The Auditor-General
Audit Report No.1 2003–04
Performance Audit

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

Department of Agriculture, Fisheries and Forestry—Australia

Centrelink

Australian Taxation Office

Australian National Audit Office

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Australian National
Audit Office

Canberra ACT
31 July 2003

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Department of Agriculture, Fisheries and Forestry—Australia, Centrelink and the Australian Taxation Office in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit and the accompanying brochure. The report is titled *Administration of Three Key Components of the Agriculture—Advancing Australia (AAA) Package.*

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—http://www.anao.gov.au.

Yours sincerely

P.J. Barrett
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Abbreviations

AAA	Agriculture—Advancing Australia
AFFA	The Department of Agriculture, Fisheries and Forestry—Australia
APRA	Australian Prudential Regulation Authority
ATO	The Australian Taxation Office
Farm Help	Farm Help Supporting Families Through Change program
FarmBis	FarmBis—Skilling Farmers for the Future program
FMBs	Farm Management Bonds
FMDs	Farm Management Deposits
IEDs	Income Equalisation Deposits
KPI	Key Performance Indicator
MOU	Memorandum of Understanding
RFCS	Rural Financial Counselling Service
RPU	Rural Processing Unit
SPG	State Planning Group
TES	Tax Expenditure Statement
Treasury	The Department of the Treasury

Summary and Recommendations

Summary

Background

The Agriculture—Advancing Australia package

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. The AAA package was launched in 1997, with individual components progressively implemented over several years.

Audit objective

3. The objective of the audit was to assess the adequacy of the Commonwealth's administration of three key components of the AAA package.

FarmBis II (Chapter 2)

Strategic management

4. Agreements between the Commonwealth and each State and the Northern Territory define the roles of the Commonwealth and the States[1] in administering FarmBis II, which commenced in July 2001.[2] They also establish the role of State Planning Groups (SPGs) in providing strategic direction and broad oversight of the program in each State. The SPGs comprise industry, Commonwealth and State representatives.

5. The ANAO found that: Commonwealth, State agencies and SPG members had a clear and consistent understanding of the roles and responsibilities of each party; there were sound arrangements for effective communication between the parties; and there was also regular consultation with primary industry representatives through industry participation on SPGs.

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1 References to States include the Northern Territory unless otherwise specified.

2 There was an earlier version of the FarmBis—Skilling Farmers for the Future program prior to July 2001. The first year of the funding package for AAA (see paragraph 2) included funding for this program to June 2001.

6. AFFA has implemented a risk management strategy for FarmBis II, supported by a range of monitoring, reporting and feedback mechanisms. However, AFFA has not updated its assessment of risks since June 2001. It is now planning to do so.

Managing compliance

Payments

7. The ANAO found that AFFA had appropriately monitored acquittal by the States of quarterly advance payments to them. All Commonwealth payments for 2001–02 had been acquitted in accordance with required procedures.

8. A clause in the Commonwealth–State agreement states that any interest earned on Commonwealth monies paid to the State be used or applied for the purposes of the program. However, the ANAO found that, unlike other States, FarmBis II funds advanced to Western Australia had been placed in a non-interest bearing trust account. Thus, the Commonwealth funds advanced were not used to generate interest to the benefit of the program.

9. The ANAO considered that, to improve value for money from Commonwealth advances, AFFA should consult with relevant Western Australian State departments to encourage the placement of FarmBis II funds into an interest bearing account. It would also be appropriate for AFFA to consider, for advice to its Minister, means of preventing such an occurrence in any future extension or modification of FarmBis.

10. In response to the draft audit report, the Department of Agriculture, WA, advised that that '...an [interest bearing] account has been set up and any Commonwealth FarmBis funds received after 1 July 2003 will placed into that account'.

State administrative costs

11. 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 is set at 22 or 25 per cent of total expenditure over the three year life of the program.[3] Most States were exceeding 22 or 25 per cent of expenditure on administrative, co-ordination and communication activities at the halfway point of the program. This was largely due to two factors. Firstly, there were 'start up' and other fixed costs incurred in establishing and maintaining co-ordination networks. Secondly, there was lower

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[3] The differences in the caps reflect differences in farming populations, geographical spread and administrative arrangements.

than expected expenditure on non-administrative activities due to low take up rates at the start of the program.

12. There is a risk that the caps will be exceeded in some States over the full three year life of the program, which would constitute a breach of the agreements. AFFA has acted to address this risk by advising SPGs to take appropriate remedial action, and by indicating that the Commonwealth will not pay above the agreed caps. However, the ANAO notes that the Commonwealth–State agreements do not have an express provision for the repayment by States of Commonwealth funds in circumstances where caps have been breached.

