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Submission

26 April 2021

FMDS Evaluation Team
Department of Agriculture, Water and the Environment
18 Marcus Clarke Street
Canberra
ACT 2601

Via email: fmds.evaluation@agriculture.gov.au

Dear Sir/Madam

Re: Farm Management Deposits Scheme Evaluation 2021

The Queensland Farmers' Federation (QFF) is the united voice of intensive and irrigated agriculture in Queensland. It is a federation that represents the interests of 21 peak state and national agriculture industry organisations and engages in a broad range of economic, social, environmental and regional issues of strategic importance to the productivity, sustainability and growth of the agricultural sector. QFF's mission is to secure a strong and sustainable future for Queensland farmers by representing the common interests of our member organisations:

- CANEGROWERS
- Cotton Australia
- Growcom
- Nursery & Garden Industry Queensland (NGIQ)
- Queensland Chicken Growers Association (QCGA)
- Queensland Dairyfarmers' Organisation (QDO)
- Australian Cane Farmers Association (ACFA)
- Queensland United Egg Producers (QUEP)
- Turf Queensland
- Queensland Chicken Meat Council (QCMC)
- Bundaberg Regional Irrigators Group (BRIG)
- Burdekin River Irrigation Area Irrigators Ltd (BRIA)
- Central Downs Irrigators Ltd (CDIL)
- Fairbairn Irrigation Network Ltd
- Mallawa Irrigation Ltd
- Pioneer Valley Water Cooperative Ltd (PV Water)
- Theodore Water Pty Ltd
- Eton Irrigation Scheme Ltd
- Pork Queensland Inc
- Tropical Carbon Farming Innovation Hub
- Lockyer Water Users Forum (LWUF)

QFF welcomes the opportunity to provide comment on the Farm Management Deposits Scheme Evaluation and we provide this submission without prejudice to any additional submissions from our members or individual farmers.

QFF notes the limited scope of the current evaluation. There is also a lack of transparency around farm debt, cash flow and its complex relationship to other matters such as succession planning, rising agricultural land values and the current low interest rate environment which makes quantifying feedback and assessing on-farm decision-making processes problematic.

Scope of the Review

The evaluation into the operation of the Farm Management Deposits Scheme (FMDS) by the Department of Agriculture, Water and the Environment (DAWE) will assess the extent to which the FMDS is delivering the outcomes as intended, and the efficiency of its administration.

QFF understands that the evaluation will fulfil Action 1.10 of the Australian Government Drought Response, Resilience and Preparedness Plan, which details the Government's commitment to undertake an evaluation of the FMDS, as well as recommendations of the recent Australian National Audit Office (ANAO) audit and the Joint Committee on Public Affairs and Audit (JCPAA) inquiry. While the aim is to also inform ongoing policy and program design, support better decision making and accountability.

The FMDS was designed to encourage increased financial self-reliance among primary producers. It is a tax-linked financial management tool that aims to improve the capacity of primary producers to manage financial fluctuations caused by environmental and market conditions. Eligible primary producers are able to set aside up to $800,000 in pre-tax income to draw in future years when needed. As at June 2020, the total holdings in the FMDS were $6.5 billion, held in over 49,000 accounts. As the FMDS is both a deferral and foregone revenue measure, it is not possible to give precise costings for the forward estimates. Though, in 2019-20 the government provided $215 million in tax relief in net terms to primary producers through the FMDS.

The FMDS is one of several tax concessions and measures to assist primary producers improve cash flow and provide an incentive for improved risk management. The FMDS also aligns with the Australian Government's drought reform agenda of the last decade, which aims at transitioning from crisis management to long-term resilience and preparedness. The FMDS is a key Commonwealth commitment in the National Drought Agreement (2018) and the Australian Government's Drought Response, Resilience and Preparedness Plan. The FMDS is jointly administered by DAWE, the Australian Taxation Office (ATO) and the Department of Treasury

The guiding principle of this evaluation involves the DAWE to provide advice on:

1. The extent to which FMDS meets its policy objective by assisting primary producers to become more financially self-reliant, as opposed to being utilised for other purposes, such as tax planning;

2. What elements of FMDS are working well, and what could be improved; and

3. Implications of the FMDS for Australian Government policies and programs, including those providing financial support to primary producers.

There are some matters specific to FMDS that are indicated as being outside the scope of the evaluation. It is the view of QFF that it is difficult to appropriately evaluate the scheme based on the above guiding principles, without also considering some of the matters that have been specified out of scope as a number of these are directly relevant to issues such as what could be improved and the extent to which FMDS meets its policy objective.

Queensland Context

The Farm Management Deposits Scheme (FMDS) commenced in 1999 with an aim to promote financial self-reliance of Australian farmers by providing them with an opportunity to manage financial risk associated with climate conditions, particularly drought and other market fluctuations by depositing funds in higher income years as reserve to be available for low-income years.

Income deposited in an FMD account is tax deductible in the year in which the deposit is made. It becomes taxable income in the year in which it is withdrawn. QFF understands that the scheme has been popular amongst primary producers as a measure for forward planning of cash flow in primary production business, but there are impediments which are discussed in this submission.

