

Audit Report No. 1, 2003-2004

Administration of Three Key Components of the Agriculture – Advancing Australia (AAA) Package

Introduction

Background

- 2.1 The *Agriculture–Advancing Australia (AAA)* package aims to help the rural sector to be more competitive, sustainable and profitable. There are four key objectives; to:
- Help farmers profit from change;
 - Encourage social and economic development in rural areas;
 - Provide incentives for ongoing farm adjustment; and
 - Give farmers access to an effective welfare safety net.
- 2.2 The AAA package was launched in 1997, with individual components progressively implemented over several years. The Department of Agriculture, Fisheries and Forestry–Australia (AFFA) is responsible for the AAA package.

The audit

- 2.3 The objective of the audit was to assess the adequacy of the Commonwealth's administration of three key components of the AAA package. These components are:
- FarmBis II;
 - Farm Help; and
 - Farm Management Deposits (FMD).

Audit findings

- 2.4 The Australian National Audit Office (ANAO) found that many aspects of administration of the AAA programs were well-managed. There were some weaknesses in administration, most notably relating to strategic management and compliance arrangements, which require strengthening for more effective outcomes.
- 2.5 ANAO found that the administrative framework for Farm Help required strengthening to enable AFFA to assess the quality of Centrelink's service delivery adequately and to obtain assurance that payments for Centrelink's administration represented value-for-money. The overlap of Farm Help with the Rural Financial Counselling Services program also required attention, as it eroded the value-for-money spent on the programs.
- 2.6 The absence of a documented agreement on the administrative arrangements between AFFA and the Australian Taxation Office (ATO) for the FMD scheme had contributed to communication shortcomings affecting scheme administration. A more systematic approach to risk management was also required to address program integrity.
- 2.7 Performance information indicated that the programs had been successful in addressing desired outcomes. Most service delivery standards were being met.

The Committee's review

- 2.8 The Committee held a public hearing on 16 February 2004 to review the progress made against the audit's recommendations. Witnesses from the following agencies attended the public hearing:
- Australian National Audit Office;
 - Australian Taxation Office;
 - Department of Agriculture, Fisheries and Forestry – Australia; and
 - Centrelink.
- 2.9 The Committee took evidence on the following issues:
- FarmBis II
 - ⇒ Administrative expenses;
 - Farm Help
 - ⇒ Compliance with legislative requirements;
 - ⇒ Value-for-money;
 - Farm Management Deposits (FMD)
 - ⇒ Key Performance Indicators (KPIs); and
 - ⇒ Cost to revenue.
- 2.10 At the outset the Committee places on record its satisfaction with the progress made by AFFA against the ANAO recommendations, particularly AFFA's close work with ANAO to fine-tune the AAA programs. The Committee is also pleased to note the harmonious working relationships that AFFA has with ANAO and ATO.

FarmBis II

- 2.11 FarmBis II is an AAA program that provides subsidies to primary producers, spouses, farm family members, partners and professional farm managers to improve their business and natural resource management skills to meet the challenges and opportunities ahead. Support is given to each farm manager to identify the exact type of training they need, and to

find the best learning options available, at a place and time that suits them.¹

- 2.12 FarmBis II is a continuation of the original FarmBis program, which was part of the first AAA package launched in 1997. The AAA package was developed in response to the McColl review, which was a broad ranging view of the Rural Adjustment Scheme undertaken in 1996.²
- 2.13 The Audit Report addressed one recommendation to FarmBis II (Recommendation 1 – AFFA to establish performance indicators). AFFA agreed to action this recommendation.³

Administrative expenses

- 2.14 The FarmBis II program management framework is established by agreements between the Commonwealth and each state. Each Commonwealth–State agreement provides for a cap on the percentage of total expenditure that can be allocated to program administration, co-ordination and communication. This cap, in part, seeks to address the risk of states not using funding consistent with the purpose of the program. Its use also aims to maximise the direct benefit of program funding to the primary producer/land manager.⁴
- 2.15 The Committee was concerned that FarmBis II administrative expenses exceeded the states' and territories' caps on administrative spending.
- 2.16 The audit report noted that in 2001–02 and the first half of 2002–03, most states were spending above their cap on program administration, co-ordination and communication. This was due to:
- High administrative costs incurred in establishing and maintaining co-ordination networks; and
 - Low expenditure on non-administrative activities due to low take up rates at the start of the program.⁵

1 Department of Agriculture, Fisheries and Forestry (AFFA), *FarmBis Commonwealth/State Component*, www.affa.gov.au/content/output.cfm?ObjectID=D2C48F86-BA1A-11A1-A2200060B0A00228, accessed 5 August 2004.

