Farm Financial Assessment

Companion Guide

Version 1.0

This guide is intended to assist farmers and their prescribed advisers to complete a Farm Financial Assessment and will be updated as necessary.

For further information, or if you would like to provide feedback on the Farm Financial Assessment and this guide, please contact:

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January 2015
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Introduction

The purpose of this guide is to assist farmers and their prescribed advisers to complete a Farm Financial Assessment (FFA); a requirement for recipients of the Farm Household Allowance (FHA). The FFA collects financial and physical information about the farm to assist the adviser’s analysis and interpretation of the financial situation of an individual or couple. As part of the assessment, the adviser will provide an independent assessment of the farmer’s financial situation to help them to decide what is best for the financial future of the farm family.

After completing the FFA the farmer is required to develop an activity plan called a Financial Improvement Agreement (FIA) with a Department of Human Services (DHS) Farm Household Case Officer (FHCO). The farmer must also review their progress against their FIA with their FHCO at least quarterly.

Prescribed advisers should provide farmers with a copy of the completed FFA and discuss their recommendations with the farmer (and partner if relevant) prior to the farmers’ discussion with their FHCO to negotiate their FIA.

The FFA contains information about the farm business, including trends in equity and income levels over the past three years, and identification of commodities or business structures that may not be making a positive financial contribution to the farming enterprise.

FFAs need to be accurate, relevant and meaningful to recipients and FHCOs. They assist FHCOs to facilitate the recipient’s decision-making about what actions they need to undertake to improve their short and long-term financial self-reliance.

Early analysis of a sample of FFAs indicates many FFAs are of adequate to good quality. Areas in which some FFAs would benefit from improvement include ensuring that:

- all financial tables are completed accurately
- answers in the qualitative analysis provided by the prescribed adviser are comprehensive and relevant to the individual farm business.

The Australian Government may not pay for an FFA that does not provide adequate financial analysis and advice to enable an applicant to negotiate a useful FIA with their FHCO. DHS may withhold payment until the adviser submits a satisfactory assessment with recommendations.

This guide explains each question in the FFA and provides a guide to answering them. A farmer’s continuing eligibility for FHA depends on the submission of a completed FFA to DHS generally within 28 days of being requested.

Who can be a prescribed adviser?

A prescribed adviser is a person who:

a) has relevant financial qualifications; and
b) is a member of a professional body whose members normally provide financial advice.

A suitable prescribed adviser can include, but is not limited to, those formally qualified in the following areas:

- financial management
- financial planning
- farm finance management.

Occupations that give a person experiences in financial matters include:

- an accountant
- a tax agent
- a farm consultant.

The terms “prescribed adviser” and “professional body” are defined in sections 4 and 5 of the *Farm Household Support Minister’s Rule 2014*.

How do I know if a prescribed adviser is independent?

A prescribed adviser must maintain independence from the farmer whom they are advising. This means that the adviser should be an independent third-party (for example, not a close friend or family member). This helps to ensure that the assessment is unbiased and there are no conflicts of interest.

If a farmer or FHCO have any questions on the suitability of their preferred adviser, they can contact the Department of Agriculture on (02) 6272 4866 or at FHA@agriculture.gov.au.

How accurate does the information need to be?

To ensure that the adviser can provide meaningful advice and options for improving the farmer’s financial situation, the farmer must provide accurate numerical estimates of farm operations. This includes estimates of hectares sowed, wages and hours worked etc. The farmer is not expected to individually measure or count each feature, however, the more accurate the information the more accurate and reliable the adviser’s assessment will be.
Definitions

For the purposes of the FFA, the following definitions apply:

**Agistment**: the taking in and feeding of livestock on pasture land for payment.

**Asset**: a resource that has economic value that an individual or business owns or controls with the expectation that it will provide future benefits to the owner.

**Bank bill**: a short-term money market investment. The investor purchases a bank bill at a discount to its face value. The face value is the amount the investor will receive at the maturity date. The amount of discount (the difference between face value and purchase price) represents the return to the investor from holding the bank bill to maturity.

**Cell grazing**: moving livestock through a series of defined grazing areas so that when they have finished grazing the last available area, the first area has recovered sufficiently to allow the rotation to begin again.

**Commercial bill**: a bill which expresses the commitment of a borrower to repay a short-term debt at a fixed date in the future, often in full.

**Crown lease**: a lease of land granted to a party by a Commonwealth, state or territory government under Australian law.

**Debenture**: a type of financial loan/debt that is unsecured by a physical asset or collateral.

**Dependent**: when applicable, your partner, children and any other person who relies on the income produced by your farm business for financial support.

**Drought**: prolonged, abnormally dry conditions with inadequate rainfall leading to an acute shortage of water available.

**Farm Management Deposit**: an individual taxpayer’s pre-tax primary production income set aside in profitable years for access in bad years to help balance income fluctuations between years.

**Fixed Deposit**: a deposit held by a bank or other financial institution for a fixed period of time. The depositor receives a regular fixed interest credit that does not vary according to fluctuations to interest rates and the depositor cannot withdraw the deposit earlier than the fixed time without a financial penalty (generally a lower interest rate).

**Fixed rate loan**: a loan issued to a depositor by a bank or financial institution in which the interest rate does not vary for the duration of the loan term.

**Flood**: a temporary overflow of inland or tidal waters that leads to the partial or total covering of normally dry land by water.

**Illiquid assets**: assets not readily convertible to cash. For example: real estate; vehicles; livestock; machinery and superannuation.

**Liquid assets**: assets readily converted into cash. For example: saleable produce; cash at bank; and money owed to the individual or the farm business.
Off-farm: this relates to activities conducted, income earned or assets owned that don’t relate to the farm business. For example: the income earned from an agricultural consultancy business run from the farmhouse; a residential property owned by the farmer and occupied by their children who are attending a nearby university.

Opportunistic planting: when a grower chooses to grow a particular crop based on the current situation or circumstances of their farm. For example, a farmer may choose to grow cotton or rice in a year of high rainfall and full dams, whereas during more dry conditions they may choose to grow wheat or barley.

Perennial horticulture: horticultural produce grown over many seasons that does not need replacement or replanting every year.

Prescribed adviser: a person who has relevant financial qualifications and who is a member of a professional body whose members normally provide financial advice.

Rebates: money owed to the farmer, their partner or farm business as a partial refund or return on moneys already paid or contributed – for example, a cash-back on new equipment purchases.

Royalties: payment or compensation owed to the owner for the use of property, particularly natural resources.

Share-farming: describes an arrangement where two or more parties operate a farm business together. Often income and costs are shared between the parties with both normally bringing assets and/or skills to the arrangement that complement each other. A contract (be it written, verbal or implied) normally outlines the share farming arrangement.

Succession planning: involves the planned transfer of ownership and management of a farm business, designed to meet the needs of all family members involved.

Sundry receipts: small or infrequent miscellaneous or unexpected costs.

Term loan: a loan from a bank or other financial institution for a specific value that has a structured repayment schedule agreed to between the borrower and the lender.

Tradeable water entitlement: a water access right that allows the farmer to hold and take water from certain water sources and trade these rights between irrigators in the same state or across state borders.

Zero-tillage: a method of growing crops without disturbing the soil through tillage or ploughing; also referred to as no-till farming.
Part A: Details of the farm business and business owner’s description of the farm – to be completed by the farmer and/or their partner

The prescribed adviser will use the information gathered in this section to help complete parts B-D of the FFA. The FHCO will also use this information to guide their discussion with the farmer and their partner about their overall financial situation and the content of their FIA.

Questions 1-4: Personal details

Explanation

These questions collect the basic personal details of the farmer and their partner. Note that personal information is protected under the Privacy Act 1988.

