment areas.</p> <p>Waived interest charges on Farm Innovation Fund loans for the 2019-20 financial year</p>	Drought	<ul style="list-style-type: none"> <li>• be an owner or operator of a farm business where the work is to be carried out</li> <li>• operate as a sole trader, partnership, trust or private company and trades agricultural products</li> <li>• registered with the Australian Taxation Officer as a primary producer, and has an ABN</li> <li>• owner and operator earns more than 50% of their gross income from your primary production enterprise under normal seasonal circumstances; or are classified as a “new entrant”, meaning that they have been operating their farm business for between 12 months to 3 years and more than 50% of their gross income will be derived from the farm business within 3 years of the date of the application</li> <li>• not have gross off farm assets exceeding \$5,000,000 (excluding funds in a registered superannuation fund).</li> </ul>
Drought Assistance Fund NSW	\$200 million	NSW Government	<p>A \$100,000 interest-free loan for 7 years with no repayments required in the first two years.</p> <p>The loan can be used for:</p> <ul style="list-style-type: none"> <li>• transport of livestock, fodder and / or water</li> <li>• improving water and fodder infrastructure</li> <li>• desilting dams</li> <li>• collection and banking of genetic material of livestock.</li> </ul>	Drought	<ul style="list-style-type: none"> <li>• farmers in NSW who own and operate a farm business</li> <li>• used for activities that demonstrate an enterprise or natural resource sustainability benefit.</li> </ul>
Natural Disaster Transport Subsidy NSW	N/A	NSW Government	<p>Subsidy to pay for the cost of transporting:</p> <ul style="list-style-type: none"> <li>• fodder and/or water to an affected property</li> <li>• stock to sale or slaughter</li> <li>• stock to/from agistment.</li> </ul>	Natural Disasters	<ul style="list-style-type: none"> <li>• primary producers in eligible LGAs</li> <li>• ABN-registered</li> <li>• &gt;50% income from farm activities.</li> </ul>

# Independent Review of the Regional Investment Corporation

Program	Funding	Sector	What is provided	Category	Eligibility criteria
			Subsidies of up to 50% of the total freight costs to a maximum of \$15,000 per farm enterprise per financial year.		
Forest Industries Innovation Fund NSW	\$34 million	NSW Government	Provides long-term low-interest (2.5%) loans to projects that contribute to supporting NSW industry innovation and the exploration of new markets for forest products. Max loan \$3 million, up to 100% of the net cost.	Forestry	<ul style="list-style-type: none"> <li>own or manage a business involved in:</li> <li>a) Plantation and/or native forest operations; or b) Forest product processor / milling operations; or c) Silvicultural or forest harvest / haulage contracting; or d) Production or development of forestry industry inputs or outputs, including market development</li> <li>demonstrate long-term viability</li> <li>provide satisfactory security.</li> </ul>
Agriculture Rate/Fee Waivers NSW	\$99 million 2020	NSW Government	NSW government to continue waiving Local Land Services rates, bee site permits, Western Lands lease rent, wild dog fence rates and provide assistance for vehicle registration costs for eligible primary producers	Drought	<ul style="list-style-type: none"> <li>automatically applied to eligible landholders</li> </ul>
Water Licences Waiver NSW	\$28.5 million 2020	NSW Government	Waiver of fixed water charges for all domestic and stock and high security licence holders along the NSW Border Rivers, Lower Namoi, Upper Namoi, Peel, Macquarie and Lower Darling regulated rivers in recognition of the cut or restricted supply in these systems Up to \$4,000 to all general water licence holders in rural and regional NSW across surface and groundwater systems, and to customers of Irrigation Corporation.	Drought	<ul style="list-style-type: none"> <li>automatically applied to the eligible landholders in the 2020–21 water year.</li> </ul>
Business Connect NSW	N/A	NSW Government	Provides tailored, trusted advice for your small farm or non-farm business.	Financial	<ul style="list-style-type: none"> <li>all industries including retailers, tourism operator, contactors and farm-business</li> </ul>
Drought Relief Assistance Scheme QLD	N/A	QLD Government	Access to: <ul style="list-style-type: none"> <li>freight subsidies for the transport of fodder, water and livestock</li> <li>the Emergency Water Infrastructure Rebate (EWIR).</li> </ul>	Drought	<ul style="list-style-type: none"> <li>be a Queensland primary producer who is a person or a partner in a partnership, company or trust</li> <li>spend more than 50% of your labour on the farm and derive more than 50% of</li> </ul>

# Independent Review of the Regional Investment Corporation

Program	Funding	Sector	What is provided	Category	Eligibility criteria
			Up to \$20,000 per property per financial year is available.		<p>your gross income from a primary production enterprise</p> <ul style="list-style-type: none"> <li>• be a property owner, share-farmer or lessee in the grazing industry (beef cattle, sheep, dairy cattle, goats, deer or horses that are not normally hand-fed)</li> <li>• have a property within a State drought-declared area or have a current Individually Droughted Property declaration</li> <li>• have not introduced any livestock on to the property during the current drought or in the 3 month period prior to the drought declaration, including any livestock taken on for agistment.</li> </ul>
Farming in Reef Catchments Rebate Scheme QLD	\$10.1 million (2020)	QLD Government	Rebate for advice on managing nutrient and sediment run-off on your primary production enterprises, up to \$1,000.	Reef	<ul style="list-style-type: none"> <li>• be a primary producer (sugarcane, bananas or beef cattle)</li> <li>• be located in the Great Barrier Reef region including Wet Tropics, Burdekin, Mackay Whitsundays, Fitzroy and Burnett Mary according to the Great Barrier Reef catchment and river basins map</li> <li>• have sought advice from an AAA</li> <li>• not have received any financial assistance from Australian or Queensland Government programs around managing nutrient and sediment run-off on your commercial agricultural property.</li> </ul>
Small Business Disaster Recovery Grants QLD	\$3 million from 2019 to 2021	QLD Government	Funding of up to \$10,000 (excluding GST) may be provided to eligible businesses severely impacted by the North and Far North Queensland monsoonal trough to engage business consultants, mentors, coaches or an advisory service to assist with business recovery. Funding for building, plant and equipment repairs is available in specific circumstances	Flood	<ul style="list-style-type: none"> <li>• established small businesses (with fewer than 20 employees) severely impacted by the monsoonal trough</li> <li>• level of assistance available will depend on which LGA the business is situated in</li> <li>• Small businesses who are primary producers or farm enterprises are not eligible to apply.</li> </ul>

