



Australian Government
**Department of Agriculture,
Water and the Environment**

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Committee Secretary
Joint Committee of Public Accounts and Audit
Parliament House
CANBERRA ACT 2600

Dear Committee Secretary

I am writing to provide an update on the findings of the evaluation of the Farm Management Deposits Scheme (FMD Scheme), recently completed by the Department of Agriculture, Water and the Environment. The evaluation report and Australian Government response were released by the Minister for Agriculture and Northern Australian on 24 December 2021.

The evaluation is in response to the FMD Scheme 2019 Australian National Audit Office performance audit 'General Report No. 51' and the 2019 Joint Committee of Public Accounts and Audit inquiry. It is also a commitment under the Australian Government Drought Response, Resilience and Preparedness Plan.

The evaluation's purpose was to consider the extent to which the FMD Scheme meets its policy objective of increasing the financial self-reliance of primary producers; identify what elements of the FMD Scheme are working well and what could be improved; and implications of the FMD Scheme for Australian Government policies and programs, including those providing financial support to primary producers.

The evaluation report outlines 7 recommendations to improve the FMD Scheme, including ensuring consistency with other government initiatives that focus on drought preparedness, resilience and recovery, and improved communication, monitoring and reporting. The summary, key findings and recommendations from the evaluation report are at [Attachment A](#) for your information.

Full versions of the evaluation report and Australian Government response can be downloaded at haveyoursay.awe.gov.au/farm-management-deposits-scheme-evaluation.

I trust this information is of assistance to you. Do not hesitate to get in touch with the Department for further information.

Yours sincerely

Kerren Crosthwaite
First Assistant Secretary
Drought and Farm Resilience Division

3/3/2022

Farm Management Deposits Scheme: 2021 evaluation

Summary, key findings and recommendations

Summary

The Department of Agriculture, Water and the Environment (DAWE) has conducted an internal evaluation into the operation of the Farm Management Deposits Scheme (FMD Scheme), which was established in 1999 to encourage increased self-reliance among primary producers, while also taking account of high variability of farm income and the vulnerability of farming businesses to natural events.

The FMD Scheme operates by providing primary producers with an incentive, a tax benefit, to establish cash reserves earned during high-income years for use when needed. The scheme was designed to address the issues of reliance on government during drought, and result in more productive, profitable farms (Productivity Commission 2009).

The scheme allows primary producers to make tax-effective deposits in higher-income years, which can then be withdrawn in lower-income years. It does this by providing a deduction for deposits into an FMD account in the year the deposit is made and taxing the income in the year it is withdrawn. This reduces the impact of progressive marginal tax rates, particularly for primary producers with highly variable incomes.

As of 30 May 2021, the total funds held in farm management deposit (FMD) accounts is \$5.27 billion. In the order of 25,000 primary producers make deposits or withdrawals in their FMD accounts each year. The costs of the FMD Scheme (in revenue forgone) vary each year and depend on the extent to which primary producers invest in FMD accounts or withdraw from them. Treasury estimates the revenue forgone from the scheme of \$500 million in 2017–18, reducing to approximately \$110 million in 2020–21 (Treasury 2021).

This is the fourth review of the FMD Scheme; earlier reviews were undertaken in 2002, 2006 and 2012. In 2021, stakeholder views on the FMD Scheme were very similar to those expressed in earlier years. Stakeholders say the FMD Scheme is an effective tool that helps primary producers plan and manage their operations, however it is viewed by some as inflexible which may limit the extent to which the scheme is used by eligible participants.

The FMD Scheme is one of a suite of tools used by primary producers to manage business and climatic risks. Uptake is reasonable at approximately 41% of eligible primary producers, granted that the benefits of the scheme are of more limited value to smaller primary producers without available cash flow to invest in an FMD. In general, FMD holders successfully manage their primary production business in an environment where, by global standards, few subsidies are provided. The FMD Scheme may have reduced the need for in-drought support from governments in 2019–20.

While lack of quantitative data means that we were unable to draw a causal link between the FMD Scheme and improved self-reliance, in 2019–20, broadacre farms with FMD holdings had superior farm financial performance on average, including higher farm cash income, higher farm business profit, higher rates of return and higher equity ratios than farms not holding FMDs. Broadacre farms with FMDs are slightly less likely to access the Farm Household Allowance than those without, but also receive slightly more government assistance overall than non-holders (Litchfield et al. 2021).