Worked example

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Name:</td>
<td>Mary Smith</td>
</tr>
<tr>
<td>2. Home address:</td>
<td>21 Adams Rd York, Western Australia 6302</td>
</tr>
<tr>
<td>3. Farm address (if different from above):</td>
<td>245 Lewis Rd York, Western Australia 6302</td>
</tr>
<tr>
<td>4. Contact phone number:</td>
<td>0123 456 789</td>
</tr>
</tbody>
</table>

Question 5: Customer Reference Number

Explanation

The farmer and their partner’s Customer Reference Number (CRN) is printed on all correspondence received from DHS and on their DHS concession cards.

- Example: Mary Smith’s CRN is 123 456 789A

Question 6: List all ABNs reporting for this business

Explanation

An Australian Business Number (ABN) is an 11 digit identifying number that business use when dealing with other businesses. A farmer generally needs to put their ABN on invoices and other sales documents. If the farmer does not know their ABN they can search for it online at http://abr.business.gov.au/.

- Example: Wattle Beef Cattle Company Pty. Ltd – ABN: 70 176 022 936
**Question 7: Do you have a partner?**

**Explanation**
The answer to this question lets the prescribed adviser know whether a combined FFA will be required. Note that where the farmer has a partner, the prescribed adviser will need to consider their financial information as part of this assessment.

**Definition of partner**
Consistent with other social security-type payments, a person is your partner if you and the person are living together, or usually live together, and you are:
- married, or
- in a registered relationship (opposite-sex or same-sex), or
- in a de facto relationship (opposite-sex or same-sex).

A person is in a de facto relationship from the time they commence living with another person as a member of a couple. The definition includes all couples: opposite-sex and same-sex.

*Note:* the word ‘partnership’ in question 8 refers to the business structure of the farm enterprise.

**Question 8: Please provide details of all business entities associated with the farm that you and your domestic partner have a share in:**

**Explanation**
This question will identify all the registered business entities for this particular farm business. A business entity refers to any registered farming business.

**Definitions**

**Share:** A person has a share in the business if they have a financial or operating interest in it.

**Registered Entity Name:** refers to the name that appears on all official documents or legal papers. The entity name may be different from the business’ trading name

- Example: Smith Brothers Beef Pty Ltd

**Trading name:** the name used to identify your business for commercial purposes if it does not operate under your registered entity name

- Example: Smith Brothers Beef

**Description of entity:** what is the primary purpose or function of the entity?

- Example: beef producers

**Structure:** how is ownership of the farm business structured? Is the farmer (and their partner) the sole owner of the farm, or are there other parties involved such as an outside business partner or company. The four most common types of business structures are:

- Sole trader: an individual trading on their own
- Partnership: an association of people or entities running a business together, but not as a company
- Trust: an entity that holds property or income for the benefit of others
Company: a separate legal entity or person, owned by shareholders and run by directors. It has particular reporting and accounting requirements.

You and your partner’s share of the business entity

Assets: What is the ownership arrangement associated with each of the farm business entities?

- Example: John and his brother Mark live and work on separate neighbouring farms but operate under one ABN (‘Smith Brothers Beef’) for the marketing and selling of their cattle. They have agreed on an equal split in the share of assets concerned with this particular entity, so John has a 50 per cent share of the assets.

Income: What percentage of each of the farm business entities’ total income each year are you and your partner entitled to?

- Example: John and Mark agree to an equal share of the total income earned by the ‘Smith Brothers Beef’ entity, so John share of the total income is 50 per cent.

Worked example

<table>
<thead>
<tr>
<th>Registered entity name</th>
<th>Trading name</th>
<th>Description of entity (e.g. farm business, land holdings)</th>
<th>Structure: Trust, Company, Sole-trader, Partnership, Other (describe)</th>
<th>You and your partner’s share of the business entity</th>
</tr>
</thead>
<tbody>
<tr>
<td>John Smith Grain</td>
<td>John Smith Grain</td>
<td>Grain producer</td>
<td>Sole-trader</td>
<td>100% 100%</td>
</tr>
<tr>
<td>Smith Brothers Beef Pty Ltd.</td>
<td>Smith Brothers Beef</td>
<td>Beef producers</td>
<td>Partnership</td>
<td>50% 50%</td>
</tr>
</tbody>
</table>

Question 9: Where is the main agricultural property of the farm business located?

Please answer this question by providing the municipality/ies in which the main farm is located.

Question 10: Does this business currently lease or rent land to others?

Explanation

This question seeks to determine how many hectares of land owned by the farmer are not producing farming income.

- Example: John owns 860 hectares of farm land but currently leases 260 hectares to his neighbour on an 18 month lease agreement, and 50 hectares to his son to trial a GM canola crop on a 12 month lease agreement. The total area of land owned by the farm business currently leased or rented to others is 310 hectares.
Question 11: Of the total area of land currently operated by this farm business, how much was:

Explaination
This question seeks to determine how much land the applicant is currently operating on for farming purposes, and what the ownership arrangements are.

Definitions:
Owned by the farm business: Includes all farmland owned by you.

Rented or leased from others: Includes crown leases and road permits.

Owned by others and operated under a share farming agreement: Land owned by others and operated by you under a share farming agreement.

Worked example
i. Owned by the farm business 610 hectares
ii. Rent or leased from others 170 hectares
iii. Owned by others and operated under a share farming agreement 140 hectares

Question 12: Of the total area of land operated by this farm business, how much land is:

Explaination
This question seeks to gain a better understanding of the nature of this particular farm business, and how the farmland is being used.

Please note that a ‘0’ is required if nil.

Worked example
| a. Not used for agricultural production (including land set aside for conservation purposes, housing, buildings, roads, water bodies and other agriculturally unused or inaccessible areas). | 27 hectares |
| b. Forestry plantations | 0 hectares |
| c. Dryland cropping | 450 hectares |
| d. Irrigated cropping | 150 hectares |
| e. Irrigated grazing | 0 hectares |
| f. Grazing on improved pastures | 0 hectares |
| g. Grazing on other land (includes natural pastures, grassland, rangeland, woodland, scrubland, forested land and swamps or wetlands) | 0 hectares |
| h. Horticulture production | 150 hectares |
| i. Land used for other agricultural purposes (including feedlots, piggeries and poultry sheds) | 4 hectares |
Question 13: Give details of the current and average (year in year out) livestock numbers

Explanation
This question will help to determine how current levels of livestock compare to what the average numbers have been in recent years. Livestock refers to domestic farm animals kept for commercial purposes.

Worked example
Current Number: the number of livestock that you own at the time of application
- Example: At the current time the farm business owns 12,000 sheep and lambs, and 2000 beef cattle (14,000 total livestock)

Normal Number: this number will represent the average number of livestock on farms per year over the last five years (or since you have started carrying livestock if within the last five years)
- Example: In an average year the farm business carries 14,000 sheep and lambs, and 3000 beef cattle (17,000 total livestock)

Question 14: Give details of the area under crop for the current year and for an average year

Explanation
This question will help to determine how the current area under crop compares to the average area under crop in recent years.

Definitions
Hectares in current year: how many hectares of crop does the farmer plan to harvest or has harvested in the current year
- Example: The farm business has harvested/plans on harvesting 450ha of wheat, 200ha of canola and 200ha of barley (850ha total)

Hectares in average year: How many hectares of each crop type has the farmer sown, on average, over the past five years (or since you have started seeding if within the last five years)
- Example: On an average year the farm business harvested 500ha of wheat, 100ha of canola and 200 ha of barley (800ha total)

Worked example

<table>
<thead>
<tr>
<th>Crop type (e.g. wheat, canola, sugarcane etc)</th>
<th>Hectares in current year</th>
<th>Hectares in average year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td>450</td>
<td>500</td>
</tr>
<tr>
<td>Canola</td>
<td>200</td>
<td>100</td>
</tr>
<tr>
<td>Barley</td>
<td>200</td>
<td>200</td>
</tr>
</tbody>
</table>
Question 15: Give details of the percentage of perennial horticulture harvested

Explanation
This question will help to determine how the current or expected percentage of perennial horticulture compares to the average percentage in recent years.