Promotion

13. The ANAO found that there had been a wide and effective range of promotional activities undertaken. These are largely conducted by States, and include advertisements, printed and electronic information and direct presentations at field days. AFFA also has a range of promotional material, such as brochures, which is also included on its website.

14. A recent AFFA survey of primary producers indicates that promotion has been successful, with an estimated 81 per cent of primary producers aware of FarmBis II. This is a higher level of awareness than for any other AAA program.

Performance monitoring and evaluation

15. The Commonwealth–State agreements establish a program monitoring and evaluation framework for FarmBis II that sets out performance indicators and data sources. The agreements also provide for annual review and evaluation by the Commonwealth of States' performance. The ANAO found that AFFA has monitored and evaluated State performance information in accordance with its responsibilities.

16. However, there are no targets associated with the national performance indicators. There are separate State specific targets which could be a basis for the national targets. Inclusion of national targets would assist in assessing whether the program is achieving the intended level of results, for better accountability and transparency in the interest of all concerned.

Performance results

17. Expenditure for the first 18 months of the program amounted to some $40 million. This represents 28 per cent of the agreed three year FarmBis II funding. AFFA advised that, in part, the low level of program expenditure reflects the impact of the drought on farmers' demand for training. Nevertheless, this pattern suggests that program expenditure on FarmBis II training over the life of the program may not reach the levels anticipated.

18. Feedback from participants in FarmBis II training indicates a generally positive view of the quality of service of FarmBis II co-ordinators, who advise and assist participants to identify learning priorities. A majority (some 58 per cent) of participants were satisfied with the quality of this service; less than one per cent indicated dissatisfaction (the rest were neither satisfied nor dissatisfied).

19. Course feedback also indicates that the program has been successful to date in addressing the education and training needs of participants. For example, 88 per cent of participants indicated that the training was of medium to high relevance to their business. A recent AAA survey also estimated that 95 per cent of FarmBis II participants had incorporated (or planned to incorporate) the skills and knowledge learnt into their business and natural resource management practices.

20. A separate AFFA survey of primary industry and regional representative groups found that the stakeholders considered that FarmBis II training provides benefit to business profitability and productivity. Some 79 per cent considered that training provides significant benefit in this regard. Training was also considered to provide benefit to the sustainability of the rural sector, but to a lesser degree.

Farm Help (Chapter 3)

Strategic management

Administrative arrangements with Centrelink

21. Farm Help commenced in July 2000. The administrative arrangements between AFFA and Centrelink, which delivers the program for AFFA, are set out in a Memorandum of Understanding (MOU). The ANAO found that the MOU is, on the whole, well specified. It includes key performance indicators addressing Centrelink's service delivery with respect to timeliness of processing, customer satisfaction, and correctness of payment.

22. The first two of these indicators are measured and include targets. However, the third indicator, for correctness of payment, is not yet measured and does not have a target. Centrelink intends to address this through development of its Business Assurance Framework (BAF); it will commence work to include Farm Help in the BAF in March 2004. AFFA has advised it considers that, in the meantime, Centrelink's controls provide adequate assurance on payment correctness.[4] However, this approach means that AFFA will not have had performance information on the correctness of customer payments for most of the current funding cycle for the program (to June 2004).[5]

Funding arrangements

23. Under the terms of the MOU, AFFA pays Centrelink for administration of Farm Help, based on a fixed payment schedule. There is no provision to vary the amount paid to reflect the number of customers who apply for payments and services. To date, these numbers have been below the levels anticipated when the payment amounts were determined.

24. In March 2001, AFFA commenced discussions with Centrelink to establish a more flexible funding model. The broad parameters of the model were agreed in August 2002. At the time of the audit, negotiations were still continuing, having regard to the results of a recent cost data collection exercise by Centrelink.

25. Thus this matter had been under discussion for some two years without resolution. Accountability for value for money in delivering Commonwealth services warranted early implementation of a more appropriate funding model, including consideration of any over payments in the past.

26. In response to the draft audit report, AFFA and Centrelink advised that they have agreed and implemented a new funding arrangement with effect from 2002–03. With respect to any overpayment in the past, the agencies do not believe that it is practical to attempt to apply the new funding model to previous years' service delivery payments.

Risk management

27. AFFA and Centrelink have developed risk management plans that cover their respective roles and responsibilities in administering Farm Help. Each has established controls to manage identified risks. The effectiveness of these controls has been monitored by the agencies through program performance information and regular consultation between them.

28. The ANAO considers that the agencies have developed a common understanding of the main risks surrounding the delivery of Farm Help.

