Crown Corporation

BUSINESS PLANS

FOR THE FISCAL YEAR 2012–2013

Nova Scotia Farm Loan Board

Business Plan 2012–2013

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Message from the Minister and the Board Chair

We are pleased to present the Nova Scotia Farm Loan Board business plan for 2012–2013. The plan outlines the board's goals and priorities for the coming year in line with its mission and mandate.

The primary focus of the board continues to be the provision of agricultural financing and of credit counselling in order to advance, encourage, and support the development of agricultural and timber businesses in Nova Scotia.

The Honourable John MacDonell
Minister,
Nova Scotia Department of Agriculture

Mr. Leo Cox
Chairman,
Nova Scotia Farm Loan Board

Mission

The Nova Scotia Farm Loan Board supports the development of sustainable agriculture and agri-rural business in Nova Scotia through responsible lending.

Vision

The Nova Scotia Farm Loan Board is a leader in agricultural lending, creating opportunities in rural Nova Scotia.

Mandate

The mandate of the Farm Loan Board is to support the agricultural industry through the provision of long-term, fixed-rate lending products to those clients demonstrating sound business fundamentals and commitment to the future growth and sustainability of the industry.

The Board operates as a corporation of the Crown under the authority of The Agriculture and Rural Credit Act. The act was initially proclaimed in 1989 and amended December 2011 to modify the number and terms of service of directors and clarify the board's powers and processes. This act provides authority to the board to make or guarantee loans for the purpose of acquiring or improving any farm, plant, machinery, or equipment; to acquire, hold, and dispose of farms, buildings, livestock, machinery, and lands; to collaborate with the Department of Agriculture personnel; and to take on other purposes, duties, and powers as the minister approves.

The board functions as the Timber Loan Board (for loans to forest-product mills) as well as the Nova Scotia Farm Loan Board. The Timber Loan Board's authority is from regulations made pursuant to the Revised Statutes of Nova Scotia, 1989, The Forest Act, in Section 20 of Chapter 179. The Forest Act provides for credit to acquire forested land for forest-product mills and establishes the Timber Loan Board using the same chairman, members and staff as the Nova Scotia Farm Loan Board.

Our Board of Directors

The board currently consists of the following directors, with successful careers in agriculture and business, govern policies, receive reports on operations and clients, and provide strategic direction for the board.

Current Board Members

Chair: Leo Cox. Leo has been a member (and chair) of the board since March 2000. His current term expires April 2012. Leo is from Mabou and served with the Department of Agriculture extension services for 30 years. He owned a cow-calf farm and is still actively involved in the operation of Lake Mabou Farms. Leo has served on numerous boards.

Vice-Chair: Stephen Healy. Steve has been a member of the board since November 2003, with his current term expiring December 2012. He operates a financial planning firm in Kentville. Steve is a graduate of NSAC and the University of Guelph (BSc (Agri)). He has been involved in many community volunteer organizations.

Director: Angela Hunter. Angela was appointed to the board February 2008, and her term expires February 2015. With her family, she operates Knoydart Farms, an organic dairy and sheep farm on the Pictou-Antigonish border.

Director: Hank Bosveld. Hank has been a member of the board since September 2000. His term expires September 2012. Hank lives in Lakeville, Kings County, where he operated a greenhouse and orchard. Hank is also actively involved in the Kings County and Nova Scotia Federation of Agriculture.

New Directors

Director: Greg Sheffer. Greg was appointed to the Nova Scotia Farm Loan Board, February 2012 for a term expiring February 2015. He has extensive experience in the financial industry. Greg is a senior Wealth Advisor and Director of Scotia McLeod in Halifax. He has his MBA, FCSI, and B.Sc. in Agriculture. He is past Chairman of the Nova Scotia Cattle Producers Association and past member of AgraPoint and numerous community volunteer organizations.

Director: Arnold Parks. Arnold was appointed to the Nova Scotia Farm Loan Board effective May 1, 2012 for a term expiring April 2015. He has over 40 years of progressive business experience in the agriculture and agri food industry, including a 10 year term as President & CEO of McCain Foods, Canada. He has a strong background in management, financial and marketing having been involved in the wine industry, food processing, corporate farming and crop contracting.