Definitions
% of hectares in current year: what percentage of total hectares of each perennial crop type was actually harvested, or do you expect to harvest, in the current year?

- Example: of the three hectares of perennial orange trees present on farm, two hectares of trees produced fruit for harvest so 66 per cent of the crop was harvested.

% of hectares in average year: what percentage of total hectares of each perennial crop type were harvested per year, on average, in the last five years (or since you have started harvesting if within the last five years)?

- Example: in 2009-10 approximately 50 per cent of the three hectares of oranges were harvested, in 2010-11 approximately 75 per cent were harvested, and in 2011-12 approximately 80 per cent were harvested. The average over these three years is therefore 68 per cent of three hectares.

Worked example

<table>
<thead>
<tr>
<th>Horticulture type (e.g. oranges, peaches, bananas)</th>
<th>% of hectares in current year</th>
<th>% of hectares in average year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oranges</td>
<td>60% 3 ha</td>
<td>68% 3 ha</td>
</tr>
<tr>
<td>Apples</td>
<td>45% 8 ha</td>
<td>67% 8 ha</td>
</tr>
<tr>
<td>Lemons</td>
<td>85% 7 ha</td>
<td>77% 7 ha</td>
</tr>
</tbody>
</table>

Question 16: Give details of the overall condition of each of the listed farm features and whether you are able to maintain or improve them in your current financial situation

Explanation
This question will provide information about the current condition of on-farm features and whether the farm business has the ability or capacity to maintain or improve these features. This question relates to on-farm features only. When answering this question, assets that are not intended for business use should be excluded – such as vehicles, machinery and buildings used exclusively for personal use.

Definitions
Able to meet current needs: farm feature does not require any upgrades in its current state. It is able to perform its designated and/or desired functions to a satisfactory level.

- Example: tractor works well and has no current maintenance or servicing requirements

Needs some upgrade: farm feature still able to perform designated and/or desired functions but may have reduced functionality and requires a financial outlay in the form of a minor to moderate upgrade, or servicing, in the near future

- Example: tractor is operational, but is 12 years old and will need a service within 6 months
**Needs immediate upgrade:** farm feature is unable to perform designated and/or desired functions and requires immediate upgrade in order for functionality to resume.

- Example: tractor is no longer operational, is 18 years old and requires a new engine and brake system, or replacement

**Can maintain or improve in current financial situation:** as your finances currently stand, are you able to maintain or improve those features that require attention? If yes, please tick/select the box.

**Question 17: Which of the following farm business activities have you undertaken in the last three years, and what effect did they have on your farm?**

**Explanation**
This question seeks to determine the types of activities the farmer has carried out over the past three years to improve the condition of the farm business, and the effect of these activities. It also identifies those activities that the farmer is interested in pursuing and explores what may be preventing the farmer from following up on their interest. The effect that these farm business activities have had on your farm may include, but is not limited to:

- **Financial benefits**
  - Example: lower usage costs, reduction in maintenance costs, reduction in input costs (e.g. fertiliser use), investment in off-farm activities/ventures

- **Efficiency improvements**
  - Example: greater water efficiency, efficient use of resources

- **Better land management practices/methods**
  - Example: cell grazing, zero-tillage

- **Environmental impact**
  - Example: greater water efficiency, better garbage disposal methods, improved soil structure

- **Production benefits**
  - Example: greater crop yields, greater livestock production

Circumstances in which it is appropriate to answer N/A for an activity listed in the table include where the activity is irrelevant in the farmer’s circumstances.

**Worked example**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Done In progress</th>
<th>Like to do</th>
<th>N/A</th>
<th>Effect/Impediment</th>
</tr>
</thead>
<tbody>
<tr>
<td>b. Improved water management</td>
<td></td>
<td></td>
<td>✗</td>
<td>Lower water costs.</td>
</tr>
<tr>
<td>c. Fodder sheds – improved infrastructure</td>
<td></td>
<td></td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>d. Varied stock levels</td>
<td>✗</td>
<td></td>
<td>✗</td>
<td>Decreased stock levels of sheep, and increased stock levels of beef cattle due to more favourable stock prices. The result was higher annual income received from livestock sales.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td></td>
</tr>
</tbody>
</table>
e. Rotation/Cell grazing |   |   |  

| f. Off-farm investment |   |   |  

| g. Tax planning |   |   |  

| h. Risk management training |   |   |  

| i. Improvement in irrigation efficiency |   |   | Can’t secure the finance required to upgrade the infrastructure.  

| j. Diversify farm enterprise, opportunistic planting |   |   |  

| k. Minimal/zero till practices |   |   | Lack of information about how to implement and insufficient funds to purchase the required equipment.  

| l. Controlled traffic farming |   |   |  

| m. Crop variety selection |   |   | Trialling GM canola, no result as yet.  

| n. Modify fertiliser regime |   |   |  

| o. Succession planning |   |   |  

| p. Other |   |   |  

**Question 18: How many permanent full time employees did you have in the last financial year?**

**Explanation**

Information collected in Questions 18 to 24 allows the calculation of the current total labour requirements and costs for the farm business.

A full-time employee works an average of 38 hours a week (or more) and has ongoing employment over the course of the year. This number will exclude all owners, partners, shareholders and directors, but includes any family members who are paid as full-time workers.

- Example: John had two full-time employees on his farm over the last financial year. They both worked an average of 20 hours a week during the winter period, but during the harvest season worked an average of 60 hours a week, leading to an average of 40 working hours a week for the year.
Question 19: Total wages paid to permanent full time employees in the last financial year?

Explanation
What was the total value of wages paid to full-time employees in the last financial year? The FFA calculates this value by summing the annual salaries/wages of all full-time employees of the farm business.

- Example: One of John’s full-time employees received an annual salary of $44,000, the other received $53,000. The total wages paid to full-time employees is $97,000.

Question 20: How many non-permanent employees did you have last financial year? (Include part-time and casual employees, shearers and crutchers)

Explanation
Part-time employees work an average of fewer than 38 hours a week on an ongoing basis. Casual employees receive an hourly wage but do not receive a guaranteed number of hours of work per week, even though they may work regular hours. This question includes any family members who receive part-time or casual wages from the farm business.

Worked example

<table>
<thead>
<tr>
<th>Number of employees</th>
<th>Period (e.g. January to March)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>January – March</td>
</tr>
<tr>
<td>2</td>
<td>September – November</td>
</tr>
<tr>
<td>1</td>
<td>September – January</td>
</tr>
<tr>
<td>1</td>
<td>April-June</td>
</tr>
<tr>
<td>2</td>
<td>June-July</td>
</tr>
<tr>
<td>3</td>
<td>October – December</td>
</tr>
</tbody>
</table>

Question 21: What was the total value of wages paid to all non-permanent employees last financial year?

The FFA calculates this value by summing the annual salaries/wages of all non-permanent employees employed by the farm business.

- Example: Of the eleven non-permanent employees who were hired to work on John’s farm, ten of them were on a casual hourly rate of $22.50 and worked a combined total of 3200 hours ($22.50 x 3200 = $72,000). The remaining employee worked part-time for a total of 850 hours and earned a salary of $22,000. The total value of wages paid to non-permanent employees in the last financial year is therefore $94,000 ($72,000 + $22,000).
Question 22: Weeks of unpaid labour provided to the farm business by you, business partners, family members and share-farmers last financial year?

Explanation
Over the course of the last financial year how many weeks of unpaid labour did you and other owners/family members contribute to the farm business? This question will help the prescribed adviser and FHCO to gain a better understanding of the total labour requirements for the farm business.

- Example: Mary’s husband works an average of 2 days a week as unpaid labour for about 35 weeks of the year \((35 \times 2 = 70, 70 \div 7 = 10\) weeks), and Mary’s brother (who lives on a neighbouring farm) also provides approximately 2 weeks of unpaid labour during the harvest season. The total weeks of unpaid labour provided to the farm business is therefore 12 weeks.