Independent Review of the Regional Investment Corporation

Program	Funding	Sector	What is provided	Category	Eligibility criteria
Land rent rebates QLD	N/A	QLD Government	Holders of rural leases (Category 11 leases used for grazing and primary production) issued under Queensland's Land Act 1994 are eligible for a rebate of 18% of their annual rent where that annual rent is more than \$272.00 (excl. GST). The rebate is available to producers who hold leases in drought-declared areas and to those who have an individually droughted property (IDP)	Drought	<ul style="list-style-type: none"> <li>hold a rural lease</li> <li>be in a designated drought-declared area or be determined as individually declared property</li> </ul>
Water Licence Waivers QLD	N/A	QLD Government	Fees associated with an annual water licence invoice and applications for stock or domestic water licences are being waived in either a drought declared area or IDP.	Drought	<ul style="list-style-type: none"> <li>be in a designated drought-declared area or be determined as individually declared property</li> <li>affected producers will be advised of the waiver by the Department of Regional Development, Manufacturing and Water.</li> </ul>
Freight subsidies for disaster affected primary producers QLD	N/A	QLD Government	<p>Freight subsidies may be made available for moving materials such as:</p> <ul style="list-style-type: none"> <li>emergency fodder for livestock to the primary producer's home property</li> <li>building, fencing materials, machinery and equipment</li> <li>animals purchased for restocking as a result of the disaster</li> </ul> <p>Freight subsidies of up to \$5,000 per disaster event.</p>	Natural Disasters	<ul style="list-style-type: none"> <li>located within a disaster-declared area under Disaster Recovery Funding Arrangements (DRFA) or</li> <li>who hold a current Individual Disaster Stricken Property (IDSP) declaration.</li> </ul>
Transport-related Drought Assistance Measures QLD	N/A	QLD Government	<p>Transport-related drought assistance measures include:</p> <ul style="list-style-type: none"> <li>permits for increasing the maximum hay loading height</li> <li>concessions on shifting droughted livestock</li> <li>waivers and greater flexibility on certain vehicle registration conditions and fees and charges</li> </ul>	Drought	<ul style="list-style-type: none"> <li>be a primary producer</li> <li>satisfy others conditions, which vary depending on which subsidy is applied for</li> </ul>

Independent Review of the Regional Investment Corporation

Program	Funding	Sector	What is provided	Category	Eligibility criteria
			<ul style="list-style-type: none"> <li>increased school transport allowances for some families that drive their children to school or connect with a school bus run.</li> </ul>		
Drought Relief from Electricity Charges Scheme (DRECS)	N/A	QLD Government	Provides relief from supply charges on electricity accounts that are used to pump water for farm or irrigation purposes	Drought	<ul style="list-style-type: none"> <li>be a farmer of a property that has been individually drought-declared or is within a drought-declared area</li> <li>be experiencing disruptions to pumping water for farming or irrigation (i.e. have no water or water availability is severely restricted within the billing period).</li> </ul>
Sustainability Loans QLD	\$100 million 2020-21, combined with First Start Loan	QLD Government	Sustainability Loans of up to \$1.3 million to invest in the latest infrastructure to create a viable future farming businesses including activities that improve farming system sustainability, natural resource sustainability and financial sustainability	Sustainability	<ul style="list-style-type: none"> <li>be a primary producer or commercial fisher, operational for &gt;two years</li> <li>show financial need</li> <li>be viable and show a management plan</li> </ul>
Disaster Assistance (Essential Working Capital) Loan QLD	N/A	QLD Government	To assist primary producers, small businesses and non-profit organisations with essential working capital for expenses. Low-interest loans of up to \$100,000	Natural Disasters	<ul style="list-style-type: none"> <li>property must be located in one of the defined disaster areas</li> <li>provide adequate security</li> <li>demonstrate ongoing viability</li> </ul>
First Start Loan QLD	\$100 million 2020-21, combined with Sustainability Loans	QLD Government	Provides concessional loans of up to \$2 million to assist Queensland-based primary producers and commercial fishers to start or establish a viable commercial enterprise	Financial	<ul style="list-style-type: none"> <li>have resided in Queensland for at least 6 months</li> <li>not previously owned or disposed of a viable primary production business</li> <li>immediately trade in your own right</li> <li>demonstrate need</li> <li>have 50% equity and capacity to service the loan</li> </ul>
Disaster Assistance Loans QLD	N/A	QLD Government	Disaster Assistance Loans are available to assist primary producers, small businesses and non-profit organisations with re-establishing normal operations Loans up to \$250,000	Natural disasters	<ul style="list-style-type: none"> <li>be a Queensland small business</li> <li>be in a defined disaster areas</li> <li>demonstrate viability</li> <li>have adequate security</li> </ul>