As at 1 February 2021, there are a total of 41 councils and four-part council areas drought declared. These declarations represent 67.4% of the land area of Queensland. There are also 31 Individual Droughted Properties (IDP) in a further 12 Local Government Areas[1]. Despite recent sporadic rainfall to some areas, many water storages (both on-farm and off-farm) are still critically low, and the drought declarations are expected to continue into the foreseeable future. Some properties and areas have now experienced over a decade of drought conditions.

The 2019 Queensland Rural Debt Survey[2] indicated that as at 31 December (2019), there was $19.10 billion of rural debt in Queensland, an increase of $1.85 billion on 2017 figures. QFF notes that this survey does not capture debt held outside the 'banking world' including, but not limited to, unpaid utility bills, lines of credit at local stores and suppliers or debt held by other businesses allied to the farm.

The report notes that as of December 2019, '*there were 9,154 FMD accounts in Queensland at a value of $1,213 million. Comparatively, in December 2017, there were 10,095 accounts with a total value of FMD accounts at $1,188 million. The total value of deposits has only marginally increased (2.03 per cent increase), and the number of accounts has decreased by over 900. It is observed that March 2019 saw the lowest deposit value at $1,167 million.*

The beef industry had the greatest number of FMD accounts (3,073) with a value of $460 million. The sugar industry had the second highest deposit accounts with 1,319 at a total of $138 million. In 2017, these two industries also had the highest number of accounts, reflecting the significant industries that they are in Queensland. Whilst drought has significantly reduced production for both industries in Queensland, the high returns from 2016 likely assisted in the number of accounts' (pp22-23).

Policy Objectives

QFF is of the view that FMDS have generally met the policy objectives of the scheme since its introduction by promoting some forward planning of cash flows in high income years amongst primary production business that are eligible to access the scheme.

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[1] See https://www.longpaddock.qld.gov.au/drought/drought-declarations/

[2] See https://www.qrida.qld.gov.au/queensland-rural-debt-survey Survey conducted by the Queensland Rural and Industry Development Authority (QRIDA).

As many areas of Australia, and particularly Queensland and New South Wales, have suffered extended periods of drought, it is timely to analyse access to the reserves held in the scheme. QFF supports a review of the pattern of FMD withdrawals to help inform whether the policy objectives of the scheme are being met in areas where drought conditions are improving. This is due to the fact that it has been previously noted that FMD withdrawals often lag drought conditions by a season or more in some agricultural industries.[3]

An analysis of withdrawals will help inform the value of the scheme in difficult times and is likely to also inform the need for improvements to the scheme, particular in respect of eligibility and increases in the use of non-primary production income, discussed further below.

Elements of FMDS are working well, and what could be improved

QFF understands anecdotally that there is widespread understanding of the availability of FMDS amongst primary producers. QFF supports an analysis of the trend in use of FMDS over the past 10 years, in particular with a view to assessing the use of FMDS during periods of extreme drought. QFF understands that many family farming businesses have progressed to being conducted in companies and trusts for multiple reasons including, but not limited to, asset protection and succession planning.

As companies and trusts are not eligible to hold FMDS a review that focuses on whether access to FMDS has decreased in the last ten years may be timely, as it corresponds to the rising use of companies and trusts in family farming business.

Longer periods of drought are likely to also have led to an increase in farming business utilising sources of non-primary production income, with that income used primarily to support the farming business. QFF supports a review of the amount of non-primary production income being held in FMDS to assess whether this has increased in recent years, particularly in areas suffering the effects of long periods of drought.

As a farm business must be profitable to have the cash flow to hold an FMD, the protracted periods of drought may have led to decreased use of FMDS during periods of higher non-primary production income to support farming business. This is worthy of analysis in order to assess if FMDS are currently achieving the policy aims of improving cash flow planning, and thereby financial self-reliance for primary producers, particularly during periods of extended drought. As the scheme's objective is to enable famers to better manage income for the purposes of being self-reliant, it seems counter-intuitive to limit the ability for farming enterprises to build reserves from non-primary production income to support the business, particularly during periods of drought.

QFF also considers that FMDs being held by individuals can inhibit appropriate succession planning where the transition of the business to the next generation during lifetime may already face significant hurdles such as capital gains tax and increased debt to facilitate retirement of the controlling generation. In these circumstances a consideration of the ability to transfer funds held in FMDS to superannuation (subject to the relevant contribution thresholds) may help facilitate the transition of a more viable (and therefore more financially self-reliant) farming enterprise to a future generation. In addition, a review of eligibility for companies and trusts could also facilitate a more viable transition in some circumstances and should be considered, particularly for inter-generational primary production businesses.

[3] National Rural Advisory Council Report on the effectiveness of the Farm Management Deposit Scheme October 2012 at p11

Implications of the FMDS for Australian Government policies and programs, including those providing financial support to primary producers

There are a broad range of programs available to support primary, particularly during periods of drought. However, all of these policies and programs have different eligibility requirements and may be more easily accessible by some businesses but not by others. The advantage of the FMDS is that it can provide a very useful tool for promoting cash flow management and building cash flow reserves to be accessible in more difficult income years for a broad range of primary production businesses, subject to the eligibility requirements. However, impacts on retirement and eligibility for businesses that, for asset protection or succession reasons are not structured so as to allow access to FMDS, may be creating a decrease in take up of FMDS that should also be reviewed.

Please do not hesitate to contact me if you have any questions regarding this submission.

Yours sincerely

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Dr Georgina Davis
Chief Executive Officer