2 AFFA, *Transcript*, 16 February 2004, p. 3.

3 Australian National Audit Office (ANAO), Audit Report No.1, 2003–04, *Administration of Three Key Components of the Agriculture--Advancing Australia (AAA) Package*, p. 47.

4 ANAO, Audit Report No.1, 2003–04, *Administration of Three Key Components of the Agriculture--Advancing Australia (AAA) Package*, pp. 36, 42.

5 ANAO, Audit Report No.1, 2003–04, *Administration of Three Key Components of the Agriculture--Advancing Australia (AAA) Package*, p. 42.

2.17 AFFA had not expected full uptake of the FarmBis II program at the time that the audit was done. Uptake has increased over the past 12 months, however, and expenditure on non-administrative activities has increased accordingly. Consequently, the percentage of each state's and territories expenditure allocated to administration has fallen, and most are now spending within their caps.⁶

Committee Comment

2.18 The Committee accepts AFFA's explanation, and believes that administrative expenses have now reduced.

Farm Help

2.19 Farm Help is an AAA program that delivers improved welfare and adjustment support to primary producers in severe financial difficulties. The Farm Help program has several components including:

- Income support for up to 12 months;
- An Advice and Training Grant; and
- Assistance to re-establish out of farming.⁷

2.20 The Farm Help program commenced on 1 July 2000, replacing the Farm Family Restart Scheme.⁸

2.21 The Audit Report addressed four recommendations to Farm Help (Recommendations 2-5). AFFA agreed to these recommendations.⁹

2.22 The Committee addressed two issues relating to Farm Help:

- Compliance with legislative requirements; and
- Value-for-money.

6 AFFA, *Transcript, 16 February 2004*, p. 4.

7 AFFA, *AAA Farm Help Supporting Families Through Change*, www.ffa.gov.au/content/output.cfm?ObjectID=D2C48F86-BA1A-11A1-A2200060B0A00217, accessed 5 August 2004.

8 ANAO, Audit Report No.1, 2003–04, *Administration of Three Key Components of the Agriculture--Advancing Australia (AAA) Package*, p. 51.

9 ANAO, Audit Report No.1, 2003–04, *Administration of Three Key Components of the Agriculture--Advancing Australia (AAA) Package*, pp. 57, 61, 63.

Compliance with legislative requirements

- 2.23 The Committee was concerned with the reported systematic non-compliance by Centrelink with legislative requirements relating to the processing of the Certificate of Inability to Obtain Finance (CIOF).
- 2.24 In order to obtain Farm Help income support, an applicant must obtain a CIOF. This is a document from a financial institution stating that the applicant applied for a loan which has subsequently been refused by the institution. At the time of the audit, the *Farm Household Support Act 1992* (FHS Act) specified that a CIOF had a maximum currency of six months during which it could be used to qualify for income support. Centrelink provisions required customers to provide two CIOFs to receive payments for the maximum allowable 12 month period.¹⁰
- 2.25 The starting date for the CIOF qualification period, however, is strictly defined in the FHS Act. Accordingly, there were circumstances where a third CIOF would have been necessary to cover the full 12 months of Farm Help payment.¹¹
- 2.26 At the time of the audit ANAO found that Centrelink was systematically issuing payments to customers for periods during which they did not have a current CIOF. It also found that the Centrelink system generally recorded an incorrect start date for the first CIOF.¹²
- 2.27 The audit report offered an explanation for Centrelink's non-compliance. It pointed out that if Centrelink were to fully comply with the legislation, then most farmers would be significantly burdened by having to obtain a third CIOF to qualify for a full 12 month period of payment. Further, delays in obtaining CIOFs from financial institutions could result in some farmers losing payments. In spite of this, Centrelink is still required to comply with the FHS Act.¹³

10 ANAO, Audit Report No.1, 2003-04, *Administration of Three Key Components of the Agriculture--Advancing Australia (AAA) Package*, p. 62; *Farm Household Support Act 1992*, s. 4(2).