Our History

Active since 1932, the Nova Scotia Farm Loan Board is an agricultural development agency acting to build greater prosperity. It supports agricultural and rural business development by providing long-term loans at fixed interest rates and financial counselling services. A corporation of the Crown, the board collaborates with the Nova Scotia Department of Agriculture. The board's mandate includes operation as the Timber Loan Board in dealing with applicable loans.

Availability of credit with stable term and long-term rates and understanding the agricultural industry, including cyclical swings in profitability, are considered to be strengths of the board in encouraging development of this industry.

At last year-end (March 31, 2011), the board's loan portfolio totalled $174 million in loan principal. Including lease property accounts, total lending to agriculture represents approximately 22 per cent of the debt capital of Nova Scotia farmers. Timber loans provided to forest mills to ensure a sustainable wood supply totalled $1.8 million for the forest industry. Primary stakeholders in both the Nova Scotia Farm Loan Board and Timber Loan Board roles include individual and potential borrowers and the province, in particular the Departments of Agriculture, Natural Resources, and Finance. Other important stakeholders include the Nova Scotia Federation of Agriculture and the various commodity groups, commercial lenders, equipment and feed suppliers, the wholesale and retail sectors for products produced in Nova Scotia, and others concerned with economic development in rural areas.

Planning Context

External Context

In General

The agricultural industry is affected by weather and by conditions in competing regions, which may affect general price levels for commodities produced as well as market conditions, including the effects of branding, consolidation and national purchasing, and market access. Weather conditions and any change in expected patterns present an obvious concern to agriculture.

We continue to see a trend toward fewer, larger farms, a trend particularly noticeable in the dairy and poultry sectors. The succession of farms and intergenerational transfers is a priority for the industry. Changing technology, food safety concerns, and implementation of related health protection measures are common challenges.

Technology is providing for increased mechanization and automation and is being felt in a wide range of applications. This trend is supporting a broader trend toward consolidation of agricultural operations into larger units in attempts to gain efficiency through economies of scale. In most sectors, entry as a producer involves significant initial cost for specialized buildings and equipment and quota (for supply-managed sectors). Larger operations and high start-up costs present difficulties to new entrants and for intergenerational transfer of family businesses, and these difficulties must be addressed.

Producers must be constantly aware of environmental concerns and maintain up-to-date skills, procedures, and facilities and equipment to meet today's standards and regulatory requirements. A positive development is the increasing public desire to buy locally produced food, improving opportunities within the province for producers of many commodities.

The global recession and fluctuation in the value of the Canadian dollar relative to the US dollar has affected exports to the United States, as well as the cost of some competitive imports. This is expected to have an effect on most sectors to some extent, but particularly on commodities closely linked to external markets. Beef, fur, blueberries, cranberries, and the remaining hog production for export are most dependent on export markets and prices. A broadening of export markets will tend to offset some of these effects.

Industry representatives suggest that additional emphasis should be placed on assisting new entrants and counselling services. Many clients have indicated that they would prefer additional flexibility in loan options available from the board, possibly variable rates, and asset-secured operating or working capital loans. The board will lend so as to support success in agriculture, while continuing to bear in mind the current economic environment.

Through the development of sound lending practices and comprehensive financial analysis and risk assessment tools, the mandate of the Farm Loan Board will focus primarily on the provision of long-term and term-fixed lending in support of higher-risk borrowers demonstrating sound business fundamentals and incremental contribution to the growth of the agricultural industry in Nova Scotia.

Interest rates

Interest rates have remained low for the entire fiscal year. The Bank of Canada maintained its policy overnight rate at 1 per cent throughout 2011–2012.

Requirements for board financing are influenced by levels of investment in agriculture and timber businesses, rates of capitalization, general economic conditions, and the availability of funding from commercial lenders. The board continues to offer fixed-interest loans with rates fixed for the full amortization period of the loan, but it also provides three- and five-year terms on loans amortized over a longer term. These loans provide for lower interest rates than full amortization loans and are restricted to clients who can bear the risk of a potential interest rate increase at the end of the term. Other loan options may be considered for implementation during 2012–2013, including flexible lending secured by real property and variable-rate loans to support short-term and accumulating requirements, including those for quota purchase. Decisions on loan product changes will follow and flow from the board's mandate review and strategic planning process.