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4 These controls include the use of specialist processing staff for claim assessment, guidance material and helpdesks to assist staff resolve policy and procedural queries, and six monthly reviews of all Farm Help income support payments.

5 The Minister for Agriculture, Fisheries and Forestry announced on 13 May 2003, in the Budgetary context, that the closing date for Farm Help applications would be extended to 30 June 2004. This is to facilitate transition to any new arrangements to be considered in the context of the 2004 Budget.

Relationship with the Rural Financial Counselling Service program

29. Farm Help provides grants to eligible farmers to purchase an assessment of the viability of their farm enterprise from a professional advisor, to assist them to make decisions about their future. The ANAO found that about half of these assessments are purchased from community groups supported by another AAA program — the Rural Financial Counselling Service (RFCS).

30. The RFCS program provides grants to groups that provide financial counselling services. The RFCS grants match funds raised by the groups. There is, therefore, a risk that the Commonwealth matches Commonwealth funds raised by a community group through Farm Help grants.

31. It was not possible to test the extent to which double payment occurs because data has not been collected that enables such an assessment. However, the ANAO found anecdotal evidence that this is occurring. AFFA acknowledges that this is the case.

Managing compliance

32. The ANAO found, by examining a stratified random sample of Farm Help case files, that there was generally a high level of compliance by Centrelink with most legislative requirements. However, there was systematic non-compliance with one requirement relating to the processing of the Certificate of Inability to Obtain Finance (CIOF).

33. CIOFs are a statement from a financial institution that the applicant has applied to the institution for a loan, and the institution does not propose to make any loan to the applicant because of the applicant's financial situation. A CIOF has a maximum period of six months during which it can be used to qualify for income support.

34. AFFA has advised that the intent is for customers to provide two CIOFs to receive payments for the maximum allowable 12 month period. Centrelink has administered provision of CIOFs on this basis. However, the starting date for the CIOF qualification period is strictly defined in the legislation. The consequence is that, in practice, most customers who receive payments for 12 months are paid for a period when they do not have a current CIOF.

35. The ANAO recognises that if Centrelink were to administer the program in full compliance with the legislation, most farmers would have to obtain a third CIOF to qualify for a full 12 month period of payment. This would impose a significantly greater administrative compliance burden on farmers. Moreover, some farmers could be faced with a loss of payments as a result of delays in obtaining CIOFs from financial institutions.

36. Nevertheless, agencies are required to comply with relevant legislation. If, as AFFA advised, administrative arrangements cannot be established that comply with the legislation, it would be necessary to consider advice to the Government about appropriate technical amendments to the legislation.

Promotion

37. A wide range of approaches has been used to promote the program, from the distribution of printed information to direct promotion by Centrelink staff in local communities. Survey results indicate that the proportion of primary producers aware of the Farm Help program increased from 23 per cent in 2001 to 37 per cent in 2002. This is on the way to achieving AFFA's performance target of having 50 per cent of all primary producers aware of Farm Help by June 2004.

38. Potential users of Farm Help are more likely to come from loss-making enterprises. However, the survey indicated that awareness of Farm Help tends to be lower for primary producers making a loss (32 per cent compared with 39 per cent for those making a profit). Some means of increasing awareness by loss-makers warrants consideration by AFFA in developing its promotion strategies.

Performance monitoring and evaluation

39. AFFA has a performance monitoring and evaluation strategy for Farm Help. Key Performance Indicators (KPIs) address the effectiveness of the program, as well as output quality, and have associated standards and targets. The ANAO found that AFFA has monitored and assessed performance, and taken corrective action where considered necessary. However, as previously noted, AFFA does not yet receive performance information from Centrelink on correctness of payment.

Performance results

40. Performance against Centrelink's service timeliness indicators has recently improved markedly. For example, for the period July 2002 to the end of February 2003, 86 per cent of income support claims achieved the required timeframe for assessing and paying claims, against a service standard of 80 per cent. This compares with 78 per cent for 2001–02.

41. Centrelink has also achieved a client satisfaction rating of 89 per cent for 2002–03, exceeding the standard of 70 per cent.

42. Farm Help is also performing well in terms of the benefits of professional advice funded by the program. Ninety-four per cent of respondents to a survey in March 2002, who received professional advice, indicated that the advice was at least moderately effective, compared with a target of 80 per cent (68 per cent considered advice to be highly effective). The ANAO also estimated[6] that some 92 per cent of customers who commenced income support in 2001–02 had received such advice, exceeding AFFA's target of 90 per cent.

43. However, the ANAO considers that Farm Help is less effective in assisting customers whose enterprises have been assessed as 'non-viable'. In these cases the aim is to develop an activity plan to assist decision making about the future of the farm enterprise by providing farm families with a structure for recording details about their current situation, their future, and the strategies they plan to use to achieve that future.

