



## AgForce Queensland Farmers Limited

ABN 57 611 736 700

Second Floor, 110 Mary Street, Brisbane, Qld, 4000  
PO Box 13186, North Bank Plaza, cnr Ann & George Sts, Brisbane Qld 4003

Ph: (07) 3236 3100  
Fax: (07) 3236 3077  
Email: [agforce@agforceqld.org.au](mailto:agforce@agforceqld.org.au)  
Web: [www.agforceqld.org.au](http://www.agforceqld.org.au)

30 April 2021

Evaluation Team  
Department of Agriculture, Water and the Environment

By Email: [FMDS.Evaluation@agriculture.gov.au](mailto:FMDS.Evaluation@agriculture.gov.au)

Dear Evaluation team Secretary

### **Re: AgForce submission to Farm Management Deposits Scheme Evaluation 2021**

Thank you for the opportunity to provide comment on the Farm Management Deposits Scheme (FMDS) Evaluation 2021 (the Evaluation) which is currently before the team for consideration.

AgForce is a peak organisation representing Queensland's cane, cattle, grain, and sheep and wool producers. The cane, beef, grain, sheep and wool industries in Queensland generated around \$7.3 billion in on-farm value of production in 2018-19. AgForce's purpose is to advance sustainable agribusiness and strives to ensure the long-term growth, viability, competitiveness, and profitability of these industries. Almost 5,900 farmers, individuals and businesses provide support to AgForce through membership. Queensland producers provide high-quality food and fibre to Australian and overseas consumers, and contribute significantly to the social fabric of regional, rural and remote communities.

#### **Primary production business**

AgForce recognises that primary production is primarily a business venture. Consideration must therefore be given to enabling drought and risk mitigating schemes to be accessed by the full range of primary production businesses and their structures. A common thread among many policy options to enable this is to reconsider the definition of a primary producer. AgForce would support a broader discussion reconsidering the definitions of a primary producer and primary production.

With regard to the FMDS, as primary production enterprises are operated in a business-like fashion, often with numerous partners and group decision making involved, AgForce supports enabling enterprises to hold the primary production income in its own Farm Management Deposit (FMD). Currently, although the income is made by the enterprise, each individual in the business is required to hold their own separate FMD.

AgForce members have expressed their concern and struggles with the distribution of primary production income to individual partners, only to see very unfortunate personal circumstances result in a partner no longer having the business's interest at heart, or more difficult still, that business partner passes away. AgForce also calls for the ability for the estate of a deceased primary producer to distribute the contents of an FMD account as the deceased would have been able to prior to death. Treating the distribution as income in the one year provides a significant disincentive for individuals in their later years of life to access the FMDS and utilise it to the full extent of the scheme.

**ADVANCING SUSTAINABLE AGRIBUSINESS**

**Recommendation 1:**

That the Farm Management Deposit Scheme be accessible to primary production business structures such as companies, not only individuals

**Recommendation 2**

Estates be able to distribute the contents of an FMD account as the deceased would have been able to prior to death

**Utilisation and outcomes of the FMDS**

The FMDS is one of a number of very useful and essential drought and risk mitigating schemes offered by both state and federal governments and supports achieving increased self-reliance, as has been recognised in the 2009 Productivity Commission Government Drought Support Inquiry Report<sup>1</sup>. Each individual scheme is applicable for different businesses, depending on the stage in their development they are in, and in some cases the commodity which they produce. When a farming business is in its infancy, setting up and acquiring assets, they will seldom have funds in reserve to allocate to an FMD, unlike mature businesses whose development and expansion is more complete.

The FMDS is well utilised by producers in mature stages of their business development, as shown by the example of Queensland grain growers in Figure 1. 2017 – 2020 saw some of the most challenging climatic conditions for grain growing in Queensland in recent history. Much of the key grain growing areas of Queensland had either failed crops or no crops were planted. Figure 1 shows that grain producers who had previously been in a position to utilise the FMDS drew down on these reserves during this period, as intended by the FMDS policy.