Requested capital authority of $32 million is expected to provide flexibility in responding to client borrowing needs in 2012–2013.

Requirement for loan capital by the forestry sector continues to be of interest to the board, both in response to the needs of the industry itself and because of the relationship between forestry and agriculture. Many farms include woodland as part of their overall operation, and forestry management parallels crop management in many respects, including usage of some equipment.

The board will seek to operate on a cost-effective basis and meet client credit needs, providing credit services, support to new entrants, analyzing risk, and collaborating with departments and industry. The board intends to remain flexible in its approach and will be open to any type of development, loan products, or ventures that will assist agricultural development in this province.

Ongoing Planning Focus

Lending Focus

The board understands its role to be in support of the long-term viability and development of agriculture in Nova Scotia through lending. The primary role is to ensure that loan financing is available to clients who have a reasonable likelihood of success but are unable to obtain financing at reasonable rates because they are new, they participate in a sector that has cycles of profitability, or for other reasons they find that banks are tightening credit.

The board also lends to clients who may have access to commercial lending. It does this to provide stability in the availability of funds and in interest rates by offering fixed rates for up to 30 years. This allows those successful clients to continue a financing relationship that may span many years, and to build into their risk profile the stability that comes with a lender that has a long-term commitment to agriculture, optionally fixed rates, and patience during poor business cycles.

The board may on occasion act to assist agribusinesses or clients who experience financial difficulties when dealing with a commercial lender even though the business itself appears viable, given patience, and any lending losses already experienced are borne by the initial lender.

Lending program services will meet these objectives by providing knowledge of agriculture, long-term client relationships, a client focus in developing and providing services, flexibility in lending services and repayment, counselling services, support for new entrants, and long-term lending.

When it is possible to broaden services available to clients by collaboration with other local lenders, joint lending relationships will be pursued.

While ability to repay remains the basic criterion for granting loans, sound environmental and business planning practices and procedures will continue to be considerations, as required for industry and individual growth and sustainability.

Addition of a part-time risk manager position, initiated as a trial late in 2011–12, will be reviewed with a view to improving risk analysis and loan criteria. The board will continue to work toward strengthened lending and management information to meet lending, decision-making, and financial reporting requirements.

Support for Departmental Priorities

Board activities are in support of the vision and principles identified in the Department of Agriculture's 10-year plan, *Homegrown Success*.

Stable access to loan financing at reasonable rates improves *sustainability* during fluctuations in economic and market conditions. Throughout the lending decision-making itself, board staff use their experience to influence client plans for favorable results.

The board is committed to *collaboration* with other service providers and lenders when this will improve services available to clients.

An element of the board's portfolio is intended to be to support *growth* in terms of new participants, new innovative products and ideas, and new methods of production even though these tend to be of relatively high risk. Additional loan products may also be considered in order to meet financing needs of these growth opportunities.

While growth demands that an element of risk be accepted, the board seeks to ensure that loans are issued to successful businesses that will generate profits and repay those loans. Loan officers seek to ensure that projects approved for a loan will result in a *measureable improvement* to the business concerned, and the board seeks to provide, overall, a financing environment that sustains improvement.

In order to *live within our means*, all loans are issued at rates intended to cover the financing costs to the Province and contribute to operating costs and losses on defaulted loans.

Loan issuance and recovery policies are designed to serve the *public interest* by supporting growth and development while minimizing costs.

Strategic Goals

The following goals have been developed to meet the board's mandate and at the same time support the established goals of the Province of Nova Scotia:

1. To ensure industry access to stable, cost-effective, asset-backed developmental credit

- To create conditions that help the rural economy grow, to support sustainable and environmentally responsible development of agricultural industries, and to support development of a competitive business climate to support economic growth and increase jobs in rural communities.
- Provide flexible loan products adapted to the needs of the agricultural industry.