Independent Review of the Regional Investment Corporation

Program	Funding	Sector	What is provided	Category	Eligibility criteria
Farm Water Supply Planning Scheme WA	N/A	WA Government	Eligible farmers may apply for funding of up to \$1,000 to cover 50% of the cost of a water auditor to make a site inspection to help farmers develop a water supply plan	Water	<ul style="list-style-type: none"> <li>have an ABN and be registered for the goods and services tax (GST)</li> <li>have a commercial broadacre farm located in Western Australia</li> <li>be located in an eligible shire</li> </ul>
Natural Disaster Relief and Recovery Arrangements WA	N/A	WA Government	<p>Provides needs-based funding to help primary producers with the cost of disaster recovery:</p> <ul style="list-style-type: none"> <li>obtaining professional advice directly relating to addressing issues arising from the natural disaster</li> <li>freight costs of transporting livestock, fodder or water, and building or fencing equipment or machinery</li> <li>the restoration or rebuilding of fencing, including the cost of materials when the fencing has been deliberately dismantled or damaged due to counter disaster operations or where the roaming of livestock presents a public safety risk</li> <li>other needs-based measures specific to the disaster type</li> </ul>	Natural disasters	<ul style="list-style-type: none"> <li>operate a commercial scale farming, pastoral, horticultural or fishing business and be affected by a declared national disaster</li> <li>be registered with the ATO as a primary producer</li> <li>have an ABN</li> <li>either own the farm land or hold a current minimum 5 year written agreement to sharefarm or lease the property for the purpose of primary production</li> <li>own and operate under a fishing licence or have a 3 year lease of a fishing licence</li> <li>devote a minimum of 75% of your labour to the affected primary production enterprise</li> <li>confirm that your business usually generates at least 50% of its total income from the affected enterprise</li> </ul>
Farm Machinery Improvement Grants Program VIC	N/A	VIC Government	A grant of up to \$10,000 is available per eligible dryland farm business to maintain essential on-farm machinery and equipment to meet key operational requirements and prepare for the 2020 growing season	Drought	<ul style="list-style-type: none"> <li>be the owner, operator, share farmer or lease holder of a commercial scale, dryland farm business</li> <li>have a farm located in the Millewa or parts of Mildura Shire</li> <li>be registered as a primary producer with the Australian Taxation Office</li> <li>have an ABN and be registered for GST</li> </ul>
On-Farm Drought Resilience Grant Program VIC	N/A	VIC Government	\$10,000 to boost farmers' access to professional services whilst still enabling farmers to invest in	Drought	<ul style="list-style-type: none"> <li>be a farm business in Wellington Shire, East Gippsland Shire, Millewa or the Goulburn Murray Irrigation District.</li> </ul>

Independent Review of the Regional Investment Corporation

Program	Funding	Sector	What is provided	Category	Eligibility criteria
			<p>drought preparedness infrastructure. Eligible farm businesses can now apply for:</p> <ul style="list-style-type: none"> <li>• up to \$5,000 for business decision making activities (with no-contribution required)</li> <li>• up to \$5,000 for infrastructure investments (with at least 50% co-contribution required).</li> </ul> <p>Closed August 2020</p>		
Young Farmer Duty Exemption or Concession VIC	N/A	VIC Government	Young farmers buying their first farmland property in Victoria are entitled to a duty exemption or concession if they satisfy eligibility criteria	Financial	<ul style="list-style-type: none"> <li>• be under 35 at the date of the contract for the transfer of the farmland property</li> <li>• the property must be both the applicant's and their partner's first farmland property</li> <li>• the value of the property must not exceed \$750,000</li> <li>• be carrying on, or intending to carry on, a business of primary production in relation to the purchased property</li> <li>• a partner is a spouse or domestic partner.</li> </ul>
Westpac Drought Assistance Package	\$100 million	Commercial	<p>Access to:</p> <ul style="list-style-type: none"> <li>• carry on finance loans of up to \$1m to at a heavily-discounted variable interest rate.</li> <li>• the option to defer principal and interest repayments on existing loans for drought-impacted customers.</li> <li>• interest adjustment for customers with FMDs to offset FMD balance against eligible business loans</li> </ul>	Drought	<ul style="list-style-type: none"> <li>• be an existing Westpac agribusiness customer</li> </ul>
Westpac Disaster Relief Package	\$50 million	Commercial	<p>Access to:</p> <ul style="list-style-type: none"> <li>• loans up to \$2 million on an interest-only basis at a heavily reduced variable interest rate (3.58% p.a.) to help farmers rebuild their business, including restocking cattle herds</li> <li>• option to defer principal and interest payments on existing loans for up to 12 months</li> </ul>	Floods	<ul style="list-style-type: none"> <li>• be an existing Westpac Group agribusiness customer impacted by the 2019 floods in North Queensland</li> </ul>