11 ANAO, Audit Report No.1, 2003-04, *Administration of Three Key Components of the Agriculture--Advancing Australia (AAA) Package*, p. 62.

12 ANAO, Audit Report No.1, 2003-04, *Administration of Three Key Components of the Agriculture--Advancing Australia (AAA) Package*, p. 63.

13 ANAO, Audit Report No.1, 2003-04, *Administration of Three Key Components of the Agriculture--Advancing Australia (AAA) Package*, p. 63.

- 2.28 ANAO made two recommendations to address this situation:
- Seek appropriate amendments to the legislation from the Minister (Recommendation No. 4); and
 - Build on existing arrangements with service providers to ensure that they comply with legislative requirements (Recommendation No. 5).¹⁴
- 2.29 AFFA's implementation of Recommendation No. 4 has led to the legislation being amended within the *Farm Household Support Amendment Act 2003*. The amendment streamlines the administrative arrangements for obtaining a CIOF.¹⁵
- 2.30 Changes in the FHS Amendment Act have addressed the situation where two CIOFs do not cover the entire 12 month period of payment. The period for which a CIOF is effective has been extended from six months to 13 months from its date of issue. As a consequence, some customers now require only one CIOF to receive Farm Help payments¹⁶

Committee comment

- 2.31 The Committee is satisfied with AFFA's efforts to address the issue of Centrelink's systematic non-compliance with legislative requirements relating to CIOFs. The Committee is pleased too that the unnecessary compliance burden formerly experienced by Farm Help beneficiaries has been significantly reduced through timely legislative amendment.

Value-for-money

- 2.32 The Committee addressed the issue of whether AFFA was receiving value-for-money through its administrative arrangement with Centrelink. Participation in Farm Help was found to be lower than what had been expected when the Memorandum of Understanding (MOU) between the two agencies had been struck in December 2001. ANAO is generally satisfied with the MOU which covers Farm Help and a number of other programs.¹⁷

14 ANAO, Audit Report No.1, 2003–04, *Administration of Three Key Components of the Agriculture--Advancing Australia (AAA) Package*, p. 63.

15 AFFA, *Transcript, 16 February 2004*, p. 2.

16 AFFA, *Transcript, 16 February 2004*, p. 4; *Farm Household Support Amendment Act 2003*, s. 1(5).

17 ANAO, Audit Report No.1, 2003–04, *Administration of Three Key Components of the Agriculture--Advancing Australia (AAA) Package*, pp. 53, 55.

- 2.33 Under the terms of the MOU, AFFA pays Centrelink in advance each quarter for administering Farm Help payments and services, based on a fixed payment schedule. There is no provision to vary the amount paid to Centrelink to reflect the number of customers who may apply for payments and services.¹⁸
- 2.34 The fixed payment schedule was agreed in May 2000 prior to the commencement of Farm Help and was based on estimates of customer numbers for the four-year term of the program. The audit report states that actual customer numbers have been significantly below these estimates, meaning that AFFA has been paying far more for administration than was intended.¹⁹
- 2.35 Centrelink upheld the fixed payment schedule. It informed the Committee that setting up the Farm Help program involved significant fixed costs.
- no matter how many customers turn up, there will always be the need for us to set up the required systems, forms, staff available to take inquiries et cetera.²⁰
- 2.36 Centrelink completed an exercise to identify its fixed and variable Farm Help administrative costs in January 2003. Based on the results of this exercise, AFFA and Centrelink agreed to, and implemented, a new funding arrangement which took effect from 2002-03.²¹
- 2.37 A flexible funding model had not been agreed upon until some two years into the program. The initial MOU had failed to provide for a variable cost model. As trends started to emerge, however, AFFA's relationship with Centrelink allowed it to raise the issue towards the end of the first year.
- it was about nine months into the program that some monitoring had indicated that uptake was not as high and so we raised the issue with Centrelink. We continued to have discussions over the way that a variable costing model might actually get put into place. The discussions were quite cooperative but they did take a little time and also involved some data collection by Centrelink that enabled us to come up with a variable model. In discussion

18 ANAO, Audit Report No.1, 2003-04, *Administration of Three Key Components of the Agriculture--Advancing Australia (AAA) Package*, p. 58.

19 ANAO, Audit Report No.1, 2003-04, *Administration of Three Key Components of the Agriculture--Advancing Australia (AAA) Package*, p. 58.