2. To demonstrate sound financial administration, efficiency, responsibility in the administration of public funds, and accountability in the board's own operations

- To develop and enhance loan management capability, including risk-rating abilities, corporate loan and collateral information, and loan review and other processes and procedures to improve management information and auditability.

3. ***To implement the Nova Scotia Farm Loan Board's role as a developmental engine in the agricultural industry and to ensure that clients have access to resources in the Nova Scotia Department of Agriculture (support to be focused on sustainable business models and innovative ideas).***

4. ***To provide support at the development and entry level of farming operations so as to ensure that the agricultural industry will be maintained and have an opportunity to grow.***

Core Business Areas

Core Business Area 1: Lending

Providing flexible, asset-based credit for the development of agricultural and timber businesses is the primary mandate of the Farm Loan Board. This includes loan product development, loan service development, client service and administration, and efficient and responsible financial management. It also includes financial analysis and counselling. Financial counselling is provided by loan officers as a component of loan-analysis meetings with clients and potential clients and includes assessment of projects under consideration. Loan officers assist in sourcing the best available credit.

By providing a reliable source of flexible, asset-financed credit, the board directly provides for development and growth of the agricultural and timber industries and indirectly influences credit availability at reasonable rates through its influence on, and partnership with, other participants in the lending industry.

Loan demand was weak throughout 2011–2012, and this is expected to continue into early 2012–2013. Loan requirements are affected by the availability of credit and the rates available from commercial lenders, developments within the industry, and expectations about future interest rates.

Core Business Area 2: Programs Administration

Programs administration supports the development and implementation of departmental loan-based assistance programs in areas related to the board's financial operations and expertise, including the New Entrants to Agriculture program and its replacement, FarmNEXT program, as well as other programs as they arise. This area of responsibility is funded by departmental resources distinct from the board's lending program but administered by board lending staff. Program expenditures are reported with departmental accountability reports, separate from and not included in the board financial report.

Priorities for 2012–2013

Lending

Provide up to $32 million of new loan capital to the agricultural and timber industries in the 2012–2013 fiscal year.

The focus is on development and long-term stability. During 2011–2012 the board is forecast to advance $22 million and receive principal repayments of $23 million.

Statistics Canada reports indicate that total farm debt of Nova Scotian farms grew by approximately 32 per cent between 2005 and 2010. The board provided 21.8 per cent of total agricultural credit to Nova Scotia farms in 2010.

The board will continue to investigate possible new loan products to meet client needs in 2012–2013. (Areas of investigation include a mortgage loan for shorter-term needs and changes to permit quicker response to funding requests from well-secured clients, and flexible initial loans for accumulating purchases like dairy quota). In order to promote understanding of the flexibility available to clients, the board will work toward the development and presentation of specifically targeted and identified loan product offerings, reducing reliance on individual customization without limiting current options.

Confidential Credit Counselling

The board places importance on maintaining an understanding of agriculture, on the development of relationships with clients and understanding their needs, on flexibility in dealing with individual circumstances, confidential credit counselling services, and specific loan product offerings.

Marketing and Business Development

Nova Scotia Department of Agriculture marketing and business development teams will continue to support the initiatives of the agricultural industry in developing agri-rural business. In 2012–2013 the team will achieve this by working to create greater alignment of its activities with the business goals of clients of the Nova Scotia Farm Loan Board. This will include, for example, business planning, coaching, mentoring, and training opportunities for clients.

Timber Loans

The board will work to provide funding for agriculturally related forest ventures and will work with the Department of Natural Resources to enhance services to modify products and services to meet needs for growth and development within the timber industry as interest develops.

Reporting

The board will work with new technology and systems to improve client and administrative reporting.

Account Maintenance

The board will manage accounts in such a way that write-offs and arrears conditions are monitored and minimized in relation to the portfolio size, while supporting industries and individuals through cyclical downturns and working toward the best outcome for all parties.

This approach includes accurate and appropriate appraisal and evaluation of security arrangements for loans, monitoring arrears and financial counselling, particularly for new clients and clients identified as having financial difficulty.