Question 23: How many hours (on average) did you work on the farm business per week in the last financial year?

Explanation
This number should represent the average number of hours worked over the course of the year, taking into account the differing number of hours worked between seasons.

- Example: Mary works an average of 38 hours a week during the quiet winter season, but her contribution increases to around 70 hours a week during the summer harvest season. During spring and autumn she works an average of 45 hours per week. The average number of hours that Mary worked over the course of the last financial year was 49.5 hours per week.

Question 24: How many weeks did you not work on the farm business in the last financial year?

Explanation
This question includes any time the applicant and their partner spent on holidays either on or off farm, as well as times when the applicant was sick, or was caring for a sick relative, and could not work. The answer to this question is useful to the FHCO in determining if the running of the farm business provides adequate opportunities for the farmer and (if relevant) their partner to strike a healthy balance between work and leisure.

- Example: John and his partner spent two weeks in New Zealand during July, and over the course of the last financial year took about two weeks off work for various weekends away and short trips. John also did not work for a week in June as he was sick. Therefore, John did not work on the farm business for five weeks last financial year.

Question 25: How many people are dependent on the income produced by your farm business?

Explanation
This question will help the adviser to understand the amount of disposable income that the farm business would need to produce to comfortably support all the people who rely on the income
generated by it. This always includes yourself and, when applicable, your partner, children and any other person who relies on the farm income for financial support.

- Example: John lives on the farm with his wife Clare, their three school-age children and Clare’s mother, all of whom rely on the income produced by the farm business. Therefore there are six people dependent on the income from the farm business.

**Question 26: Is your family unit supported by non-farm income?**

**Explanation**
This question seeks to identify if the applicant and their partner have additional sources of income apart from that generated by the farm business.

**Definitions**

**Non-farm income**: refers to the portion of farm household income generated from non-farm activities. This helps the adviser to assess the extent to which the farm business currently contributes to total household income. The adviser could compare the return on labour that the farm produces compared with that which can be generated through non-farm activities.

This includes, but is not limited to:

- Any salary/wage earned from employment outside the farm business
  - Example: working weekends at the local markets, partner works part-time as a teacher’s assistant
- Income generated from a non-farm business
  - Example: partner runs a lawn-mowing business, you own a local farm machinery store
- Income generated from non-farm investments
  - Example: rental income from investment property, share dividend payments
- Government sourced income
  - Example: Centrelink and pension payments
- Superannuation

**Question 27: Who manages the farm business’ finances?**

**Explanation**
This question seeks to identify who is involved with the financial management of the farm business. The answer to this question will help the adviser to answer question 8 in part D of this assessment. Combined with the answers to questions 28 – 31, it will also assist the FHCO to determine whether financial training would be a useful activity to include in the FIA. Any or all of the following are aspects of financial management:

<table>
<thead>
<tr>
<th>Aspect of Financial Management</th>
<th>Professionals who may manage this for you</th>
</tr>
</thead>
<tbody>
<tr>
<td>Record keeping</td>
<td>Accountant, lawyer, banker</td>
</tr>
<tr>
<td>Taxation</td>
<td>Tax agent, accountant</td>
</tr>
<tr>
<td>Budgeting</td>
<td>Financial planner, accountant</td>
</tr>
<tr>
<td>Short and long term spending plans</td>
<td>Financial planner, accountant</td>
</tr>
<tr>
<td>Insurance</td>
<td>Insurance broker</td>
</tr>
<tr>
<td>Wills</td>
<td>Lawyer</td>
</tr>
<tr>
<td>Sourcing Finance</td>
<td>Finance broker, banker</td>
</tr>
</tbody>
</table>
Question 28: Are you confident in your/their ability to manage the farm business finances?

Explanation
This question seeks to identify whether the applicant and/or partner are satisfied with the level of financial management knowledge they possess and their ability to manage the farm business finances.

- Example: John has managed the farm business finances for the past five years but is not confident in his abilities. He feels that undergoing some financial training would help him manage the finances more effectively and efficiently, as it currently takes him a long time.

Question 29: Does your household have a budget?

Explanation
This question aims to identify if the household has a structured budget that determines its short and long term spending patterns.

- Example: does the household have budgets for food, holidays, fuel, on and off-farm investments etc.

Question 30: Have you ever had any financial training?

Explanation
Has the applicant ever undergone any financial training through a recognised financial institution or qualified trainer? When answering this question please specify what kind of training it was, who it was through and when it was undertaken. Financial training can include, but is not limited to:

- Accounting
- Accounts administration
- Bookkeeping
- Business/commerce
- Financial management
- Finance/mortgage broking
- Financial planning
- Small business management
- Investments

Example: Mary completed a Certificate III in Business Administration at the local TAFE in 2004. This course covered topics such as financial administration, general administration, IT use and writing.

Question 31: Do you feel you and/or your partner would benefit from financial training?

Explanation
This question seeks to determine whether the recipient feels that they, or their partner, would feel more confident in their ability to manage their farm business finances if they undertook financial training. Examples of financial training are listed in the explanation of Question 30.
Question 32: Do you have a written business plan for the farm?

Explanation
Has the recipient developed a written business plan for the farm business? A farm business plan often integrates written goals with marketing, production and financial targets into an overall management strategy for the farm business, along with identifying labour needs. Each farm business, and therefore business plan, is unique in terms of its physical characteristics, income levels and people involved in its management and operation.

More information about business plans can be found, for example, at Department of Food and Agriculture Western Australia:

Question 33: Are you involved in share farming?

Explanation
This question seeks to identify any share farming arrangements that the applicant may be involved in either on their farm enterprise or on a separate property.

Share farming describes an arrangement where two or more parties operate a farm business together. Income and costs are often shared between the parties and both normally bring assets and/or skills to the arrangement that complement each other. The share farming arrangement is outlined in a contract and can be written, verbal or implied.

Worked example

<table>
<thead>
<tr>
<th>Name of sharefarmer:</th>
<th>Mary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is the arrangement</td>
<td>✓ written</td>
</tr>
<tr>
<td>Share farming on land owned or leased by this business (on-farm share farming)?</td>
<td></td>
</tr>
<tr>
<td>☐ No</td>
<td>☑ Yes</td>
</tr>
<tr>
<td>Share farming on land owned or leased by others (off-farm share farming)?</td>
<td></td>
</tr>
<tr>
<td>☐ No</td>
<td>☑ Yes</td>
</tr>
<tr>
<td>Please provide a brief description of:</td>
<td></td>
</tr>
<tr>
<td>a. The area and type of crops share farmed, products (e.g. milk), type and number of livestock involved?</td>
<td>Mary and neighbouring farmer Greg have entered into a share cropping agreement with an agreed crop ownership and revenue split. The crops involved are 350ha of wheat, 200ha of canola and 400ha of barley.</td>
</tr>
<tr>
<td>b. How does each party contribute to costs; land capital, equipment, and labour?</td>
<td>Greg contributes approximately 70% of the time and labour required for the share-farming agreement.</td>
</tr>
</tbody>
</table>
Mary provides the remaining 30%.
Both parties contribute equal harvesting equipment to the share-farming agreement (each party contributed equally to the purchase of a header 3 years ago and have been sharing its use).
The seed, fertiliser, pesticide and other variable costs will be covered by the individual farmer for crops grown on their land.

### c. How are sales / production shared?
Total revenue generated by the harvesting and selling of these three crops will be split between the two parties, with 65% going to Greg (taking into account the additional labour and time provided) with Mary receiving the remaining 35%.

---

**Question 34: Does your farm business carry any livestock on agistment from another farm?**

**Explanation**
This question will help the prescribed adviser and FHCO to gain a better understanding of the nature of the applicant’s farm business and whether there is additional income coming in from agistment arrangements. Agistment is the holding and caring of livestock (not owned by the applicant) in exchange for payment.