Independent Review of the Regional Investment Corporation

Program	Funding	Sector	What is provided	Category	Eligibility criteria
			<ul style="list-style-type: none"> <li>confidential and free telephone counselling service for two years</li> </ul>		
Commonwealth Bank and Red Cross Drought Fund	\$2 million	Commercial	<p>Donations:</p> <p>\$1.75 million as part of a national fundraising appeal with the Australian Red Cross</p> <p>\$250,000 to support Rural Aid's Buy a Bale program</p> <p>Access to:</p> <ul style="list-style-type: none"> <li>no default interest rates applied on business term loans for customers in drought-related financial difficulty</li> <li>confidential telephone counselling service</li> <li>extension of the business loan term agreement</li> <li>fees and charges waiver related to business loan restructures</li> <li>withdrawal of Farm Management Deposit funds before maturity without penalty</li> </ul>	Drought	<ul style="list-style-type: none"> <li>be an existing Commonwealth Bank customer impacted by drought</li> </ul>
ANZ	\$ 130 million	Commercial	<p>Access to:</p> <ul style="list-style-type: none"> <li>1.00% reduction on variable business farming loans in drought declared areas (for 12 months from 1 September 2018)</li> <li>\$130 million in discounted loans available to support famers through the next season</li> <li>\$1 million donation to help farmers struggling with drought conditions</li> <li>suspension of loan repayments, including credit cards for up to 3 months</li> <li>continuing moratorium on farm reposessions in drought-declared regions</li> <li>fees waiver associated with restructuring business loans</li> <li>longstanding commitment not to increase interest rates on distressed customers</li> </ul>	Drought	<ul style="list-style-type: none"> <li>be an existing ANZ customer impacted by drought conditions</li> </ul>



Independent Review of the Regional Investment Corporation

Program	Funding	Sector	What is provided	Category	Eligibility criteria
NAB Drought Assistance Package	–	–	<p>Access to:</p> <ul style="list-style-type: none"> <li>extension of loan terms, consideration of restructure of loan repayments to interest only and waiver of all associated extension/restructure fees</li> <li>credit card and personal loan relief where appropriate</li> <li>suspension of home and personal loan repayments</li> <li>costs and charges waiver for early withdrawal of Term Deposits (including Farm Management Deposits)</li> <li>home loan and personal loan application fees waiver</li> </ul> <p>support and counselling through NAB's Employee Assistance Program</p>	–	<ul style="list-style-type: none"> <li>NAB customers enduring prolonged drought conditions across NSW and QLD</li> </ul>
Rural Aid	N/A	Not-for-profit	Provision of feed, financial assistance, water and counselling to farmers in times of drought, flood or fire	Natural disasters	<ul style="list-style-type: none"> <li>financial hardship due to drought</li> </ul>
Drought Angels	N/A	Not-for-profit	Feed, financial assistance, food hampers, care packs and personalised support to farming families across Australia	Drought	<ul style="list-style-type: none"> <li>financial hardship due to drought</li> </ul>
Lions Club - Need for Feed	N/A	Not-for-profit	Provides emergency fodder and transport for primary producers in farmers in fire, drought and flood affected areas	Natural disasters	<ul style="list-style-type: none"> <li>communities and farmers in need of emergency fodder and transport</li> </ul>
Blaze Aid	N/A	Not-for-profit	BlazeAid is a volunteer-based organisation which assists disaster affected people to clear, repair or replace fences lost on their property as a result of natural disasters such as bushfires, floods or cyclones	Natural disasters	<ul style="list-style-type: none"> <li>be in a rural area</li> <li>be affected by natural disasters</li> </ul>
AGL Farmers and Business Assist	\$2 million	Commercial	<p>Access to:</p> <ul style="list-style-type: none"> <li>the opportunity to wipe up to \$1,500 (incl GST) of existing debt (as of 18 June 2019) from their AGL business energy account (total across gas/electricity)</li> </ul>	Drought	<ul style="list-style-type: none"> <li>be a farmer or rural small business operating in a recent or current drought affected area</li> </ul>

Program	Funding	Sector	What is provided	Category	Eligibility criteria
			<ul style="list-style-type: none"> <li>an upfront discount of between \$2,500 - \$25,000 (excl GST) on the cost of an AGL supplied and installed solar panel system (between 10kW and 100kW in size)</li> </ul>		

**Table G2 Taxation concessions for primary producers and small businesses in rural and regional regions**

Concession	Type	What is provided	Eligibility a
Temporary Loss Carry-back	Tax offset	Ability to offset tax losses against previous years' profits on which tax has been paid to generate a refund. Losses incurred in the 2019-20, 2020-21 and 2021-22 financial years can be carried back against profits made in the 2018-19, 2019-20 and 2020-21 financial years. Eligible corporate entities may elect to receive a tax refund when they lodge their 2020-21 and 2021-22 tax returns.	<ul style="list-style-type: none"> <li>corporate entities with up to \$5 billion turnover</li> </ul>
Income tax averaging	Tax offset	Ability to even out tax payable over a maximum of 5 years, ensuring primary producers do not pay more tax over a number of years than taxpayers on comparable but steady incomes. This is achieved by making a 'tax adjustment' each year in which averaging applies.	<ul style="list-style-type: none"> <li>primary producers with fluctuating incomes</li> </ul>
Profit from the forced disposal or death of livestock	Tax offset	Allows the deferral, over a period of up to 5 years, of profit from the forced disposal or death of livestock, due to fire, drought or flood or some disease. An alternative is to reduce the cost of replacement livestock by the amount of the profit in the disposal year or any of the next 5 years.	<ul style="list-style-type: none"> <li>primary producers</li> </ul>
Double wool clip proceeds	Tax offset	Allows the deferral of the profit on the sale of the second wool clip in an income year to the next income year.	<ul style="list-style-type: none"> <li>primary producers</li> </ul>
Disaster relief payments	Tax offset	Most one-off assistance payments are tax-free; these include assistance from government authorities and charitable institutions following a disaster event, although Disaster Recovery Allowance and Natural Disaster Relief and Recovery Arrangements payments are generally taxable. Regular income support payments are taxable.	<ul style="list-style-type: none"> <li>depends on which are announced by Government as being tax free</li> </ul>
Insurance recoveries for timber or livestock	Tax offset	Allows a primary producer who has an assessable insurance recovery for loss of livestock or for loss by fire of trees that were assets of a primary production business carried on in Australia, to elect to include the amount in assessable income in equal instalments over 5 years.	<ul style="list-style-type: none"> <li>primary producers</li> </ul>