44. AFFA's framework for evaluation specifies a target that 85 per cent of non-viable Farm Help customers complete an activity plan. However, a July 2002 exit survey by AFFA of Farm Help customers indicated that only 55 per cent had done so. AFFA and Centrelink are examining options for improving performance in this area. Centrelink advised that the 85 per cent target is not a formal measure that has been negotiated between AFFA and Centrelink.

45. AFFA has not yet collected performance information on the extent to which Farm Help supports participants to undertake some form of adjustment to their business. The program is intended to assist such adjustment, either through leaving the industry, or by making adjustments to business operations, such as diversification, or the implementation of new management or production systems.

Farm Management Deposits (Chapter 4)

Strategic management

Administrative arrangements

46. Unlike the situation in relation to the FarmBis II and Farm Help programs, AFFA has not formalised its relationship with the ATO, which also has administrative responsibility for the scheme. Establishing an MOU between AFFA and the ATO would strengthen administrative arrangements by providing an agreed basis for cooperation and improve accountability.

6 The ANAO based its estimates on the number of grants of income support and professional advice over a 12 month period. It was not possible to measure the outcome on a case-by-case basis.

47. The ANAO considers that such an agreement would have contributed to addressing a number of issues identified in this audit, such as shortcomings in communication. For example, the Tax Expenditure Statements for 2001 contained an estimate of $25 million tax expenditure for 2001–02 arising from the FMD tax concession. In preparing the estimate, the Treasury and the ATO were not aware that AFFA had more up-to-date data on FMD holdings than were being used in the estimate. Utilisation of the full information held by AFFA at the time would have increased the estimated tax expenditure for 2001–02 to around $115 million.

Risk management

48. When the FMD scheme was launched, it was recognised by AFFA that risks to program integrity would need to be managed well.[7] While AFFA has acted to address key risks as they have emerged, there has not been a well articulated and systematic approach to managing program integrity. AFFA has not identified the key risks to outcomes of the scheme; established an appropriate and documented risk management strategy; nor had a structured approach to considering, with the ATO, risk management from a whole-of-government perspective.

49. AFFA understood that the ATO was using data collected from financial institutions to conduct data matching checks of taxpayer compliance, consistent with legislative provisions. However, the ANAO found that this data was not being used for FMD compliance assessment, and that the ATO was not undertaking any specific FMD compliance checking. This was because the ATO had, until recently, assigned the FMD scheme a risk consequence rating of low, consistent with its agency-wide risk management approach. Its ability to conduct data matching has also been limited due to current system capabilities. The ATO advised that the system's capability is being enhanced, and is expected to be available in the next 18 months.

50. The ANAO also found that there has been a high level of non-compliance with the ATO's reporting requirements by financial institutions, and that there were anomalies in data submitted for all of the financial institutions that provided reports to the ATO for 2000–01.

51. A more consistent approach to risk management is required to appropriately address program integrity.

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7 For example, as indicated in the second reading speech for the *Taxation Laws Amendment (Farm Management Deposits) Bill 1998*. Accordingly, legislative provisions require financial institutions to report quarterly to AFFA on FMD deposits, withdrawals and balances, and to the ATO annually with disaggregated data on FMD withdrawals.

Managing compliance

Compliance by primary producers

52. As previously mentioned, the ATO took a risk management decision to apply a low level of resources to addressing the risk of non-compliance by primary producers with the FMD provisions of the *Income Tax Assessment Act 1936*.[8] There was no estimate of the potential level of such non-compliance.

53. The ANAO estimates that in 2001–02 there was a cost to revenue of a little in excess of $5 million (some four per cent of total cost to revenue) as a result of non-compliance with two FMD deductibility provisions. These relate to requirements that a claim for a deduction may not exceed certain taxable primary production income constraints.

54. The ANAO was unable to estimate the incidence of other non-compliance, due to the unavailability of relevant data. Implementation of the data-matching program with financial institutions, envisaged in the design of the FMD scheme, would enable quantification of the extent of non-compliance from these sources.

Compliance by financial institutions

55. AFFA advised the ANAO that the policy intention was for only Authorised Deposit-Taking Institutions (ADIs) to offer FMDs.[9] However, some other finance companies have sought to provide FMD accounts, as they considered that the legislation permits this. The companies sought advice on this matter, which AFFA referred to the ATO. The ANAO found that guidance had not been provided to these companies, some two years after the initial enquiries. The lack of clarity on which institutions are eligible to offer FMDs has created some uncertainty for primary producers and financial institutions, which AFFA had identified as a risk to the integrity of the scheme.