Possible examples of how agistment arrangements can impact on the farm are:
- Financial: income generated from carrying livestock
- Environmental: soil erosion from overgrazing, promoted growth of native plants and grasses, lowering of fire hazards by reducing fuel etc
- Social: unable to leave the farm for extended periods of time.

**Worked example**

<table>
<thead>
<tr>
<th>Type of stock</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beef cattle</td>
<td>1200</td>
</tr>
</tbody>
</table>

**What is the reason for agistment?:**
Lack of pasture and water on livestock owner’s farm.

**Normal part of business – grazing**
- **No**
- **Yes**

**Normal part of business – lot feeding**
- **No**
- **Yes**

**Temporary arrangement due to availability of surplus grazing / feed availability**
- **No**
- **Yes**

**How do these agistment arrangements impact on the farm?**
There is additional income coming in from holding livestock but the soil will require a season to recover.

---

**Question 35: What area of your farm is adversely affected by the following?**

**Explanation**
This question seeks to determine whether the applicant’s farm business has been adversely affected by environmental factors. This will help the prescribed adviser and FHCO to gain a better understanding of the circumstances that surround this particular farm business’ operation.
When answering this question please indicate the number of hectares affected OR the estimated annual cost caused by each environmental factor.

**Drainage problems:** is there evidence of waterlogged soils, high water tables, high clay content soils or other drainage problems within the farm land?
- Example: high clay content soils affect 7ha of farm land

**Soil degradation:** is there a decline in soil quality in areas of the farm business? Examples of soil degradation include loss of organic matter, decline in soil fertility, decline in soil structure, erosion, salinity, soil acidity and effects of toxic chemicals, pollutants or excessive flooding.

**Long-term vermin infestation, such as pigs, mice, foxes, feral cats and dogs:** that either cause damage to crops, farm animals and/or livestock, or cause structural or physical damage to farm property
- Example: e.g. on an average year rabbits cause an estimated $4,000 worth of damage to fences.

**Vegetation thickening/timber regrowth:** is there evidence of loss of productivity due to vegetation growth or regrowth? Are significant amounts of time and/or investment in capital devoted to removal of this growth?
- Example: annual regrowth of surrounding vegetation affects around 10ha of farmland, which is cleared for cropping.

**Weed infestations:** are there any weed infestations present on the farm which may affect farming operations? Do they cover a significant area of land, or pose extra costs to the farm business?
- Example: an infestation of Patterson’s curse in your wheat crop caused 500 tonne to be graded as feed wheat ($220/t) instead of hard wheat ($260/t). This led to an overall loss of $20,000.

**Long-term irrigation/water access:** water restrictions, requirement for additional water, access to water, requirement for additional infrastructure, salt infiltration, rising water tables?
- Example: $20,000 was invested by the applicant to construct new and improve existing infrastructure to pump sufficient water from the Murray Darling Basin to the farm.
- Example: a reduction in the applicant’s total water allocation has meant that there was insufficient water to sow and harvest 200ha of cotton.

**Land-use zoning restrictions:** are there any zone restrictions in place for the farm property? Land-use zone restrictions are rules and regulations which control how the farmland is used.
- Example: the farm business lies within a Rural Conservation Zone which prohibits intensive animal husbandry. This does not allow the applicant to expand her animal husbandry business, which could have been worth $110,000.

**Question 36: Indicate the effect the following factors have on your farm’s marketing arrangements**

*Explanation*
This question seeks to identify whether the following factors have an effect on the applicant’s ability to market and sell their products. This information will help the prescribed adviser and the FHCO to
gain a better understanding of the circumstances of this particular farm business. Where a factor is considered to have a major effect on the farm’s marketing arrangements it is appropriate to list it in the ‘Positive’ or ‘Negative’ columns. If it is not a major factor, an explanation should be included in the final column.

**Worked example**

<table>
<thead>
<tr>
<th>Positive</th>
<th>Negative</th>
<th>Not a major factor</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Contracts</strong></td>
<td>Example: Contracts that the farm has entered into guarantee a certain price/amount purchased by supermarkets</td>
<td></td>
</tr>
<tr>
<td><strong>Distance to market</strong></td>
<td>Example: Farm is located a significant distance from relevant markets and/or has poor product transport systems in place</td>
<td></td>
</tr>
<tr>
<td><strong>Speciality of produce</strong></td>
<td></td>
<td>This is because product speciality does not have a significant impact on your farm business</td>
</tr>
</tbody>
</table>

**Question 37: How would you describe the seasonal conditions experienced on your farm in the past 12 months?**

**Explanation**

This question seeks to identify what the climatic conditions have been like for the farm business over the past year. This will help the prescribed adviser and FHCO to gain a better understanding of how the climate of the region may have impacted on the farm business.

**Definitions**

**Above average**: has been better than the average seasonal conditions over the past ten years (or since you have started the farm business if within the last ten years)

**Average**: has been similar to the average seasonal conditions over the past ten years (or since you have started the farm business if within the last ten years)

**Below average**: has been worse than the average seasonal conditions over the past ten years (or since you have started the farm business if within the last ten years)
Question 38: What (if any) extreme events (e.g. weather or pest plague) have affected your farm in the past 12 months?

Explanation
This question seeks to determine if there have been any climatic events in the last 12 months that have had adverse affects on the farm business that were outside the control of the applicant.

Definitions
Drought: prolonged, abnormally dry conditions with inadequate rainfall leading to an acute shortage of water.

Flooding: a temporary condition of partial or complete covering by water of normally dry land areas.

Other: any other natural extreme events can include, for example:
- Bushfire
- Pest plague
- Extreme frost
- Heatwave
- Cyclonic conditions.

Question 39: Reflecting on the last 10 years (or since you started farming if within the last 10 years), how many seasons had the following conditions?

Explanation
This question seeks to determine what the climatic conditions have been for the farm business over the past ten years, and whether there are any emerging patterns. This information will help the prescribed adviser and the FHCO to gain a better understanding of the climatic circumstances surrounding this particular farm business.

Definitions
As for Question 38.

Worked example
From 2005/06 to 2006/07 conditions on John’s farm were above average, with high levels of rainfall in the spring and dry conditions during the harvest. From 2007/08 to 2009/10 the conditions were average for the region, and from 2010/11 to 2011/12 the conditions became drier and were below average. From 2012/13 to 2013/2014 John has experienced drought conditions, and this looks to continue into 2014/2015.

<table>
<thead>
<tr>
<th>Above average</th>
<th>Average</th>
<th>Below Average</th>
<th>Drought</th>
<th>Flooding</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>0</td>
</tr>
</tbody>
</table>

Question 40: How long have you been involved in farming?

Explanation
This question seeks to identify how many years has the applicant worked in the agricultural sector. It includes all full-time, part-time and casual employment in farm businesses outside of this particular farm.
Example: before taking over the family farm in 2004 Greg studied agricultural science for three years and worked on farms in his home shire in the university holidays. Following his graduation he worked full time on the family farm for five years before he took over management and ownership. The total time Greg has been involved in farming is therefore 17 years.

**Question 41: How long have you been on the current farm?**

*Explanation*
This question seeks to determine how long the applicant has been in the current farm business.

**Question 42: Year of birth**

This question provides statistical information, when aggregated with other data, that will be used during program evaluation.

**Question 43: What is your preferred future position?**

*Explanation*
This question seeks to determine what applicants would hope to be doing over the next five to ten years. Do they still wish to be in farming or are there plans for retirement? What are the current aspirations of the applicant from the farm business perspective?

Examples

Succession plan - Darren is 58 years old and wishes to retire in 5-10 years. His two sons have been working full time on the farm for the past ten years and would like to take over the family farm business within the next 5 years.

Retirement – Darren wishes to retire in the next five years and his sons do not wish to take over the family farm. Darren would like to be able to sell the farm to one (or more) of the neighbouring farmers.

Supplement farm – Total revenues have been slipping on Darren’s farm but he does not wish to leave farming. His partner is beginning full-time work in the nearby town as a bank teller and Darren would like to do casual shearing work on neighbouring farms to supplement the farm with non-farm income sources.