## Independent Review of the Regional Investment Corporation

Concession	Type	What is provided	Eligibility a
Zone tax offsets	Tax offset	Provides people who have lived or worked in a remote or isolated area of Australia with a tax offset in the form of a fixed amount and a percentage of a base amount.	<ul style="list-style-type: none"> <li>all people living in what are designated as remote areas</li> </ul>
Research and Development (R&D) tax incentive	Tax offset	Encourages companies to engage in R&D benefiting Australia, by providing a tax offset for eligible R&D activities by either a refundable tax offset for certain eligible entities whose aggregated turnover is less than \$20 million, or a non-refundable tax offset for all other eligible entities.	<ul style="list-style-type: none"> <li>R&amp;D entity</li> <li>total notional deductions are over \$20,000</li> </ul>
Farm Management Deposits (FMDs)	Tax Deductions	Allows primary producers to make tax-effective deposits in higher income years, deferring the tax liability until the deposit is withdrawn – typically in a lower income year. It can be used in addition to income averaging.	<ul style="list-style-type: none"> <li>be a primary producer</li> <li>earn less than \$100,000 in off farm income</li> <li>be a sole trader or a partner in a partnership.</li> </ul>
Electricity and phone connections	Tax deductions	<p>Allows small businesses to deduct, in equal instalments over 10 years, for capital expenditure incurred in connecting:</p> <ul style="list-style-type: none"> <li>mains electricity to land on which a business is carried on or in upgrading an existing connection to such land, or</li> <li>a telephone line brought on or extending to land being used to carry on a primary production business.</li> </ul>	<ul style="list-style-type: none"> <li>primary producers</li> </ul>
Depreciating assets	Tax deductions	Provides a deduction for the decline in value of depreciating assets each year.	<ul style="list-style-type: none"> <li>applies to all tax payers</li> </ul>
Simplified depreciation rules	Tax deductions	Includes immediate deduction of pre-paid expenses.	<ul style="list-style-type: none"> <li>small businesses with an aggregated turnover of less than \$10 million from 1 July 2016 onwards, or \$2 million for previous income years.</li> </ul>
Accelerated depreciation	Tax deductions	<p>Allows accelerated depreciation of:</p> <ul style="list-style-type: none"> <li>Fodder storage assets: from 19 August 2018, allows immediate deduction for capital expenditure on a fodder storage asset. From 12 May 2015 to 18 August 2018, expenditure on a fodder storage asset could be deducted over 3 years. Prior to 12 May 2015, expenditure on a fodder storage asset had to be deducted over the effective life of the asset (determined to be from ten to fifty years depending on the asset)</li> </ul>	<ul style="list-style-type: none"> <li>aggregated turnover of less than \$500 million in the year they are claiming the deduction</li> </ul>

Concession	Type	What is provided	Eligibility a
		<ul style="list-style-type: none"> <li>Water facilities – also applies to irrigation water providers: allows a deduction for the capital expenditure on water facilities (includes plant or a structural improvement) in the year it is incurred. Prior to 12 May 2015, the expenditure had to be deducted over 3 income years Fencing: allows a deduction for capital expenditure on fencing in the year the expenditure is incurred. Prior to 12 May 2015, expenditure on fencing had to be deducted over the effective life of the asset (spread over as long a period as 30 years)</li> <li>Horticulture plants: allows a deduction for the decline in value of horticultural plants at a rate of 7% to 40% per year depending on the effective life of the type of plant</li> <li>Landcare operations – also available to other users of rural land: Provides a deduction for capital expenditure on Landcare operations in the income year it is incurred Shelterbelts: allows deductions for establishing a shelterbelt (a line of trees or shrubs planted to protect an area from fierce weather) – immediate deductions for new fencing and reticulation; and deductions for the costs of site preparation, chemicals and trees</li> <li>Carbon Sink Forests: allows a deduction for capital expenditure in the year it is incurred for an initial 5 year period (starting 1 July 2007) or a concessional capital write-off (7% per year) from 1 July 2012 onward Forestry Managed Investment Scheme (MIS): allows deductions for contributions to forestry MIS that started on or after 1 July 2007, encouraging expansion of commercial plantation forestry in Australia by the establishment and tending of new plantations for felling</li> <li>Temporary full expensing and the instant asset write off: Until 30 June 2022, businesses with a turnover of \$5 billion can deduct the full cost of depreciable assets of any value in the year they are first used or installed ready for use. This includes new assets and improvements to existing eligible assets first used or installed between 7:30pm AEDT 6 October 2020 to 30 June 2022. Additional entitlements are available to businesses according to turnover including: <ul style="list-style-type: none"> <li>\$50 million to less than \$500 million - an instant asset write-off for second hand goods valued at less than \$150,000 and first used or installed between 12 March 2020 to 30 June 2021.</li> </ul> </li> </ul>	