Lending will continue to be directed toward viable enterprises and projects (with potential to repay) and acceptable security to support the loan. During financially difficult times the board is committed to assisting those operations that appear to have a long-term future and a commitment to meet their obligations. This may include deferral of payments, restructuring of debt, financial counselling, and referral to other relevant services.

The board will provide credit counselling and follow-up for clients with repayment difficulties.

Review of implementation of an independent credit risk assessment position on a trial basis during the last quarter of 2011–2012 will guide plans for strengthened risk assessment.

Life Insurance Program

The Farm Loan Board has offered loan life insurance since 1951. More than 600 lives are insured under this optional program, which provides insurance to the lesser of a maximum amount ($250,000 or $500,000) or the balance of insured loans at a fixed cost for all age groups until age 65. The life insurance plan is underwritten by Sun Life Assurance Company of Canada.

Coverage and costs have been modified by the carrier. The board is reviewing the insurance program in light of the recommended rules for coverage, overall costs, volatility of results, budgetary issues, and volatility of annual results, as well as the appropriateness of coverage.

Financial Management

Effective financial management is a priority for the board.

The board has determined that the Public Sector Accounting Board (PSAB) will be the appropriate source of generally accepted accounting principles beginning with the 2011–2012 fiscal year.

See notes following Operational and Capital Funds statements for information regarding forecasts and estimate requests.

Budget Context

Nova Scotia Farm Loan Board Operational Income Statement

Description	**Estimate* 2011–12 ($ 000)**	**Forecast 2011–12 ($ 000)**	**Estimate 2012–13 ($ 000)**
Interest	9,655	8,533	8,570
Life insurance revenue	628	241	432
Fee revenue/recoveries	431	500	371
Total revenue	**10,714**	**9,274**	**9,373**
Interest	9,300	7,880	7,710
Operating expenses	1,484	1,554	1,498
Life insurance costs	291	252	253
Bad debt expense	—	0	0
Total expenses	**11,075**	**9,686**	**9,461**
Net income (loss)	(361)	(412)	(88)
Transferred to the province	361	412	88
Remaining	**0**	**0**	**0**

Notes:

See year-end annual reports for complete financial information and notes (www.gov.ns.ca/agri/farmlb/busplan/).

Interest expense is established under terms of a Memorandum of Understanding arranged with the Department of Finance.

The 2011–2012 Estimate data above includes two amounts revised after amounts reported in the 2011–2012 Business Plan were finalized. The 2011–2012 Business Plan requested estimate amounts were:

- Fee revenue $428
- Total revenue $10,711
- Resulting net income (loss) $(364)

See notes accompanying the following two tables.

Capital Funds

Description	Estimate 2011–12 ($ 000)	Forecast 2011–12 ($ 000)	Estimate 2012–13 ($ 000)
Opening principal	**175,836**	**174,200**	**164,281**
Add loan advances	30,000	21,000	32,000
Less repayments	(22,000)	(26,000)	(22,000)
Less principal written off	(5,000)	(4,919)	(3,000)
Closing principal	**178,836**	**164,281**	**171,281**
Provision for Impaired Accounts			
Opening provision	**14,294**	**14,316**	**9,397**
Less accounts written off	(5,000)	(4,919)	(3,000)
Additions (principal portion of bad debt expense +/- adjustments)	500	0	550
Closing allowance	**9,794**	**9,397**	**6,947**
Net portfolio at year end	**169,042**	**154,884**	**164,334**

The 2011–2012 Estimate data above includes two amounts revised after amounts reported in the 2011–2012 Business Plan were finalized. The 2011–2012 Business Plan requested estimate amounts were:

- Repayments $(21,000)
- Principal written off $(6,000)

The board funds loans by arranging financing through the Department of Finance for terms similar to loans issued on a quarterly basis.

Accounting adjustments are subject to the approval of the Department of Agriculture.

The board is assigned budgetary authority through the department and is required to conform the forecast and estimate authority to the amount assigned. Authority assigned for insurance, fees, operations, and bad-debt expense is based on funding availability. The significant problems in the hog industry have resulted in much higher than usual bad-debt experience in the past four years, higher than usual write-off requests, in a large group of non-performing loans, reducing forecast income.