20 Centrelink, *Transcript, 16 February 2004*, p. 5.

21 ANAO, Audit Report No.1, 2003-04, *Administration of Three Key Components of the Agriculture--Advancing Australia (AAA) Package*, p. 58.

between the two agencies we implemented that at a time when we could actually set a changeover date, if you like.²²

- 2.38 Centrelink did not have an estimate of the overpayments made by AFFA in previous years.²³

Committee comment

- 2.39 The Committee agrees with ANAO that the variable cost model should have been implemented sooner. This would have saved money and ensured accountability and value-for-money. Despite the unavailability of figures that would show the extent of past overpayments, the Committee agrees with AFFA and Centrelink that it would be impractical to attempt to apply now the new funding model, to previous years' payments. The Committee therefore accepts that the past payments should stand.

Farm Management Deposits

- 2.40 The Farm Management Deposits (FMD) scheme is an AAA scheme that allows deposit holders to set aside pre-tax primary production income in profitable years to help balance income between good and bad times. Deposits also provide tax benefits if kept for a minimum of twelve months. Interest is earned on the full amount of the deposit at market interest rates. The money deposited can be withdrawn in later years when needed, often in a lower income, lower tax year.²⁴
- 2.41 The FMD scheme commenced in April 1999, replacing the Income Equalisation Deposits and Farm Management Bonds schemes.²⁵
- 2.42 The Audit Report addressed four recommendations relating to FMD (Recommendations 6-9). AFFA agreed to these recommendations.²⁶
- 2.43 The Committee was concerned with two issues concerning the FMD scheme:

22 AFFA, *Transcript*, 16 February 2004, p. 5.

23 Centrelink, *Transcript*, 16 February 2004, p. 6.

24 AFFA, *Farm Management Deposits (AAA)*, www.affa.gov.au/content/output.cfm?ObjectID=D2C48F86-BA1A-11A1-A2200060B0A05703, accessed 5 August.

25 ANAO, Audit Report No.1, 2003–04, *Administration of Three Key Components of the Agriculture--Advancing Australia (AAA) Package*, p. 70.

26 ANAO, Audit Report No.1, 2003–04, *Administration of Three Key Components of the Agriculture--Advancing Australia (AAA) Package*, pp. 73, 76, 84, 86.

- Key Performance Indicators; and
- Cost to revenue.

Key Performance Indicators (KPIs)

- 2.44 The Committee was concerned about the effectiveness of the FMD KPI of effective use of FMD as a risk management tool. The target growth rate for this KPI was found to be far lower than growth rates for preceding schemes.
- 2.45 AFFA has developed a monitoring and evaluation framework for the FMD scheme, as part of an overall framework for the AAA package. This framework describes the methodology for monitoring and evaluating the FMD scheme, its KPIs and its targets.²⁷
- 2.46 The FMD KPI of effective use as a risk management tool states:
- The amount deposited will show an increase (targeted at one per cent) in year[s] when conditions are optimal and will show that funds are drawn down when incomes from primary production fall.²⁸
- 2.47 This KPI has a target growth rate of only one per cent. However, the average annual growth rate for preceding schemes was over 44 per cent. Furthermore, considerable growth was expected because FMD have a more generous tax treatment than the schemes they replaced, and access has improved through private sector delivery.²⁹
- 2.48 In response to this situation and concerns over other FMD KPIs, ANAO recommended that AFFA, in consultation with ATO, revise its KPIs and targets to ensure that they provide appropriate means of assessing administrative performance, and effectiveness in achieving required outcomes (Recommendation 8). Both AFFA and ATO agreed to this recommendation.³⁰
- 2.49 AFFA agreed with the Committee's suggestion that the one per cent growth rate target was exceedingly low, and could not provide a strong

27 ANAO, Audit Report No.1, 2003-04, *Administration of Three Key Components of the Agriculture--Advancing Australia (AAA) Package*, p. 83.

28 ANAO, Audit Report No.1, 2003-04, *Administration of Three Key Components of the Agriculture--Advancing Australia (AAA) Package*, p. 83.

29 ANAO, Audit Report No.1, 2003-04, *Administration of Three Key Components of the Agriculture--Advancing Australia (AAA) Package*, pp. 83-4.