# Independent Review of the Regional Investment Corporation

Concession	Type	What is provided	Eligibility a
		<ul style="list-style-type: none"> <li>– \$10 million to less than \$50 million - an instant asset write-off for second hand goods of any value and first used or installed between 12 March 2020 to 30 June 2021.</li> <li>– less than \$10 million - an instant asset write-off for second hand goods of any value and first used or installed between 12 March 2020 to 30 June 2021 and deduction of the balance of the simplified depreciation pool at the end of the income year while full expensing applies.</li> </ul>	
Tax concessions	Tax concessions	<p>Concessions include:</p> <ul style="list-style-type: none"> <li>• Flexible livestock valuations: allows primary producers to value their livestock on hand at the start and end of the financial year either at cost, market selling value or replacement value.</li> <li>• Fuel tax credits: provides businesses with a 'credit' for the fuel tax (excise or customs duty) included in the price of fuel used in business activities, machinery, plants, equipment and heavy vehicles.</li> <li>• Luxury car tax concession: allows, in certain circumstances, primary producers and tourism operators to claim a refund of 8/33 of the cost of the car (to a maximum of \$3,000).</li> <li>• Reduction in fringe benefits tax: allows for the reduction in the taxable value of the fringe benefit, resulting in a reduced amount of fringe benefits tax, where the employer provides items such as fuel, food, electricity, housing, help with rent, help with mortgages and relocation expenses.</li> <li>• Simplified trading stock rules: allows small businesses to access small business tax breaks, simplified trading stock rules, simplified depreciation rules and immediate deduction for prepaid expenses.</li> <li>• Capital Gains Tax (CGT) concessions: for small businesses with a turnover of less than \$2 million, these concessions include: <ul style="list-style-type: none"> <li>– 15-year exception: if a primary producer is 55 or older and retiring or are permanently incapacitated, and they have owned an active business asset for at least 15 years, they will not pay CGT when they dispose of the asset by sale, gift or transfer. Amounts from this exemption may be able to be contributed to their super fund without affecting their non-concessional contributions limits.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• depend on the class of concession, but generally apply to small businesses</li> </ul>

# Independent Review of the Regional Investment Corporation

Concession	Type	What is provided	Eligibility <sup>a</sup>
		<ul style="list-style-type: none"> <li>– Fifty percent active asset reduction: if a primary producer has owned an active business asset, they will only pay tax on 50% of the capital gain when they dispose of the asset.</li> <li>– Retirement exemption: an exemption on the sale of an active business asset up to a lifetime limit of \$500,000. If a primary producer is under 55, money from the disposal of the asset must be paid into a complying superannuation fund or retirement savings account.</li> <li>– Rollover: if a primary producer disposes of an active business asset and buys a replacement asset or improves an existing one, they can defer the capital gain until a later year. The replacement asset can be acquired one year before or up to two years after the last capital gains tax event in the income year for which they choose the rollover.</li> </ul>	
Other assistance	Tax relief	Provides assistance to farmers and other taxpayers whose income is areas affected by short-term financial difficulties occasioned by natural disaster and droughts. Farmers finding it difficult to pay their tax debts can apply for more time to pay or arrange to make payments by instalment without interest being charged. There may also be remission of general interest charges.	<ul style="list-style-type: none"> <li>• people affected by short-term financial difficulties.</li> </ul>

<sup>a</sup> This column lists key eligibility requirements. For all eligibility requirements relating to the program, see website.

# Appendix H: Interest rate methodology

## Variable interest rates

The Corporation will set a variable interest rate for each program of farm business loans that it administers, and apply that interest rate to all farm business loans offered within that program.

The Corporation will set a variable interest rate for water infrastructure loans and apply that interest rate to all water infrastructure loans.

## Interest rate components

The interest rates for each program will cover only the Corporation's administrative costs to deliver concessional loans and the Commonwealth's borrowing costs. The interest rate for each program of farm business loans and for water infrastructure loans (referred to as 'programs') will be the sum of the following 2 components:

- 1) Administrative costs: The administrative costs are represented by a margin above the Commonwealth borrowing cost. This margin covers the Corporation's costs of performing its functions, including administering its programs, such that the Corporation and its programs are cost neutral over their life, in line with assumptions agreed by the Commonwealth. These margins can only be adjusted by the Commonwealth reviewing the Corporation's agreed costings.
- 2) Borrowing Costs: The Commonwealth borrowing cost will be calculated based on an average of the daily 10-year Commonwealth bond rate over a specified 6 month period.

## Corporation's administrative costs

The margin for farm business loans is 88 basis points (until and unless advised otherwise by the Commonwealth).

The margin for water infrastructure loans is 42 basis points (until and unless advised otherwise by the Commonwealth).

## Commonwealth's borrowing costs

The initial Commonwealth borrowing cost will be determined based on Reserve Bank of Australia data from 1 November 2017 to 30 April 2018.

## Interest rate review

The Commonwealth borrowing cost will be reviewed every 6 months in November and May and revised if necessary in line with material changes to the Commonwealth 10-year bond rate. A material change is taken to be a movement of more than 10 basis points (0.1 per cent).

An average of the daily Commonwealth 10-year bond rate over a 6-month period will be calculated, using the periods 1 May to 31 October for the November review, and 1 November to 30 April for the May review. The daily bond rate will be sourced from the Reserve Bank of Australia website.

A material change is a movement either up or down of at least 11 basis points between the Commonwealth borrowing cost reflected in the interest rate applied to current loan recipients

and the updated Commonwealth borrowing cost as calculated by the review process. The full amount of any material change will be reflected in the new Commonwealth borrowing cost and passed on to the Corporation's clients through a change in the program interest rates.

If the review results in a Commonwealth borrowing cost that has less than 11 basis points difference compared to the currently applied Commonwealth borrowing cost, the change is considered immaterial and no change will be made to the Corporation's program interest rates.

Any change in program interest rates will take effect from 1 February or 1 August each year as applicable.

The Corporation will write to responsible Ministers advising the outcome of each 6-monthly interest rate review at least 30 days prior to 1 February or 1 August each year, as applicable.

