



Farm Management Deposit Scheme

Evaluation 2021

by the



Department of Agriculture, Water and the
Environment (DAWE)

April 2021

**NSW Farmers' Association
Level 4, 154 Pacific Highway
St Leonards NSW 2065**

T: (02) 9478 1000 | F: (02) 8282 4500

W: www.nswfarmers.org.au | E: emailus@nswfarmers.org.au

 @nswfarmers  nswfarmers

For further information about this submission, please contact:
Kathy Rankin, Policy Director – Rural Affairs & Business, Economics & Trade
02 9478 1000 | rankink@nswfarmers.org.au

Table of contents

About NSW Farmers.....	3
Introduction	4
Summary of recommendations.....	4
Outcomes of the FMD scheme.....	6
Administration of the FMD scheme	6
Legislative framework	7
Coordination and support	9
Monitoring and evaluation.....	10
Possible changes	11

About NSW Farmers

The NSW Farmers' Association is Australia's largest state farming organisation representing the interests of farmers of all agricultural commodities. Our purpose is to build a profitable and sustainable farming sector for New South Wales.

Our focus is not just on issues affecting particular crops or animals – it extends to the environment, biosecurity, water, economics, trade, and rural and regional affairs. Our industrial relations section provides highly specialised advice on labour and workplace matters.

Farmers across New South Wales produce more than \$15 billion worth of food and fibre every year. This is approximately 1 quarter of Australia's total agricultural output. Our goal is to grow the sector to deliver \$30 billion in economic output by 2030.

Our regional branch network ensures local voices guide and shape our positions on issues that affect real people in real communities. Our branch members bring policy ideas to Annual Conference, our Advisory Committees provide specialist, practical advice to decision makers on issues affecting the sector, and our 60 member Executive Council is the final arbiter of the policies of the Association.

In addition, NSW Farmers has partnerships and alliances with like-minded organisations, universities, government agencies and commercial businesses across Australia. We are a proud founding member of the National Farmers' Federation.

Introduction

NSW Farmers welcomes the opportunity to contribute to the Farm Management Deposits (FMD) Scheme Evaluation 2021.

The opportunity to establish a Farm Management Deposit is an effective strategy for primary producers to manage their business risk and aid preparedness for the variabilities that are inherent in agriculture. Not all primary producers are in a financial position to establish a FMD. This may be due to being in an establishment or expansion phase; or there may be other complementary business management practices implemented before establishing an FMD. In macro terms, there is a significant national balance of FMD funds available for use by primary producers. The annual changes in the level of holdings, including significant withdrawals across all jurisdictions over the recent drought would indicate the intent of the policy is being delivered. NSW Farmers understands that there is some concern that this scheme is potentially under-utilised. NSW Farmers disagrees and reinforces the need to provide a range of differing measures to manage risk as the profile of the Agriculture sector is diverse.

While NSW Farmers considers that, in the main, the policy remains sound and relevant; the Association has identified aspects that that could improve the Scheme. These, as outlined in the following response highlight key issues and recommendations made in response to the Terms of reference.

Summary of recommendations

Recommendation 1:

That a suite of evaluation and impact measures is developed in consultation with the farm and financial sectors against which value and benefit may be reported on a bi-annual basis.

Recommendation 2:

DAWE improve communication and engagement with financial advisers who work with primary producers to enhance their knowledge of risk management strategies available to primary producers.

Recommendation 3:

That Farm Management Deposits be held within the primary production entity and not distributed to individual beneficiaries.

Recommendation 4:

That the off-farm income threshold be determined by an assessment of a three (3) year off-farm income average.

Recommendation 5:

That primary producers eligible for concessional loans under the Natural Disaster Relief and Recovery Arrangements be able to retain taxation benefits for early withdrawal.

Recommendation 6:

That interest accruing from individual FMDs be able to be applied to the FMD balance but not included in accounting of the \$800,000 deposit cap.

Recommendation 7:

that the Australian Government engage with the Australian Banking Association to improve consistency of treatment of FMDs across individual banks.

Recommendation 8:

NSW Farmers urges clearer reporting of trend data for Farm Management Deposits.

Recommendation 9:

NSW Farmers recommends Farm Management Deposits be recognised as tier-1 capital by APRA.

Recommendation 10:

That DAWR to investigate the viability of expanding eligibility to the FMD Scheme to highly specialised agricultural contractors.

Outcomes of the FMD scheme

The stated policy intent of the Farm Management Deposit (FMD) Scheme is to:

“... assist primary producers to deal more effectively with fluctuations in cash flows. It is designed to increase the self-reliance of Australian primary producers by helping them manage their financial risk and meet their business costs in low-income years by building up cash reserves.”

NSW Farmers is supportive of this intent and highlights that this is but one tool in a suite of measures that farmers use to manage risk and especially manage responses to extreme business impacts, including natural disasters and long-term drought impacts.

It is a concern therefore that, while there is a wide variety of private measures and public funding support intended to enable and expand resilience and preparedness, public policy measures, such as the FMDS are reviewed independently and not in concert with other measures. If evaluations were more holistic, there is greater potential to identify and determine the collective benefits and unintended consequences of policy change of the value of any one scheme.