56. On 17 June 2003, the Minister for Revenue and Assistant Treasurer detailed in a media release that deposits made with an ineligible financial institution before 1 July 2003 will be deemed an FMD, provided they are transferred to an FMD with an ADI, or institution with a State or Territory guarantee within a transfer period. The legislation will also be amended to state that FMDs may only be made with ADIs or with financial institutions that have a State or Territory guarantee.

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8 Tax returns that have involved FMD tax deduction claims will, however, have been subject to the ATO's standard suite of income tax compliance controls, including audits.

9 Authorised Deposit Taking Institutions are regulated by the Australian Prudential Regulation Authority.

57. The ATO advised that it intends to issue a Taxation Ruling, which would clarify the interpretation and application of the law following this announcement. The ATO has not indicated when the ruling will be issued.

58. The ANAO also found that the delays, combined with limitations in communication on the matter, have led to inconsistencies in advice provided to finance companies.

Promotion

59. Information on the FMD scheme is available to primary producers through a number of sources, including AFFA and the ATO telephone information services and websites; information products from financial institutions; and advice from tax agents.

60. AFFA survey data indicates that promotion activities have contributed to raised awareness of the scheme. Awareness amongst primary producers is estimated to have increased from 32 per cent in July 2001 to 72 per cent in October 2002.

61. The survey also indicated that the main reasons for primary producers using FMDs were for 'taxation arrangements' and to 'put money away in case of bad years'. AFFA advised that these findings were consistent with the purpose of the scheme.

Performance monitoring and evaluation

62. AFFA has developed a monitoring and evaluation framework for the FMD scheme, including key performance indicators and targets. The framework provides a good basis for performance management, but there are also aspects of the framework that warrant improvement.

63. The ANAO considers that performance targets for the scheme were too low to provide a useful point of comparison for assessing performance. For example, there was only a one per cent annual growth rate target for the number of participants in the scheme. This was a very modest target in that the scheme was expected to result in high growth rates in holdings. Actual growth rates, therefore, greatly exceeded the targets.

64. In addition, the performance indicator of management effectiveness is of limited value as it does not cover services of the ATO, which are an important factor influencing outcomes of the scheme.

65. AFFA has collected performance information through a range of mechanisms. However, there have been problems with the collection and processing of data from financial institutions. Much of the data had not been used by AFFA. Some returns had not been fully processed, reducing accuracy. Some financial institutions consulted by the ANAO considered that AFFA's reporting specifications were difficult to comply with. As a result, incomplete data was supplied. AFFA has yet to address the perceived difficulties in reporting requirements.

Performance results

Costs of FMD scheme

66. As an income tax concession, the FMD scheme results in the Commonwealth forgoing tax revenue that it would have collected in the absence of the scheme. The 'tax expenditure' for the scheme is estimated by the Treasury to be $470 million in 2002–03. This is an estimate of the increase in revenue that would be obtained if primary producers' income deposited in FMD accounts was taxed without the possibility of using other tax concessions.[10]

FMD usage

67. The number of primary producers participating in the scheme rose from 7500 in June 1999 to 39 537 in December 2002. Over the same period, the value of FMD holdings has increased from $280 million to some $2 billion.

68. The ANAO found, from analysing income tax data, that the average taxable primary production income of users of the FMD scheme was more than three times that of those who did not use the scheme.

69. The ANAO estimates that some 14 per cent of eligible primary producers had used the FMD scheme by June 2002. Usage has increased strongly since the scheme's introduction and exceeds that for the schemes it replaced (which had a combined usage rate of under four per cent). Usage is likely to rise further in coming years, as 33 per cent of primary producers surveyed indicated that they planned to use FMDs in the future.

70. Representatives of primary producers and tax accountants interviewed advised the ANAO that the FMD scheme was popular and regarded as a useful risk management tool by primary producers. This is consistent with the findings of the recent survey that the main reasons for using FMDs were for 'taxation arrangements' and to 'put money away in case of bad years'—see paragraph 61.

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[10] Revenue foregone in 2002–03 will be partially recovered in future years when producers make FMD withdrawals.

Overall conclusion

71. Many aspects of administration of the AAA programs examined are well managed. The programs have been well promoted. There is a performance management framework, although better use could be made of targets and data collected to assist in assessing performance. There are some weaknesses in administration, most notably relating to strategic management and compliance arrangements, which require strengthening for more effective outcomes. The issues are relevant for these programs as well as for any extension to them.

72. The administrative framework for Farm Help requires strengthening to enable AFFA to adequately assess the quality of Centrelink's service delivery and to obtain adequate assurance that payments for Centrelink's administration represent value for money. The overlap of Farm Help with the Rural Financial Counselling Services program also requires attention, as it reduces value for money from expenditure on the programs.