The administrative cost margins for each program do not form part of the 6-monthly review process. If the Commonwealth changes these margins as a result of a review of the Corporation's agreed costings, the Commonwealth will communicate these changes in writing to the Corporation. Any such changes will take effect from 1 February or 1 August of the relevant year, whichever is sooner, provided the Corporation receives at least 30 days' notice from the Commonwealth.

## **Interest rates on commencement of the Corporation's programs**

### **Farm business loans**

Once the Corporation's farm business loans program is open for applications, the initial interest rate will be made publicly available on the Corporation's website and take effect from the date of publication.

At its discretion, the Corporation may advise an indicative initial farm business loans program interest rate earlier than the date at which the program is open for applications. The Corporation may advise this either publicly and/or to selected parties (for example, agricultural industry groups or state and territory governments or delivery agencies).

The initial interest rate will remain in place until at least 1 February 2019. As the Corporation is likely to have commenced operations (though not necessarily opened the farm business loans program for applications) in July 2018, no further interest rate review or change will occur effective 1 August 2018. In the Corporation's first year of operation, 1 February 2019 is considered the earliest date for a change in interest rate in line with the interest rate review process outlined above.

Should the Commonwealth advise the Corporation in writing of a revised administrative cost margin for the farm business loans program prior to it opening for applications, the Corporation will include the revised administrative cost margin in the initial program interest rate, provided it has received at least 30 days' notice prior to the scheduled date for being open for applications.

If the Corporation receives less than 30 days' written notice, it will undertake reasonable endeavours to implement an initial program interest rate that includes the revised administrative cost margin. However, the Corporation is under no obligation to implement the



revised administrative cost margin other than in line with the interest rate review process outlined above.

### **Water infrastructure loans**

The initial interest rate for the Corporation's water infrastructure loans will be advised to prospective state and territory government loan applicants on request from 1 July 2018 and take effect from that date. At its discretion, the Corporation may make the interest rate for water infrastructure loans publicly available.

In consultation with the Departments of Infrastructure, Regional Development and Cities; and Agriculture and Water Resources, the Corporation may advise an indicative initial interest rate for water infrastructure loans to prospective state and territory government loan applicants earlier than 1 July 2018.

The initial interest rate will remain in place until at least 1 February 2019. In the Corporation's first year of operation, 1 February 2019 is considered the earliest date for a change in interest rate in line with the interest rate review process outlined above.

Should the Commonwealth advise the Corporation in writing of a revised administrative cost margin for water infrastructure loans prior to 1 July 2018, the Corporation will include the revised administrative cost margin in the initial interest rate, provided it has received at least 30 days' notice prior to 1 July 2018.

If the Corporation receives less than 30 days' written notice, it will undertake reasonable endeavours to implement an initial interest rate for water infrastructure loans that includes the revised administrative cost margin. However, the Corporation is under no obligation to implement the revised administrative cost margin other than in line with the interest rate review process outlined above.

### **Notification of interest rate changes**

The Corporation will notify loan recipients in writing no less than 10 business days in advance of any changes to the interest rates taking effect.

# Appendix I: Key actions the RIC need to undertake to make required improvements

**Table I1 Key actions the RIC need to undertake to make required improvements**

Category	Opportunity	Explanation
Credit Paper format and Structure	Loan assessment template and assessment process policy should be uniformly adopted.	The loan template was part of policy, however there was no evidence within file sample that it had been adopted. This is likely to improve the quality and consistency of credit assessments. Other parts of policy were also not adequately covered.
	Credit papers should address all eligibility requirements for the relevant loan.	Based on the file sample, credit papers did not consistently assess or document how the application met the eligibility criteria and so there is a risk that loans are approved that are ineligible.
	RIC and the service provider would benefit from a complete credit manual that combines all policy documents and manuals and include examples of best practice credit papers.	This will provide easy access to all policies for relevant staff.
	LSP and RIC reviewers should require errors or poor quality analysis to be amended / corrected before submitting for approvals	This provides regular feedback to assessors and improves the quality of submissions.
Risk and risk mitigant analysis	Credit papers should have a section analysing key risks and mitigants and the assessment process policy should be updated accordingly.	Risk and mitigant analysis is an important credit assessment focus tool when assessing downside sensitivities and ultimate repayment capacity.
	Specific dates need to be loaded for annual reviews in to a diary system.	There is currently no evidence of a review diary in place. Reviews need to be undertaken in line with RIC policy.
	Consideration to size the debt to mitigate refinance risk at the end of the 10-year term.	In some situations it may be appropriate to limit the amount of debt that RIC is willing to provide. This may make the loan more manageable for the client and a more attractive prospect for a commercial financier at the end of the loan term to refinance the residual debt.
	A better appreciation of the CRG process by RIC and more challenge could make the risk grading process more robust. The reviewer should ensure the quantitative and qualitative analysis supports the proposed CRG with a summary comment included to that effect.	A review of file sample found that the supporting calculations and explanations are often missing and spread throughout the paper, making it difficult for the reviewer to understand the assessor's thought process. Incorrect credit risk grade may result in unintended consequences including policy outcomes not achieved, or heightened financial risk.