NSW Farmers considers that an agreed set of ongoing measures (both qualitative and quantitative) against which the FMD Scheme is consistently reviewed should be established. Developed in consultation with farmers, banks and financial advisers, they would focus on the value and benefit of the FMD Scheme, including its role and benefit within a larger suite of risk management tools. A number of key elements including the stage of the business cycle (establishing, mature, expanding etc.), and/or the global commodity prices for food and fibre, could be considered.

Recommendation 1: *That a suite of evaluation and impact measures is developed in consultation with the farm and financial sectors against which value and benefit may be reported on a bi-annual basis.*

Administration of the FMD scheme

NSW Farmers is concerned that there may be a lack of understanding by both primary producers and financial advisers regarding the role of the FMD Scheme in the broader suite of measures to aid preparedness and resilience.

As a priority we consider that targeted communication and information regarding the full suite of public support measures available for primary production risk management should be undertaken.

Our member experience shows that while financial advisers are critical and in the main, knowledgeable regarding business planning, if not specialising in agriculture, they may be unaware of the breadth of tools to manage risk, and the potential interface across these – both benefits and barriers.

Recommendation 2: *DAWE improve communication and engagement with financial advisers who work with primary producers to enhance their knowledge of risk management strategies available to primary producers.*

Legislative framework

NSW Farmers notes the policy object to provide clarity and certainty and the current eligibility and the taxation management requirements of the scheme that aid primary producers to deal more effectively with fluctuations in cash flows, manage their financial risk and meet business costs in low-income years through building cash reserves.

Access by Partnerships and Trusts

NSW Farmers notes that primary production entities established as sole trader or partnership are eligible to participate in the FMD Scheme. Additionally, FMDs may also be established by trust beneficiaries following a dividend payment. However, for the taxation benefits to apply the deposits are required to be paid to the individual partners or as a dividend to the trust – effectively removing the financial resources from the business entity. This has the potential to require agreement for the individual beneficiaries to return all, or some, of the benefit to the farm entity when needed.

In the main this may not be a cause of concern for partnerships, however it is problematic for beneficiary trusts. The farm financial loss liability is within the trust, not passed to the individual, meaning that the farm loss is not able to be offset against the FMD withdrawal. It is identified as individual income with no loss offset applicable.

This also has an implication for unforeseen change in the personal circumstances, or death of an FMD holder. Currently the distribution of benefit to trust members also has the potential to reduce the certainty for future business planning by the primary producer as the business ‘authority’ regarding the call in the financial resources is dependent upon the agreement of the individual beneficiary who establishes the deposit.

It is also noted that as a result of the ability for FMD establishment by individuals (partnerships and trust beneficiaries) that there may be multiple FMDs established related to a single primary production entity. While the published data is aggregated and significantly deidentified, the proposition that the

FMD be held by the farming entity may in some cases reduce the available total FMD \$800,000. Any consideration of increase to the \$800,000 deposit threshold is identified as being out of scope of the evaluation.

However, if the eligibility were changed to the entity only NSW Farmers would expect that integrity measures would be in place to ensure that no disadvantage to current or future FMD holders occurred.

Recommendation 3: *That Farm Management Deposits be held within the primary production entity and not distributed to individual beneficiaries.*

Eligible primary production income

The current policy settings cap off-farm income at \$100,000 within any financial year. NSW Farmers considers this to be problematic in two ways.

First, following years of drought many primary producers have been encouraged to diversify their income. This may be generated through off-farm investments, additional paid employment, or establishing alternate land use, such as renewable energy generation or natural resource management or conservation offsets.

Second, the policy setting identifies the value of FMDs as a tool to manage variability in primary production income. This variability extends to the interface between projected and actual income. For example, a primary producer may seek additional off farm income due to projections of extended dry periods.

However, livestock may be agisted and grain may be sown. If the extended dry period does not eventuate, or there is a significant and unanticipated increase in the return from stock or grain price, the profitability of the enterprise will likely see a higher tax liability that would wipe out the potential benefits of an FMD.

Given that the policy recognises the uncertainty of annual income for primary producers, it seems at odds that the assessment of off-farm income is inflexible.

Recommendation 4: *That the off-farm income threshold be determined by an assessment of a three (3) year off-farm income average.*

Eligibility exceptions to retain taxation benefits:

The current FMD Scheme eligibility settings include early withdrawal exceptions to provide for access to emergency funds following natural disasters and rainfall deficiency. However, we raise concerns regarding the requirement for primary producers to make early withdrawal following receipt of

Category C recovery assistance under the Natural Disaster Relief and Recovery Arrangements (NDRRA).

After reviewing publicly available information in NSW it is clear what assistance is available following natural disasters and the primary producer eligibility. However primary producers would not know what category this is, under the NDRRA. NSW Farmers also understands that each jurisdiction has autonomy regarding what support is available within each category. If this is unclear to primary producers then it is likely that there will be potential for inconsistent interpretation when being assessed by the Australian Taxation Office.