The FMD Scheme aligns well with the Australian Government's drought reform agenda of the last decade, which seeks to transition from crisis management to long-term resilience and preparedness. The financial incentive provided by the FMD Scheme means that many primary producers have resources and an opportunity to better manage risks independently, building resilience to climatic changes rather than relying on possible government assistance during

drought. The increased draw down of FMDs in the last 12 months shows that some primary producers do use FMDs to manage through drought as well as to fund recovery as conditions improve.

FMD account holders are not required to apply for funding or report on expenditure of funds directly to government; instead, data on the scheme is provided to government by Authorised Deposit-taking Institutions (ADIs) and information on use of the FMD scheme is provided to the Australian Taxation Office (ATO) through annual tax returns. While this is administratively efficient for government, data integrity and quality issues has limited our ability to accurately manage and monitor the scheme. Work to improve data on the FMD Scheme is ongoing.

There is scope for government to better understand the way primary producers use the scheme, as well as quantify its impacts. There is also potential to ensure the scheme is integrated it with broader government priorities, such as better primary production business planning and risk management, drought resilience and climate adaptation. Establishing links with relevant programs, and increasing education and awareness of the FMD Scheme, may increase uptake and use, improve monitoring and reporting, and deliver better outcomes.

Key findings and recommendations

Overall findings

- 1) The FMD Scheme is supported by the majority of stakeholders as a valuable tool to support primary producers manage risk, including building resilience and managing through drought.
- 2) Improved data on the FMD Scheme would support the FMD Scheme's transparency, identification of impacts and evaluation of outcomes.
- 3) The FMD Scheme is managed efficiently with low administrative costs and sufficient risk management and compliance processes.

Impacts and outcomes

- 1) While the evaluation did not have access to quantitative data to determine whether there is a link between the FMD Scheme and increased financial self-reliance, the scheme supports primary producers to manage risks in an environment where few subsidies are provided.
- 2) The FMD Scheme provides a financial benefit to participating primary producers, including income smoothing, cash flow management and tax management.
- 3) There is some evidence that FMDs assist primary producers to manage through and recover from drought. This may reduce the need for government to provide financial support during drought.

Observations

- 1) The average amount of an FMD held by an individual is approximately \$131,801. 10% of FMD accounts are above \$400,000.
- 2) Uptake of the FMD Scheme is approximately 41% of eligible primary producers.
- 3) Uptake and use of FMDs by primary producers is influenced by a range of variables, including industry sector, business structure and local climatic conditions.
- 4) FMDs are more likely to be used by profitable primary producers with liquidity to participate and are above the age of 45. As there appears to be limited take up of the scheme

by smaller producers with less cash flow government may wish to investigate the take up of risk management tools by these group.

- 5) Stakeholders raised concerns that the \$100,000 cap may have an impact on the ability of businesses to manage risk through income diversification.
- 6) There is significant scope to improve linkages between the FMD Scheme and broader programs and strategies for risk management and drought resilience.
- 7) Improved education, financial literacy and business planning for primary producers and their advisers would assist to build resilience and preparation for drought and may encourage greater use of the FMD Scheme.

Recommendations

Links with other Government initiatives

- 1) Ensure consistency and alignment between the FMD Scheme and related government programs focussing on preparedness, resilience and recovery, including the Future Drought Fund.
- 2) Government programs and initiatives related to risk management and building drought resilience, including the FMD Scheme, are maintained as a strategic, integrated package, including a unified approach to communication and monitoring and evaluation.

Tax averaging for primary producers

- 3) The ATO considers undertaking specific and targeted communication with accountants and financial advisers on tax averaging for primary producers and how it relates to the FMD Scheme.

Ongoing work to improve data—DAWE and ATO

- 4) DAWE and ATO continue to work with the ADIs to improve the collection and reporting of data on the FMD Scheme, to improve transparency on the scheme's outputs and outcomes.

Ongoing administration—DAWE

- 5) DAWE finalise the FMD Scheme Monitoring and Evaluation Plan with the outcomes of this evaluation.
- 6) DAWE review the FMD Scheme Agency Responsibilities Interim Plan in early 2022 and prepare a new Memorandum of Understanding if appropriate.
- 7) DAWE consider the cost-effectiveness of the mechanism used to determine whether FMD holders can access the early access provision of the FMD Scheme.