**Question 44: Do you expect a family member to someday take over the running of this farm business?**

*Explanation*
This question seeks to identify any formal or informal plans for a family member of the applicant to take over the management and operation of the farm business. This could have been arranged through a verbal agreement, formal succession plan or even through the establishment of a trust for the farm.
Question 45: List details of specialists and advisers you currently use or have used within the last 2 years (e.g. financial planner of superannuation, accountant for tax returns and agronomist for farm)

Explanation
This question identifies areas where the applicant has already taken the initiative in seeking help and may be useful for the prescribed adviser to build on.
Part B: Summary of the applicant’s current financial position – to be completed by the applicant AND the prescribed adviser

Introduction

This section is to be completed by the prescribed adviser with the applicant’s assistance. The information gathered in this section of the FFA will be used to inform the FHCO about the farm business finances and will form the basis of discussions between the applicant and the FHCO about the applicant’s overall financial situation.

Applicant’s asset and liability information

Tables 13 to 15 seek to gather information about the applicant’s financial situation.

Table 13: What is the value of the farm business assets, the applicant’s (and partner’s) share of the farm assets and their additional personal assets?

Explanation

Table 13 will collect information about the applicant and partner’s business and personal assets, and their share of those assets.

Definitions

Column 1: Asset

Farm land: size of property, location, arability and condition of land etc.

Tradeable water entitlements: number of water rights, types of water rights etc.

Money owed to farm, applicant or partner: who and how much is owed to the farm business?

Livestock: what type of livestock does the farm business own (cattle, sheep, pigs etc.), how many head, breeds, the estimated price per head of each type of livestock?

Vehicles: how many farm vehicles does the farm business own and the current condition of these vehicles?

Plant and equipment: what kind of plant and equipment does the farm business own, the make, model and year of each unit, their purpose, and current condition?

Saleable produce on hand: grain and horticulture harvested, total grain and horticultural yields, current grain and horticulture commodity prices, saleable produce derived from livestock (i.e. wool and dairy), current wool prices, current dairy prices etc.

Outstanding crop or produce payments: outstanding proceeds from crops and produce, does the farm business use a ‘pooling’ system to market and sell the produce, who is this organised through, is
the farm business owed money through a pooling system (e.g. a grain pool with a storage and handling facility)?

**Cash at bank:** the opening balance of the farm business, the opening balance of the applicant (and partner), other accounts associated with the farm business, personal accounts of the applicant (and partner), amounts in those accounts etc.

**Farm Management Deposits:** does the farm business have one or more Farm Management Deposit accounts? How much has been deposited in each account, how much of the total has been deposited for longer than 12 months?

**Other financial assets:** other assets that the farm business is involved in (e.g. fixed deposits, bank bills, debentures etc).

**Share portfolio held:** what companies does the farm business have shares in, how many shares are owned, has the value of these shares been increasing or decreasing in the last 12 months etc.

**Superannuation:** the current estimated value of any superannuation accounts for the applicant (and partner)

**Non-farm investments:** any investment properties, holiday homes, other business ventures etc that are owned wholly or partially by the applicant (or partner), the locations of these investments (if applicable), a description of the type of investment etc.

*Column 2: Brief Description*

Please provide a brief description of the assets within each asset category.

*Column 3: Current market value of farm assets ($)*

‘Market value’ refers to the amount for which each asset of the farm enterprise could realistically be sold for currently.

- Example: the current market value of a 2010 dual cab Mitsubishi Triton used as a farm vehicle is approximately $16,500

Asset valuation by a bank or the farmer is the preferred methods for assessing the current market value of farm assets. However, the prescribed adviser may choose to use a different valuation method. Should the adviser choose to use a different method, they should explain the reasoning behind the decision.

*Column 4: Applicant’s (and partners) share of farm assets*

For each assets of the farm business, what is the estimated ownership that belongs to the applicant and partner?

- Example: the current market value of saleable produce is $180,000. The applicant has entered into a share-cropping agreement with a neighbour, with the applicant (and partner) having an agreed 80% profit share. Therefore the applicant’s (and partner’s) share of saleable produce on hand is $144,000 ($180,000 × 80%).
- Example: the current market value of the farm land is $1,000,000, with $300,000 currently paid off and a $700,000 mortgage remaining. The applicant’s (and partner’s) share of the farm asset is $300,000.
Table 14: Farm business debt

Explanation
Table 14 will collect information that will be used to determine the sources of debt for the farm business. This excludes the personal debts of the applicant and partner (if any).

Definitions

**Loans:** a sum of money that is borrowed that is expected to be paid back in regular instalments with interest.

**Overdraft:** when a bank extends additional credit to a client when they withdraw more money than the account holds.

**Private Loans:** a sum of money that is borrowed in a more informal agreement, often between family members or acquaintances. The agreement could be verbal, written or implied.

- Example: the farmer borrows $4000 from a family member to pay for required maintenance for a farm vehicle.

**Hire purchase:** an agreement between a borrower (the applicant and/or their partner) and the lender to acquire an asset for business purposes over a period of time. The lender legally owns the asset with the applicant paying regular principal plus interest payments. When the loan is paid off in full, legal ownership is transferred to the applicant. The applicant may claim depreciation, running costs and interest paid against the business income for tax purposes.

**Chattel mortgage:** differs from a hire purchase as ownership of the asset is immediate at the time of purchase, with the applicant making regular payments to pay off the loan. The lender takes a mortgage over the asset by way of a fee/charge which provides security to the loan.

**Finance Lease:** an agreement where the borrower (the applicant and/or their partner) acquires the use of a selected asset which is purchased by a finance company, and has to pay regular instalments to that finance company in order to be able to continue its use. Once the lease has been repaid in full, the borrower usually has the opportunity to buy the item at the residual value (market value after depreciation).

**Liens:** a type of security over property whereby a creditor has the right to retain possession of a debtor's property until the debt is paid. ‘Ownership’ of the property is normally restored once the debt has been paid.

**Livestock agents:** A livestock broker who sells and buys stock on behalf of clients. The debt here refers to the total money owed to any livestock agents used by the farm business as payment for their services.

**Trade creditors/accounts payable:** payment owing to goods and service providers to the farm business

**Credit Cards:** the total financial debt that has been accumulated on credit from the use of one or more credit cards for farm business purchases.

**Taxation debt:** the total amount of income/business tax that is required to be paid to the Australian Tax Office.
**Entitlements owing to employees:** any outstanding balances that are owed to the farm business’ employees. This could include, but is not limited to, wages, employee benefits, bonuses, work leave and holiday entitlements.

**Table 15: Personal debt**

**Explanation**
Table 15 will collect information that will be used to determine the sources of personal debt of the applicant and partner (if applicable). This excludes any debt associated with the farm business.

**Definitions**
- **Loans:** refer to definition for Table 14.
- **Overdraft:** refer to definition for Table 14.
- **Loans from friends and family:** refer to definition of ‘private loans’ for Table 14.
- **Hire purchase:** refer to definition for Table 14.
- **Chattel mortgage:** refer to definition for Table 14.
- **Finance Lease:** refer to definition for Table 14.
- **Liens:** refer to definition for Table 14.
- **Trade creditors/accounts payable:** refer to definition for Table 14.
- **Credit Cards:** refer to definition for Table 14.
- **Taxation debt:** refer to definition for Table 14.

**Farm Profitability Information**

**Explanation**
Tables 16 to 18 collect data concerning the applicant’s farm business and personal finances.

**Table 16: Farm income, operating costs and debt**

**Explanation**
Table 16 will be used to collect information about the on-farm income and expenditure sources for the applicant and partner’s farm business.

All columns in the ‘Farm income, operating costs and debt’ table, with the exception of the ‘3 year average’ column, need to be filled out by the prescribed adviser and applicant. Some rows may not be filled out due to the varying commodity and business structures of individual farms. The ‘3 year average’ is calculated automatically.