73. The absence of a documented agreement on the administrative arrangements between AFFA and the ATO for the FMD scheme has contributed to communication shortcomings impacting on scheme administration. A more systematic approach to risk management is also required to appropriately address program integrity, as foreshadowed when the scheme was launched. This would include an agreed approach to compliance. To date there have been no compliance activities specifically targeting primary producer compliance with relevant FMD requirements.

74. Performance information indicates that the programs have been successful in addressing desired outcomes. For example, the FMD scheme has been successful in attracting an increased take up of income equalisation products by primary producers. Most service delivery standards are being met.

Recommendations and AFFA response

75. The ANAO makes nine recommendations aimed at strengthening the overall administration of the AAA package in the areas of strategic management, compliance and performance management. AFFA, Centrelink and the ATO have agreed to recommendations addressed to them, and their responses are detailed in the report.

AFFA response

76. The Department welcomes the overall conclusions of the audit. While the audit has found that the AAA programs are well managed, it has identified areas in the management of the AAA programs where improvement can be made, in particular the approach to systematic risk management and the analysis of data in assessing the performance of the programs. The Government has foreshadowed the development of a successor to the current AAA package and the outcomes of this audit will be a valuable resource in that process. The development of an MOU between the Department and the Australian Taxation Office relating to the administration of the Farm Management Deposits scheme is well advanced. The MOU will provide the basis for a more coordinated approach to the administration of the program particularly relating to communication, risk management and performance management.

Recommendations

Set out below are the ANAO's recommendations with responses from relevant agencies.

Recommendation No.1
Para. 2.48

The ANAO recommends that AFFA establish appropriate targets for FarmBis II key performance indicators to enable better assessment of program performance.

AFFA response: Agreed.

Recommendation No.2
Para. 3.17

The ANAO recommends that AFFA, in consultation with Centrelink, ensure that an appropriate performance measure for payment correctness is implemented for the Farm Help program.

AFFA response: Agreed.
Centrelink response: Agreed.

Recommendation No.3
Para. 3.35

The ANAO recommends that AFFA address the interaction between the Rural Financial Counselling Services (RFCS) program and Farm Help, to ensure that the Commonwealth does not duplicate financial support for advisory services to primary producers, and that the operation of RFCS is consistent with its design principles.

AFFA response: Agreed.

Recommendation No.4
Para. 3.52

The ANAO recommends that AFFA consider providing advice to the Minister seeking appropriate amendments to the legislation to ensure that it reflects the Government's intent for the provision by customers of a Certificate of Inability to Obtain Finance.

AFFA response: Agreed.

Recommendation No.5
Para. 3.54

The ANAO recommends that AFFA build on existing arrangements with service providers to be satisfied that they comply with legislative requirements.

AFFA response: Agreed.

Recommendation No.6 Para. 4.16

The ANAO recommends that, to facilitate joint administration of the Farm Management Deposits scheme, AFFA and the ATO establish a Memorandum of Understanding that sets out:

- their roles and responsibilities in relation to the administration of the scheme;
- structured arrangements for regular consultation; and
- means for joint consideration of the management of risks.

AFFA response: Agreed.
ATO response: Agreed.

Recommendation No.7 Para. 4.36

The ANAO recommends that AFFA, in consultation with the ATO, conduct a risk assessment of the FMD scheme and develop an appropriate risk management strategy, including risk treatments, monitoring, and review, as well as consideration of whole-of-government risks.

AFFA response: Agreed.
ATO response: Agreed.

Recommendation No.8 Para. 4.67

The ANAO recommends that AFFA, in consultation with the ATO, strengthen its performance monitoring and evaluation framework for the Farm Management Deposits scheme by revising performance indicators and targets to ensure that they provide appropriate means of assessing administrative performance, and effectiveness in achieving required outcomes.

AFFA response: Agreed.
ATO response: Agreed.

Recommendation No.9 Para. 4.76

The ANAO recommends that AFFA review its FMD reporting requirements to ensure that:

- financial institutions are only required to provide data necessary for appropriate monitoring of performance and scheme integrity; and
- data supplied is appropriately used for performance management purposes.

AFFA response: Agreed.

Audit Findings and Conclusions

1. Introduction

This Chapter provides background to the administration of the Agriculture—Advancing Australia package and the audit.

Background

The Agriculture—Advancing Australia package

1.1 The aim of the *Agriculture—Advancing Australia* (AAA) package is to help the rural sector to be more competitive, sustainable and profitable. There are four key objectives:[11]

- 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.

1.2 The AAA package was launched in 1997, following more than a year of review of rural policy and wide ranging consultation, including the 1996 National Rural Finance Summit. Individual components of the AAA package were progressively implemented over several years.