# Independent Review of the Regional Investment Corporation

Category	Opportunity	Explanation
	Where SCG is below C, justification should be specifically included to support the lending decision.	These files carry an increased level of risk in the event of default and so increased risk needs to be appropriately mitigated
	First priority limits on face value could be lower which would help reduce RIC's second ranking security risk in event of default.	In many cases, there were significant buffer allowances to the first mortgagee without any clearly documented rationale. This can place RIC in a riskier position for future debt recovery.
	REMA valuations need to have all sections complete. Alternatively, the RIC may need to instruct independent valuations.	File sample indicated a large variability in quality, with many sections not fully completed. A completed form will ensure appropriate analysis and accuracy of assessments and security risk appropriately recorded.
Analysis and stress testing of cashflows	More robust analysis in relation to the reasonableness of long term cash flow assumptions, including YIYO assumptions.	This is key to assessing financial viability and capacity to repay. Some approvals are premised on substantial improvement in EBITDA.
	A high level sensitivity analysis should also be performed to demonstrate the potential impact of key risks.	This can help determine appropriate risk mitigation strategies if a downside case eventuated.
Portfolio monitoring and reporting	Prepare monthly exceptions reports, including where CRGs are on watchlist, internal audit and loan inspection reports.	The review found that some files already qualified for inclusion to watchlist due to their grade, however there were no watchlist reports completed. Production of meaningful reports allows actual risks relative to risk appetite to be monitored and oversight to the operation and effectiveness of controls.
	Formal risk reports including meaningful portfolio analysis and observations to be provided to the CEO and Board.	As part of good governance, this provides oversight at the highest level in the organisation.
Independent checking and compliance	Credit committee to perform QA review on at least 10% of all farm business loans.	This recommendation is in line with the RIC Operating policies and will allow quality improvements in loan assessments.
Corporate risk structure	A separate credit relationship team to monitor ongoing credit and financial performance. A separate portfolio team which analyses CRGs, SCGs and other key credit metrics to understand the underlying performance of the portfolio. They could also report on declined loans as a feedback tool for senior management.	Separating risk functions and duties is in line with commercial lenders and allows for efficient management. Since this review commenced, it is noted that the structure of the credit team has changed which has already led to efficiency improvements.

# References

- ANZ. (2017). Submission to the Senate Select Committee Inquiry into Lending to Primary Production Customers.
- Australian Bankers' Association Inc. (2016). Agriculture in Australia: activity and financing.
- Australian Bureau of Agricultural and Resource Economics and Sciences. (2012). Options for insuring Australian agriculture. Canberra: Australian Bureau of Agricultural and Resource Economics and Sciences.
- Australian National Audit Office. (2020). Design and Establishment of the Regional Investment Corporation. Accessed 17 December 2020.
- Australian Prudential Regulation Authority. (2020). Capital explained. Accessed 21 December 2020.
- Australia, Senate Estimates Rural and Regional Affairs and Transport Legislation Committee Hansard, 2020, 21 October.
- Bernasconi, A. (2020). Drought Loan Funds still pending a year after applying, and this farmer is fed up with excuses, The Australian Broadcasting Corporation, 20 December, viewed 14 January 2021
- CANSTAR Pty Limited. (2021). Compare business loans commercially secured. Accessed 12 January 2021.
- Centre for International Economics. (2016). Multi-peril crop insurance: cost benefit analysis of selected support measures. Canberra.
- Commonwealth of Australia. (2015). Agricultural Competitiveness White Paper. Canberra: Commonwealth of Australia.
- Council of Australian Governments. (2018). National Drought Agreement.
- Deloitte. (2017). Multi-peril crop insurance in Australia: barriers and opportunities. Accessed 23 December 2020.
- Department of Agriculture. (2019). Australian Government Drought Response, Resilience and Preparedness Plan. Canberra.
- Department of Agriculture and Water Resources. (2018) National Forest Industries Plan – Growing a Better Australia. Canberra.
- Future Drought Fund Act (Cth). Accessed 12 February 2021.
- Future Drought Fund (Drought Resilience Funding Plan 2020 to 2024). Accessed 12 February 2021.
- House of Representatives Standing Committee on Agriculture and Water Resources. (2018). Super-charging Australian Agriculture. Canberra: Parliament of the Commonwealth of Australia.

- HSBC. (2020). HSBC Pollination Climate Asset Management. Accessed 6 January 2021.
- Mohsin, M. (2015). Agribusiness Financing in Australia: Issues and Research Agenda. *International Journal of Economics and Finance*.
- National Farmers' Federation. (2018). Superannuation fund investment in agriculture, Submission 16. Canberra.
- National Farmers' Federation. (2020). Submission to the independent review of the Regional Investment Corporation. Canberra.
- National Farmers Federation. (2018). 2030 Roadmap – Australian Agriculture's Plan for a \$100 Billion industry. National Farmers Federation. Canberra. Accessed 5 February 2021.
- Nguyen NC, Wegener M, Russell, I, Cameron, D, Coventry, D, & Cooper, I,. (2007) 'Risk Management Strategies by Australian farmers: two case studies', *ABFM Journal*, 4 (1-2), 23-30.
- Regional Investment Corporation. (2020). AgBiz Drought Loan Guidelines. Regional Investment Corporation. Accessed 12 February 2021.
- Regional Investment Corporation. (2019). AgRebuild Loan (North Qld Flood) Guidelines. Regional Investment Corporation. Accessed 2 February 2021.
- Regional Investment Corporation. (2020). Drought Loan Guidelines. Regional Investment Corporation. Accessed 18 January 2021.
- Regional Investment Corporation. (2019). Farm Investment Loan Guidelines, Regional Investment Corporation. Accessed 18 January 2021.
- Regional Investment Corporation. (2020). AgriStarter Loan Guidelines, Regional Investment Corporation. Accessed 19 January 2021.
- Regional Investment Corporation Act 2018 (Cth). Accessed 10 February 2021.
- Regional Investment Corporation Operating Mandate Direction (Cth). Retrieved February 2021.
- World Trade Organisation. (2021). General Agreement on Tariffs and Trade 1994. Accessed 15 February 2021.