Where accurate or credible financial information cannot be found, the prescribed adviser is to provide an estimation of the approximate value based on information provided by the applicant.
Definitions

**Projection in the next financial year:** This number represents what the prescribed adviser predicts will happen for this particular farm business in the next financial year, in consultation with the applicant. Data from previous financial years may reveal emerging patterns.

The prescribed adviser may also be aware of information affecting the farm business, such as current climatic conditions or recent capital investment, which might suggest that the ‘3 year average’ be used cautiously when forecasting the status of the farm business over the next financial year.

**Table 17: Personal income and expenses of applicant and partner**

**Explanation**

Table 17 will be used to collect information about the applicant’s and their partner’s non-farm income and expenditure sources.

All columns in the ‘Personal income and expenses of applicant and partner’ table, with the exception of the ‘3 year average’ column, need to be filled out by the prescribed adviser and applicant. Some rows may not be filled out due to the varying financial situations of individual applicants. The ‘3 year average’ is calculated automatically.

Where accurate or credible financial information cannot be found, the prescribed adviser is to provide an estimation of the approximate value based on information provided by the applicant.

**Expected in the next 12 months:** This number represents what the prescribed adviser expects the financial position of the applicant (and partner) to be in the next financial year. Data from previous financial years may reveal emerging patterns.

The prescribed adviser may also be aware of information affecting the applicant and partner, such as future off-farm income sources, which might suggest that the ‘3 year average’ be used cautiously when forecasting the status of the farm business over the next financial year.

**Table 18: Source of farm business receipts**

Table 18 will be automatically populated with data collected from the ‘Farm income, operating costs and debt’ table (Table 16). It shows the proportion of farm income that was contributed by each income source in the last financial year.

This table will be used to help the prescribed adviser gain a better understand of the nature and structure of the farm business. It will also be used to aid the prescribed adviser’s SWOT analysis and overall assessment of the farm business.
Three year projected financial position

Explanation
Strategic planning allows the farmer to take stock of where the business is, and establish a clear course to follow. Regular planning also helps the business deal with change. The information from these tables will indicate whether the farm business will generate enough cash to pay debts and to expand operations.

The projections are not merely predictions – they imply a commitment to making the targeted results happen and establishes milestones for gauging progress. Variances from projections provide early warning of problems.

Ideally, the projections should be updated regularly and become the main planning and monitoring vehicle for the farm business.

Definitions
Method for calculating cash flow projections: if the prescribed adviser uses an alternative method for calculating the farm business’ three year projected financial position, please describe the methodology, including the reasons for this method.

Assumptions and limitations of method and results: Please provide details on any assumptions or limitations that are present with your chosen method.

Table 19: Consolidated farm income, operating costs and debt

Explanation
The ‘Consolidated farm income, operating costs and debt’ table will be automatically populated from data supplied in the ‘Farm income, operating costs and debt’ table (Table 16). Table 19 will be used to help the prescribed adviser gain a better understand of the overall financial situation of the farm business, both in the current year and projected for the future. It will also be used to aid the prescribed adviser’s SWOT analysis and overall assessment of the farm business.

Definitions
Opening balance: the prescribed adviser will enter the opening financial balance for the farm business for the ‘Current year’. The opening balances for the consecutive three years will be automatically calculated from the supplied data.

Farm Profit: this value is inclusive of depreciation

Closing farm balance: Calculated as follows:

= Opening farm balance + farm profit
Table 20: Consolidated personal income, operating costs and debt of application and partner

Explanation
The ‘Consolidated personal income, operating costs and debt’ table will be automatically populated from data supplied in the ‘Personal income, operating costs and debt’ table (table 17). Table 20 will be used to help the prescribed adviser gain a better understand of the applicant’s (and partner’s) overall financial situation, both in the current year and projected for the future. It will also be used to aid the prescribed adviser’s SWOT analysis and overall assessment of the applicant’s (and partner’s) financial position.

Definitions

**Opening balance**: the prescribed adviser will enter the opening financial balance for the farm business for the ‘Current year’. The opening balances for the consecutive three years will be automatically calculated from the supplied data.

**Closing balance**: calculated as follows:

\[ = \text{opening farm balance} + \text{total personal savings} \]
Part C: Assessment of financial position – to be completed by the prescribed adviser

Table 21: Farm performance indicators

Explanation
The use of performance indicators in the financial analysis of farm businesses is a beneficial tool for assisting effective decision making aimed at improving business performance.

Financial indicators will provide an objective measure of farm performance and/or financial security. They transform dollar values into ratios or percentages that are relatively consistent across agricultural industries and geographical regions. Prescribed advisers will use their professional expertise to set appropriate indicator benchmarks for each applicant depending on their objectives, farm business model, commodities and financial situation. Prescribed advisers will also comment on this selection of financial indicators as part of their assessment of the farm business.

This table will be automatically populated from data supplied in Part B with the exception of the ‘Ideal Threshold’ column, which will need to be completed by the prescribed adviser.

Definitions
Ideal Threshold: The ideal threshold column allows the prescribed adviser to indicate what he or she believes the ideal threshold should be, for each performance indicator, based on the farm business’ financial situation. The ideal threshold is expected to differ from farm to farm due to the varying commodity and business structures of individual farms.

Explanations and interpretations of these performance indicators are given in the table below; however, due to the varying nature of farm enterprises, there is no single ideal threshold for all farm businesses. Prescribed advisers are to enter an ideal threshold for the applicant’s farm business, based on their professional understanding of the nature of the farm business.
### Performance Indicator Descriptions