NSW Farmers considers that this should be changed to allow for eligibility if the primary producer operating in a Disaster Declared LGA where the assistance is eligibility for a concessional loan. Rather than adding additional loan debt the FMD should be able to be released without tax penalty – allowing the producer to access their own capital reserves. In NSW for example, NSW Farmers understands that Concessional Loan eligibility is determined to be Category B recovery assistance.

The severity of financial impact by recent bushfires and floods has been significant, with primary producer cash reserves dedicated to immediate clean up and repair before the business of generating income is able to be considered. The demand for operating cash is immediate.

Additionally, while it would be assumed that there are progressive steps of Category A, B, C and D for assistance, this may not be the application of the policy by individual jurisdictions – potential recipients of these grants/concessional loans would be unaware of what category this support is provided under, as this is not communicated clearly.

Recommendation 5: *That primary producers eligible for concessional loans under the Natural Disaster Relief and Recovery Arrangements be able to retain taxation benefits for early withdrawal.*

Coordination and support

NSW Farmers notes that while FMDs generate interest, the interest is not able to be added to the individual FMD, but must be paid to the holder. This means that possible additional benefits of the deposit are not necessarily returned to the primary production entity to aid risk management of the farming entity, particularly when the FMD is established as a beneficiary benefit under a Trust structure.

As a consequence the original deposit (up to \$800,000) could be viewed as a 'holding' account and not returning additional future support of the investment benefit to the farm enterprise.

Recommendation 6: *That interest accruing from individual FMDs be able to be applied to the FMD balance but not included in accounting of the \$800,000 deposit cap.*

NSW Farmers notes that individual banks determine the interest rates applied to FMDs. A review of the publicly available information from the major banks in April 2021 show interest variabilites from 0.0% to on balances of less than \$1,000 to 0.65% for up to \$800,000.

Bank	Interest	Term
ANZ	0.65%	12 month
Bank of Queensland	0.5%	12 month
Combank	0.0% up to \$999 0.5% up to \$800,000	12 month
NAB	0.25%	12 month
Westpac	0.25%	12 month

NSW Farmers appreciates that interest rate detemination is at the discretion of the individual bank and in line with regulatory requirements. With such variability there is a risk of bank shopping and therefore potentially minismising the capacity of the policy intent to allow FMD interest to offset loan repayments that the policy provides. Again – with the FMD requirement to be established by an individual, the question of ability to link the FMD to a business loan may be problematic.

Recommendation 7: *That the Australian Government engage with the Australian Banking Association to improve consistency of treatment of FMDs across individual banks.*

Monitoring and evaluation

The current reported accumulated deposits at February 2021 are \$5,273,984,000 of which \$1,118,473 are held by primary producers in NSW, represnting 10,800 FMDs. Annecodtally NSW Farmers understands that nationally there are 96,000 eligible primary producers, with 24% reporting an FMD. This equates to an average FMD banace of \$139,000, recognising that there may be multiple FMDs held that relate to a single farm entity.

This is a reduction of \$353,468,000 nationally and \$170,493,000 in NSW over the previous 12 months. The fact that the number of FMDs and their total value is dynamic indicates that in general the policy intent appears to be working.

NSW Farmers considers that publicly available data could be improved if the intent is to support primary producers to consider establishing an FMD. We recognise that with potentially small numbers

by sector it will be important that de-identification and aggregation of data is undertaken to ensure privacy requirements are met.

Aggregated data is posted monthly and then reported quarterly on the DAWE website. As these reports are discrete monthly tables it is challenging to identify trends regarding establishment, deposits and withdrawals as they may correspond with drought or natural disaster events.

Recommendation 8: *NSW Farmers urges clearer reporting of trend data for Farm Management Deposits*

Possible changes

Recognition as tier-1 Capital

NSW Farmers also supports the recognition of Farm Management Deposits as tier-1 capital due to the data published by DAWE identifying the significant size of the aggregated deposits and the apparent stability of the number of deposits over time. At February 2021, FMDs collectively represent over five billion in cash reserves held by banks. While there has been a decline in national totals over the last 12 months the total value of deposits has not dropped below \$5 billion since June 2017.

Recommendation 9: *NSW Farmers recommends Farm Management Deposits be recognised as tier-1 capital by APRA*

Expansion to primary production dependent businesses

NSW Farmers notes that consideration of expansion of the FMD Scheme to non-primary production businesses is out of scope of the review. However, we believe it important to raise the issue of expanding the FMD Scheme to specialist services such as Grain Harvesters.

We acknowledge that a down-turn in primary production activity has the potential to significantly impact a range of essential farm business support services. Grain harvesters are cited as an example of a highly specialised and targeted essential service providers to primary producers.

Unlike other services, it is highly unlikely that grain harvesting plant and machinery can be diverted to alternate farm support or income generation activity. The importance of the inter-dependence of the farm sector with specialist services cannot be understated. The continuation of these critical contracted services are at significant risk during long-term drought or major natural disasters such as the 2019-20 bushfires.

Recommendation 10: *That DAWR to investigate the viability of expanding eligibility to the FMD Scheme to highly specialised agricultural contractors.*