Dear Minister

In recent months, the Australian Government has been in discussions with the Australian farming sector regarding a rising debt problem in rural Australia. Discussions have focused on the pressures currently being experienced in Australia’s agriculture sector and indicate that, while overall farm equity levels remain high, there are some farm enterprises that are finding it increasingly difficult to service debt.

In response, the Australian Government has developed a package of measures to assist farmers with these issues. *Farm Finance* will build on and complement existing measures for farmers experiencing financial hardship, such as the Rural Financial Counselling Service (RFCS) and the Transitional Farm Family Payment, and those that build farmers’ self-reliance, such as the Farm Management Deposits (FMD) Scheme.

*Farm Finance* comprises the following four elements: additional funding for the RFCS, establishing a nationally-consistent approach to farm debt mediation, providing short-term concessional loans to eligible farm businesses and enhancing the FMD Scheme. These measures are outlined further below.

I seek the Victorian Government’s support in implementing some of these measures.

The Australian Government will allocate additional funds in 2013–14 and 2014–15 to RFCS service providers in Victoria to further assist those farmers, fishers and small rural businesses suffering financial hardship. The government will fund two additional full-time equivalent mobile counselling positions to focus on debt-related issues in the dairy industry as well as funds for an additional full-time equivalent counselling position with a broader industry and geographic focus but with an initial focus on the horticulture sector. As you are aware, the Victorian Government provides some co-funding to the provision of RFCS services in Victoria. It is crucial that this level of co-contribution is maintained or increased for the ongoing delivery of these services.

The Australian Government will introduce legislative amendments to the FMD Scheme to increase the non-primary production income threshold from $65,000 to $100,000 and allow FMD holders to consolidate their existing FMD accounts (which have been held for at least 12 months) without adverse taxation consequences. These changes will promote self-reliance in the farm sector and will also cut red tape associated with the scheme. Both of these changes are consistent with recommendations by the National Rural Advisory Council in its report on the effectiveness of the FMD Scheme, which was finalised in October 2012.

The Australian Government will pursue a nationally consistent approach to the various farm debt mediation models across Australia. Feedback I have received from the farm and banking
sctors indicates that mediation delivers overwhelmingly positive outcomes for both farmers and financial institutions. Establishing a nationally consistent approach to farm debt mediation will ensure farmers across the country have equal access to valuable mediation services.

To achieve a nationally consistent approach, I intend to establish a working group to develop a proposal that would underpin model legislation. I envisage that this working group will comprise representatives of the Australian Bankers’ Association, Abacus – Australian Mutuals, the National Farmers’ Federation, the RFCS and Australian state and territory government officials. I would welcome participation on this working group by the appropriate Victorian Government officials.

The core component of Farm Finance is to provide eligible farmers with access to concessional loans. The aim of the loans is to help farmers cope with severe debt stress, as well as to invest in infrastructure improvements, land purchases and equipment, leading to more sustainable production and competitive enterprises.

The concessional finance would be offered to eligible farmers for the purposes of on-farm productivity enhancements and debt restructuring. Guidelines for the concessional loan program will need to be developed, detailing eligibility and the terms and conditions of the loan, however loan recipients will need to have demonstrated financial need, participate in a farm planning exercise to increase their understanding and awareness of their finances; and demonstrate their capacity to meet a debt repayment schedule.

On this basis, the Australian Government will make available a loan of up to $30 million per annum, for the next two years to an appropriate state delivery agency for the provision of the concessional loans to eligible farmers. While the details will be subject to agreement between our governments, I consider that the following broad parameters would apply to such a scheme:

- Loans would be provided through a state rural adjustment authority (or similar delivery agency).
- Loans would be provided in two general categories – productivity loans and debt restructuring loans.
- Loans would be available for a life of up to 20 years, with a maximum fixed concessional period of five years, after which time the applicants would return to commercial market lending arrangements.
- The Australian Government contribution for the loans would be capped at $650 000 per eligible farm businesses.
- As repayments are made, the delivery agency would reimburse the Australian Government for the capital, plus any interest earned on the loans and unspent funds associated with the Australian Government’s contribution.
- The offer is contingent on Victoria administering the loans and being responsible for any applicant assessment costs, application processing costs, and delivery of the loans.
The Australian Government’s offer of up to $30 million per annum for two years (a total of up to $60 million) will be solely for the benefit of concessional loans to farm businesses. The Australian Government would welcome any additional contribution from the Victorian Government towards this proposal to support Victoria’s farmers.

I seek the Victorian Government’s support for this proposal and, should you agree, I would seek the prompt commencement of official-level discussions to develop a framework for the provision of funds, development of these products and the associated eligibility criteria.

I look forward to your cooperation and welcome the participation and contribution to this package by the Victorian Government.

Yours sincerely

Joe Ludwig

Minister for Agriculture, Fisheries and Forestry
Senator for Queensland

27 April 2013