1.3 The package was enhanced in Budget 2000, to include for the first time, the fishing, forestry and food industries. The enhanced package was funded for the budget year and three forward years, that is 1 July 2000 to 30 June 2004. [12]

1.4 The AAA package in its current form comprises nine separate programs or schemes—see Table 1.1.[13] The estimated cost of the package from 1 July 2000 to 30 June 2004 is some $850 million. Of this, $575 million is a cost to revenue (see paragraph 4.84) from the Farm Management Deposits (FMD) scheme. These estimates exclude the cost of Farm Management Deposits for 2003–04. [14]

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[11] Department of Agriculture, Fisheries and Forestry—Australia, 2001, *The Agriculture Advancing Australia (AAA) package—Framework for Evaluation*.

[12] The Minister for Agriculture, Fisheries and Forestry announced on 13 May 2003, in the Budgetary context, that key stakeholders would be consulted on the direction and shape of any successor package, with any changes to be announced as part of the 2004–05 Budget.

[13] The Exceptional Circumstances Relief Payments program is sometimes marketed together with the AAA package. However, it is not formally part of the package. The ANAO 2003–04 Audit Work Program anticipates a performance audit of exceptional circumstances payments for drought assistance. In addition, operationally, AFFA accounts for the two components—Women in Rural Industries and Young People in Rural Industries—as one entity.

[14] This figure does not include the 2003–04 financial year. Treasury has not prepared an estimate of the cost to revenue of the FMD scheme for 2003–04. It considers that the cost is unquantifiable due to a high level of uncertainty about the value of FMD deposits and withdrawals in 2003–04 as a result of the impact of the drought.

Table 1.1
Components of the AAA package

Component	Estimated cost July 2000 to June 2004 ($ million)
FarmBis—Skilling Farmers for the Future (FarmBis)	**117.4**
Farm Help Supporting Families Through Change (Farm Help)	**114.5**
Farm Management Deposits*	**575.0****
Rural Financial Counselling Service	22.7
Farm Innovation	13.1
Farm Growth Through Export Growth	6.5
Women in Rural Industries and Young People in Rural Industries***	1.6
Climate Variability in Agriculture Research & Development	0.5

Source: The Department of Agriculture, Fisheries and Forestry—Australia and the Department of the Treasury

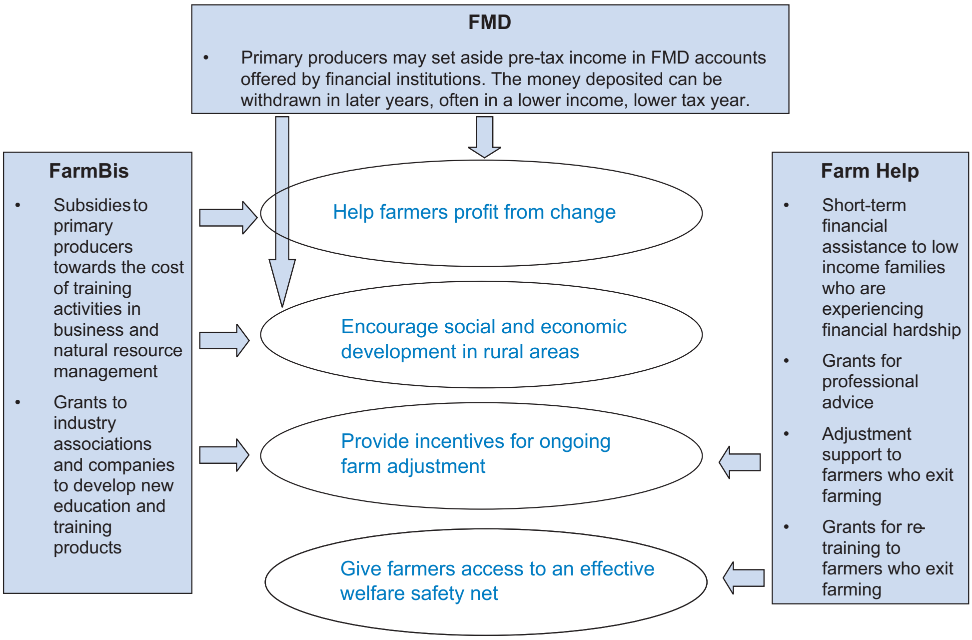
Note *: The Farm Management Deposits scheme is a taxation concession.

Note **: Treasury estimates for 1 July 2000–30 June 2003 of the cost to revenue. 2002–03 financial year is a preliminary estimate and subject to revision. Treasury has not produced an estimate for 2003–04.