30 ANAO, Audit Report No.1, 2003-04, *Administration of Three Key Components of the Agriculture--Advancing Australia (AAA) Package*, p. 84.

foundation for the selection of that performance target. It denied, however, that the target had been chosen so as to be easily met and exceeded.³¹

- 2.50 AFFA suggested that a better KPI of effective use as a risk management tool would be “the percentage of farm families participating in the FMD scheme”. ANAO agreed with this suggestion. ATO, however, stated that this figure would not be an effective long term indicator because participation in FMD is cyclic. AFFA observed that participants are likely to leave the scheme and draw down their deposits in bad years, and return to the scheme in good years.³²

Committee comment

- 2.51 The Committee considers the KPIs developed for the FMD scheme to be unsatisfactory. The Committee agrees with ANAO that the targets specified in these KPIs are too low to provide a useful reference point for judging performance.
- 2.52 The Committee endorses the ANAO recommendation that AFFA revise upwards its KPIs and targets to credible levels that are sensitive to the measurement of administrative performance, and are effective in identifying desired outcomes.
- 2.53 Accordingly, the Committee makes the following recommendation:

Recommendation 1

- 2.54 **The Department of Agriculture, Fisheries and Forestry–Australia assemble a rigorous set of Key Performance Indicators for the Farm Management Deposits scheme that consist of credible administrative performance targets.**

Cost to revenue

- 2.55 The Committee was concerned at the high cost to revenue of the FMD scheme.
- 2.56 The estimated cost to revenue of the FMD scheme is the difference between the estimated revenue that would be collected if the FMD scheme

31 AFFA, *Transcript, 16 February 2004*, pp. 6-7.

32 AFFA, *Transcript, 16 February 2004*, p. 6; ANAO, *Transcript, 16 February 2004*, p. 7; Australian Taxation Office (ATO), AFFA, *Transcript, 16 February 2004*, p. 8..

were abolished and the estimated revenue that would be collected if the scheme were to continue.³³

- 2.57 The preliminary estimate of cost to revenue in 2002-2003 was \$410 million. This markedly exceeded initial estimates published in the Explanatory Memorandum to the *Taxation Laws Amendment (Farm Management Deposits) Bill 1998*, reflecting higher than anticipated growth in usage.³⁴
- 2.58 This \$410 million was a cash cost, rather than a public debt cost, and represents about 20 percent of the total amount on deposit for the FMD scheme. The FMD scheme therefore has approximately \$2 billion on deposit.³⁵
- 2.59 One of the factors contributing to the high estimated cost to revenue is the lower marginal rate of tax paid by depositors:
- If the deposit is made, tax is not paid on that in that year, so the deposit may be made when the amounts would otherwise be subject to the higher rate of tax and drawn out when they are at a lower rate of tax.³⁶
- 2.60 The FMD scheme is complementary to the ATO tax averaging scheme for primary producers. Farmers are given greater flexibility through the option of participating in one or both of the schemes.³⁷
- 2.61 The amount of tax that a farmer could save through the FMD scheme is limited by features that impose a ceiling of \$300 000 on their participation at any time.³⁸

Committee comment

- 2.62 The Committee remains concerned at the high cash cost to revenue of the FMD scheme. The Committee is also concerned that the cost to revenue represents such a large proportion of the total amount on deposit for the FMD scheme. The Committee accepts, however, the ANAO explanation that this high cost to revenue is due to higher than anticipated growth in usage.

33 ANAO, Audit Report No.1, 2003-04, *Administration of Three Key Components of the Agriculture--Advancing Australia (AAA) Package*, p. 87.

34 ANAO, Audit Report No.1, 2003-04, *Administration of Three Key Components of the Agriculture--Advancing Australia (AAA) Package*, p. 87.

35 ATO, ANAO, *Transcript, 16 February 2004*, pp. 9-10.

36 ANAO, *Transcript, 16 February 2004*, p. 9.

37 ATO, *Transcript, 16 February 2004*, p. 9.

38 ATO, *Transcript, 16 February 2004*, p. 10.

2.63 Information provided by the ATO on the limit to farmers' participation in the FMD scheme suggests to the Committee that money is being distributed fairly amongst participating farmers. The Committee therefore presumes that the tax averaging function of the FMD scheme is successful in that it has a high acceptance rate across a wide spread of beneficiaries.