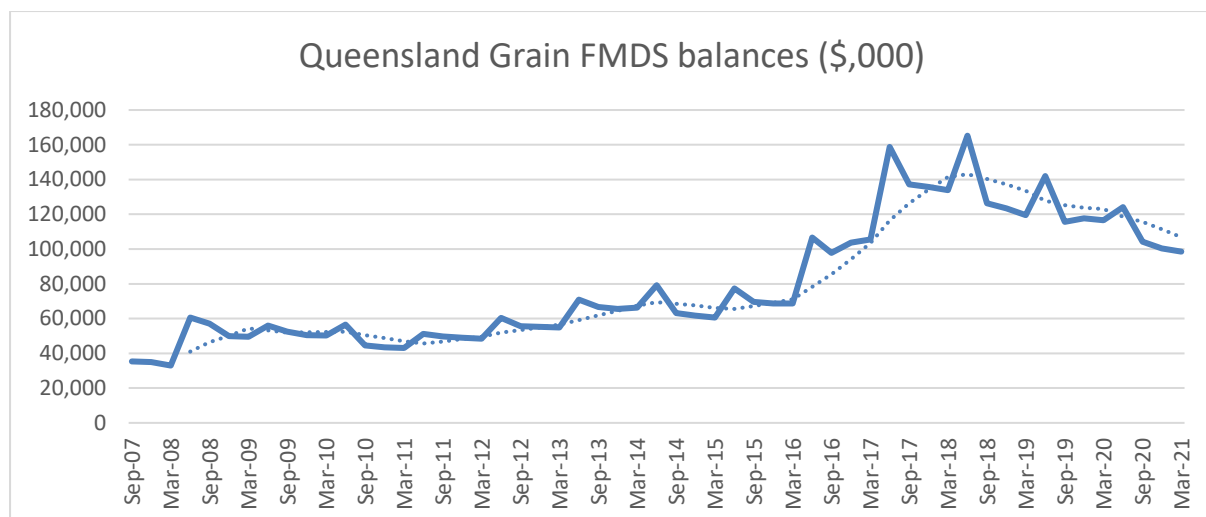


Figure 1<sup>2</sup>

**Case Study – Southern Downs Grain Farmers**

David and Tanya farm in the Southern Downs region of Queensland. They grow both winter and summer crops and have diversified their broader enterprise to further strengthen their resilience and mitigate risk. Among other risk management tools, David and Tanya also utilise the FMDS. David says that the FMDS “is the only reason I sleep at night”. Knowing that there are funds available for the times when rains fail, and crop production is significantly reduced, David knows that he and Tanya will be self-sufficient and be able to endure several lost planting windows, before seeking any direct government assistance. The bank that David and Tanya partner with also regards their utilisation of the FMDS as very positive, and indeed considers their business preferably when making decisions regarding funding and product offers.

<sup>1</sup> Productivity Commission 2009, Government Drought Support, Report No. 46, Final Inquiry Report, Melbourne

<sup>2</sup> Data request to Department of Agriculture, Water and the Environment, 23/04/2021

It is prudent to compare the grain producers' usage to that of the beef producers of Queensland (Figure 2). Due to the variance in farming systems, impact of geography and climatic conditions on pasture growth, and utilisation of other risk management tools and financial measures, the utilisation on first glance is quite stagnant. The flat growth trend is however often described as a function of some beef producers selling down their herd in drying times and depositing, while others who have enjoyed better pasture growth in other regions of Queensland are utilising the FMDS to restock and rebuild.