Significant portions of the board's expenses, most notably insurance costs under the board's life insurance program and bad-debt expense, are variable, somewhat unpredictable, and beyond short-term control. Actuaries have advised that the results of this program will fluctuate from year to year. A review of current insurance arrangements has begun and is expected to be completed during 2012.

Budgetary allocations are assigned based on staffing now in place.

Budget for Core Business 2: Program Administration:

Note that the board staff administer the following programs, but the programs are reported separately under the Department of Agriculture and are not included in the operational income statement of the board.

Description	**Estimate 2011–12 ($ 000)**	**Forecast 2011–12 ($ 000)**	**Estimate 2012–13 ($ 000)**
New entrants to Agriculture Program—expenditures	574	574	—
Farm Next Program	—	—	574
The 2010–2011 final Estimate was reduced from amounts reported in the Business Plan from $600 to $574.			
Total Staff—FTEs	17.3	17.3	17.3

Outcomes and Performance Measures

Core Business Area 1 *Lending*

Outcome	Measure and Rationale	Base Year Data	Targets	Trends	Strategies to Achieve Target
Efficient program delivery	Net income of the board (before government contribution) as a % of the average active loan balance	1998–99: 0.1%	Current Year 2011–12: -0.4% 2012-13: -0.9% ($1,150,000)	2007–08: -4.3% 2008–09: -2.5% 2009–10: -3.1% 2010–11: -1.0% Net interest revenue and bad-debt expense from 2008–2011 affected by difficulties in the hog sector as well as life insurance program experience.	The strategic plan will identify needs of clients and new lines of business for the board. Maintain interest rate margins in accordance with regulations, while matching draws used to fund loans as closely as possible to loans issued in term and amount. Continue to develop additional loan products to meet client needs, including clients with lower inherent risk and less likelihood of loss. Minimize operating expenses by efficient operating structure, practices, training, and electronic systems. The insurance program is under review as part of an effort to make these costs more predictable.

Core Business Area 1 *Lending*

Outcome	Measure and Rationale	Base Year Data	Targets	Trends	Strategies to Achieve Target
Successful clients (as indicated by the proportion of accounts in difficulty)	Total arrears as percentage of value of all accounts	2006–07: 3.7%	2011–12: 4.5% or less 2012–13: 4.3% or less	2007–08: 3.7% 2008–09: 4.5% 2009–10: 6.3% 2010–11: 4.7% 2011–12: 4.5% forecast	A special credit section has been dedicated to working with clients in arrears or experiencing difficulty to achieve the best chance of success in the long term (see arrears strategies above). Monitor account status, contacting clients in arrears and referring them to industry resources where appropriate. Maintain contact and work with client and work out arrangements for payment. Include larger arrears accounts in annual review process. Arrears and defaulted accounts will vary from year to year depending on performance of the various agricultural sectors represented in the board's loan portfolio. Working with clients to achieve the best long-term outcome is the board's primary goal. Continue to improve a balance of high risk and lower risk clients by broadening loan products available to meet a range of requirements. Clear up existing accounts in process for recovery as rapidly as possible subject to legal procedures and fairness processes and timing necessary to achieve the best value.
Client satisfaction	Combined results for courtesy, promptness, knowledge, and commitment on client survey	2000–01: 92%	2011–2012: 90% or above 2012–2013: 90% or above	2008–09: 94% 2009–10: 96% 2010–11: 93% 2011–12: 98% forecast	Monitor survey results. Review procedures for efficiency gains. Work to improve promptness score through reallocation of staff to permit focus on struggling clients, analysis, and documentation, while maintaining capacity for new loan.

Core Business Area 2 *Program Administration*

Outcome	Measure and Rationale	Base Year Data	Targets	Trends	Strategies to Achieve Target
New entrances facilitated	Number of approved applications	2000–01: 49	2011–2012: 30–50 2012–13: 30-50	2008–09: 22 2009–10: 31 2010–11: 43 2011–12: 30 forecast	The New Entrant program has ceased accepting applicants for 2011–12 and is winding up by completing grants approved for previous year's applicants. It is being replaced by the FarmNEXT program, with similar new-entrant goals, expected to start April 1, 2012.