<table>
<thead>
<tr>
<th>Performance Indicator</th>
<th>Description</th>
<th>Interpretation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Short term viability ratio (STVR)</strong></td>
<td>STVR = (total farm income + liquid assets + total off-farm income) ÷ (total farm expenditure excluding depreciation + total personal expenditure)</td>
<td>Measures the applicant’s or partner’s ability to meet household and farm business financial obligations from available funds over the course of a year. This assumes that no major changes in the allocation of farm resources occur over this time. Farm business depreciation is <em>not</em> included in this ratio.</td>
</tr>
</tbody>
</table>
| **Liquid Assets:** | - Money owed to farm, applicant or partner  
- Saleable produce on hand  
- Outstanding crop or produce payments  
- Cash at bank  
- Farm Management Deposits  
- Share portfolio held | Note: liquid assets are valued in Table 13 |
<p>| <strong>Total household disposable income</strong> | = farm profit + (total off-farm income – taxation payable on off-farm income) | Total net income earned both on-farm and off-farm by the applicant and their partner. The farm profit value includes farm business depreciation. | Measure of the total income available to the owner and partner’s household for the repayment of debt, tax and personal expenditure and investment off-farm and further investment on-farm (in addition to capital replacement). It is a useful bottom-line indicator of the disposable income of farm households. |</p>
<table>
<thead>
<tr>
<th>Performance Indicator</th>
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<th>Interpretation</th>
</tr>
</thead>
</table>
| **Non-farm income as a percentage of total income**  
  = \frac{(\text{total off-farm income} - \text{taxation payable on off-farm income})}{(\text{total farm profit} + (\text{total off-farm income} - \text{taxation payable on off-farm income}))} \times 100 | Measures what proportion of total household income is attributed to off-farm income sources. This value includes business depreciation. | This indicator shows how reliant a farm is on income sourced off-farm compared to income generated on-farm. A number greater than 50% shows that a household relies more heavily on non-farm income than farm income. |
| **Farm income margin (FIM)**  
  = \frac{\text{farm profit}}{\text{total farm income}} | Measures the margin of income over costs for the farm business. It is a very useful way of measuring the net cash flow generated by the farm. This value includes business depreciation. | Businesses with negative farm income margin must draw on off-farm income, draw down liquid assets or increase borrowing to meet the cash shortfall.  
 0 < FIM < 1: indicates that farm income exceeds farm costs. The higher the number, the greater the margin between income and costs  
 0 > FIM: indicates that a farm’s costs are higher than its income. |
<table>
<thead>
<tr>
<th>Performance Indicator</th>
<th>Description</th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Farm debt to farm income ratio</strong></td>
<td>This ratio compares the farm business debt to the total income that the farm generates.</td>
<td>Indicator of farm business debt carried relative to the capacity of the farm business to service that debt.</td>
</tr>
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<td></td>
<td></td>
<td>At some point debt must be repaid if the business is to remain without selling assets and payments and will need to be made out of profits or from non-farm assets.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$0 &lt; x &lt; 1$: indicates that total farm debt is lower than total farm income</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$x &gt; 1$: indicates that total farm debt is higher than total farm income</td>
</tr>
<tr>
<td><strong>Finance costs (interest) and principal as a percentage of farm income</strong></td>
<td>Indicates what percentage of total farm income is consumed annually to meet the farm business’ financial obligations.</td>
<td>Useful Indicator of the current burden of debt servicing and repayment on the farm business.</td>
</tr>
<tr>
<td>=(interest paid on business loans + principal repayments on business loans) ÷ total farm income) × 100</td>
<td></td>
<td>This value is not necessarily reliable for all farm businesses due to the flexibility in financing packages and negotiability of repayments with lenders.</td>
</tr>
<tr>
<td><strong>Finance costs (interest) as a percentage of farm income</strong></td>
<td>Indicates what percentage of total farm income is consumed annually on interest payment obligations.</td>
<td>Indicates the amount of income consumed by meeting the minimum debt servicing obligations of the farm business.</td>
</tr>
<tr>
<td>=(interest paid on business loans ÷ total farm income) × 100</td>
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<td></td>
</tr>
<tr>
<td><strong>Total farm liquid assets as a percentage of farm income</strong></td>
<td>Measure of the liquid assets available that can help to buffer a downturn in farm cash receipts and meet farm costs</td>
<td>Indicator of the capacity of a farm business to buffer short-term decline in farm cash income.</td>
</tr>
<tr>
<td>= (total liquid assets ÷ total farm income) × 100</td>
<td>Note: Farm Management Deposits are only to be included if the cash has been held in the Farm Management Deposit for at least 12 months.</td>
<td>A higher ratio would indicate that the farmer had substantial liquid assets available to him/her to buffer a downturn.</td>
</tr>
<tr>
<td>Performance Indicator</td>
<td>Description</td>
<td>Interpretation</td>
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</tr>
<tr>
<td><strong>Overhead expenditure as a percentage of farm income</strong></td>
<td>The proportion of farm revenue consumed by costs that must be met over the short term regardless of whether or not any production activity is undertaken i.e. fixed costs</td>
<td>Indicator of what percentage of annual income is used to cover the fixed costs of the farm business.</td>
</tr>
<tr>
<td>= (total non variable expenses ÷ total farm income) × 100</td>
<td></td>
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<tr>
<td><strong>Farm operating expenses as a percentage of farm income</strong></td>
<td>The proportion of farm revenue consumed by costs that varies as production output changes.</td>
<td>Indicator of what percentage of annual income is used to cover the variable costs of the farm business in a particular year.</td>
</tr>
<tr>
<td>= (total variable expenses ÷ total farm income) × 100</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Return on farm assets</strong></td>
<td>A measure of the efficiency with which the farm’s existing mix of inputs to the farm business are being used. It is a good measure of relative business performance available. This value includes farm business depreciation. This value is calculated at full equity to remove the impact of the financing arrangement currently in place. Market value of farm capital includes: • value of farm land operated by this business • water entitlements • livestock • plant and equipment • saleable produce on-hand. The value of unpaid labour is set at the Federal Pastoral Industry Award Rate. This is currently the Pastoral Award 2010 (see <a href="https://www.fwc.gov.au/documents/modern_awards/award/MA00035/default.htm">https://www.fwc.gov.au/documents/modern_awards/award/MA00035/default.htm</a>)</td>
<td>Calculates the return on all resources used in farm business (capital, labour and management) This is a relatively complete economic measure of business performance valuing all outputs and inputs to the farm business.</td>
</tr>
<tr>
<td>= ((farm profit – [value of a week’s unpaid labour × weeks unpaid labour] + interest paid on business loans + leasing costs) ÷ (market value of farm capital)) × 100</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Equity Ratio</strong></td>
<td>Equity ratio is a measure of the net assets owned by the applicant and their partner, expressed as a proportion of total assets.</td>
<td>Indicates what proportion of total farm assets are owned by the applicant and their partner.</td>
</tr>
</tbody>
</table>
### Performance Indicator

<table>
<thead>
<tr>
<th>Performance Indicator</th>
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</tr>
</thead>
</table>
| Quick ratio           | The Quick ratio shows the relationship between the total value of a farm’s liquid assets and the farm’s total debt. | This ratio measures the ability of a farmer to meet his/her debt obligations with its most liquid assets.  
$0 < x < 1$: indicates that total debt is higher than the value of liquid assets  
$x > 1$: indicates that total debt is less than the value of liquid assets. |

**Quick ratio**  
$= \frac{\text{liquid assets}}{\text{total debt}}$

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### SWOT Analysis

**SWOT analyses** enables the prescribed adviser to better understand and communicate the farm business’ strengths and weaknesses, and assess what threats and opportunities exist in both the environment that they operate in and the external environment. It can be used to identify training needs and to take advantage of the talents, abilities and opportunities that are available.

Providing quality information as part of the SWOT analysis is very important because the FFA will assist FHCOs to facilitate the recipient’s decision-making about what actions they need to undertake to improve their short and long-term financial self-reliance. This means that the information in the SWOT analysis needs to be accurate, relevant and as comprehensive as possible.

#### Strengths

- What advantages does the farm and/or household have that surrounding farms do not?  
- What makes the farm business competitive?  
- What personal resources do they have?  
- Access to markets?  
- Climatic conditions?

#### Weaknesses

- What are the limitations of the farm business/household?  
- What gaps exist in their capabilities?  
- What skills need developing?  
- What could the farm business do better?  
- What do business competitors do better?  
- Geographical/topographical challenges?  
- Distance from markets?  
- Climatic conditions?

#### Opportunities

- What opportunities are available to the farm business?  
- Do their strengths open up any opportunities for the farm business?
• Does eliminating any of the perceived weaknesses open up any opportunities?
• What is happening in the external environment which could benefit the farm e.g. commodity prices, input costs, technology and research?
• What current trends is the business facing?

Threats

• What obstacles does the farm business face?
• What external influences could threaten the operation of the farm business?
• Is the way agriculture is managed/operated changing?
• Does the current financial situation of the farm threaten the business?
• Is changing technology threatening the farm business’ position?
• What are the farm’s competitors doing?
• Is there a competing use for the surrounding land or for the farm land?

Summary

In your professional opinion, what are the five key factors that have led to the current financial situation of the farm business?
Part D: A report on the potential position of the farm and a statement of the adviser's professional opinion based on the financial information provided – to be completed by the prescribed adviser

Prescribed advisers are to complete this report on the potential position of the farm business using information that has been made available to them in the assessment, their professional expertise, and any other information that they may have access to concerning the farm business.

For the reasons outlined in Part C above under ‘SWOT Analysis’, it is important that the information in the report on the potential position of the farm is accurate, relevant and as comprehensive as possible.

Prescribed Adviser’s Assessment

Explanation
The prescribed adviser’s assessment will be used by a FHCO to assess the overall situation of the farm business, and will help to determine if the farmer or partner would benefit from additional training or assistance.

Prescribed Adviser details and statement

Explanation
These sections collect the details and declaration of the prescribed adviser.

Prescribed advisers should provide the applicant with a copy of the completed FFA and discuss their recommendations with the farmer (and partner if relevant) prior to the farmers’ discussion with their FHCO to negotiate their FIA.