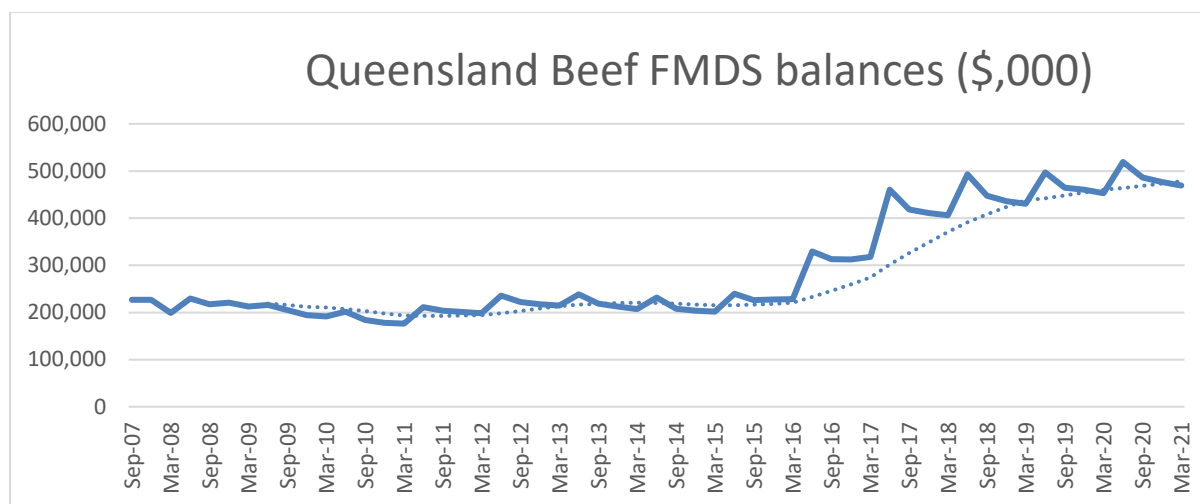


Figure 2<sup>3</sup>

### Administration of the FMDS

AgForce sought for balances held in the FMDS to be used for primary production business loan offsetting purposes and welcomes Minister Littleproud's recent comments in support of producers being enabled to use balances as security too<sup>4</sup>. Currently, different banking institutions offer vastly different products in relation to the FMDS. Some large banks have committed to fully offsetting balances against primary production loans. Other institutions have included FMDS in their recognition of assets, however all are currently held back by the Tier 1 capital requirements of The Australian Prudential Regulation Authority (APRA). Indeed, some institutions offer borrowing with lower interest rates and more favourable conditions if borrowers do not offset their FMDS balances. Until FMDS balances are recognised as tier 1, these examples will continue to repeat.

### Recommendation 3:

That Farm Management Deposit Scheme balances be recognised as Tier 1 capital.

### Legislative framework

Similarly, there are a number of negative implications of the current eligibility criteria. A key adverse criterion is the \$100,000 cap on taxable non-primary production. Previous to the inception of the FMDS, many financial institutions appropriately encouraged their clients to seek non-primary production income as a risk mitigation measure, and the Productivity Commission in 2009 recognised income diversification as "a rational response ... to the many risks of farming"<sup>5</sup>. Understanding that agriculture is the most volatile economic sector in Australia<sup>6</sup>, these institutions saw that by having

<sup>3</sup> Data request to Department of Agriculture, Water and the Environment, 23/04/2021

<sup>4</sup> AgForce member forum, Cappella, 14 April 2021

<sup>5</sup> Productivity Commission 2009, Government Drought Support, Report No. 46, Final Inquiry Report, Melbourne p.33

<sup>6</sup> Keogh, Mick, 2012.

"Including risk in enterprise decisions in Australia's riskiest businesses," 2012 Conference (56th), February 7-10, 2012, Fremantle, Australia 124202, Australian Agricultural and Resource Economics Society.

reliable income from different economic sectors allowed the whole business to be both resilient and have the capacity to capitalise on the good seasons when they occurred. Unfortunately, because the FMDS eligibility settings begin with “a primary producer’s non–primary production income must be less than \$100,000 in the financial year they make the deposit”<sup>7</sup>, producers are incentivised to reduce any non-primary production income that they might have. This in fact increases the risk profile of the business, decreasing the preparedness and resilience of the enterprise. AgForce calls for a significant increase to the \$100,000 cap on non-primary production income for FMDS eligibility.

**Recommendation 4:**

The eligibility cap of \$100,000 non-primary production income be lifted significantly to support resilience

**Monitoring and evaluation**

AgForce welcomes regular and timely reviews into the FMDS. Evaluating the successes and understanding the limitations to effective utilisation is an essential process. While we appreciate the responsiveness of the department to our data requests in preparation for this submission, publicly available data to enable continual assessments by industry and others would be most useful.

Similarly, AgForce calls on the Federal Government to commission a ‘National Rural Debt Survey’ much like the highly regarded and informative ‘Queensland Rural Debt Survey’ regularly produced by the Queensland Rural and Industry Development Authority (QRIDA).<sup>8</sup> This report assists the agricultural industry and the key support industries to understand the true state of agricultural enterprises, areas of financial risk, and how risk-mitigation schemes such as the FMDS can enhance, or otherwise, the overall strength of the industry.

**Recommendation 5:**

The Federal Government commission a ‘National Rural Debt Survey’.

For any questions on this submission please contact Grains Policy Director and Drought policy lead Cam Parker on 07 3236 3100 or via email ([parker@agforceqld.org.au](mailto:parker@agforceqld.org.au)).

Yours Faithfully,



Mike Guerin

CEO

<sup>7</sup> <https://www.agriculture.gov.au/ag-farm-food/drought/assistance/fmd>, 26/04/2021

<sup>8</sup> <https://www.qrida.qld.gov.au/queensland-rural-debt-survey>