Note ***: Operationally, AFFA accounts for the two components—Women in Rural Industries and Young People in Rural Industries—together.

1.5 The first three, shaded, components of Table 1.1—FarmBis, Farm Help and Farm Management Deposits, together account for some 95 per cent of the cost of the AAA package. The three schemes are also important contributors to the overall objectives of the AAA package, as summarised in Figure 1.1.

Figure 1.1
Contribution of FarmBis, Farm Help and FMDs to AAA objectives



Source: The Department of Agriculture, Fisheries and Forestry—Australia

1.6 Further background information on FarmBis, Farm Help and the FMD scheme is presented in Chapters 2, 3 and 4 respectively. The other components of the AAA package are described in Appendix 1.

Administrative arrangements

1.7 The Department of Agriculture, Fisheries and Forestry—Australia (AFFA) is responsible for the AAA package. The administrative arrangements differ substantially for the individual AAA components, broadly described as follows:

- the main part of FarmBis, FarmBis II, is jointly funded by the Commonwealth and the Northern Territory and State governments.[15] It is delivered by Northern Territory and State government departments, pursuant to Commonwealth State agreements. [16] The legislative basis for FarmBis II is provided by the *Rural Adjustment Act 1992*;

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15 The smaller component of FarmBis, FarmBis Australia, provides grants to industry associations and companies to develop new education and training products to enhance the business management skills of the primary industry sector.

16 The Australian Capital Territory (ACT) does not have an agreement with the Commonwealth. ACT primary producers are eligible to attend training in New South Wales.

- Farm Help is delivered by Centrelink on behalf of AFFA. The legislative basis for Farm Help is provided by the *Farm Household Support Act 1992*; and
- the FMD scheme is jointly administered by AFFA and the Australian Taxation Office (ATO), in accordance with Schedule 2G of the *Income Tax Assessment Act 1936*.

Audit objective and approach

1.8 The objective of the audit was to assess the adequacy of the Commonwealth's administration of three key components of the AAA package: the FarmBis II program, the Farm Help program and the FMD scheme. The audit addressed:

- strategic management, including inter-agency administrative arrangements and risk management;
- management of compliance and financial controls;
- program promotion; and
- performance monitoring, evaluation and results.

1.9 Audit criteria were drawn from previous ANAO audits and better practice guides. They are summarised in Appendix 2.

1.10 The audit approach involved interviewing staff and examining relevant files and documents within AFFA, the ATO, the Australian Prudential Regulation Authority, Centrelink and the Department of the Treasury.

1.11 Interstate fieldwork was undertaken in New South Wales, South Australia, Victoria and Western Australia. Discussions were held with a wide range of stakeholders, including:

- primary producer representative groups;
- primary producers;
- State government agencies;
- FarmBis II administrators;
- FarmBis II co-ordinators and training providers;
- financial institutions; and
- taxation accountants.

1.12 The audit included analysis of relevant management information and data at AFFA and the ATO, and an examination of a sample of 140 Centrelink Farm

Help customer files. The audit also analysed the results of a national AFFA survey of primary producers; the survey contained some questions included at the request of the ANAO.[17]

1.13 The audit was conducted in accordance with ANAO auditing standards at a cost of $450 000. The ANAO engaged ORIMA Research Pty Ltd to assist with the conduct of the audit.

Report structure

1.14 The following Chapters of the report address, in turn, FarmBis II, Farm Help and the FMD scheme.

[17] The survey was conducted by consultants on behalf of AFFA in September and October 2002. It covered issues related to the whole AAA package. At the request of the ANAO, some additional information was collected related to the audit objectives.

2. FarmBis II

This Chapter examines AFFA's administration of the Commonwealth–State component of the FarmBis—Skilling Farmers for the Future program.

Introduction

2.1 The Farm Business Improvement program commenced in July 1998. It was expanded to its present form on 1 July 2001, including the integration of the Property Management Planning Campaign.[18] The expanded program is now called FarmBis—Skilling Farmers for the Future.

2.2 This audit addresses the major component of the program, commonly referred to as FarmBis II. The smaller component, FarmBis Australia, accounts for only six per cent, or $4.3 million, of Commonwealth expenditure on the program from 1 July 2001 to 30 June 2004.[19] It provides grants to industry associations and companies to develop new education and training products to enhance the business management skills of the primary industry sector. Appendix 3 provides further information on projects funded.[20]

2.3 FarmBis II is funded jointly by the Commonwealth and the States/ Northern Territory.[21] It provides subsidies to primary producers, spouses, farm family members, partners and professional farm and land managers towards the cost of training activities designed to improve their business and natural resource management skills. The specific objectives of the program are set out in Figure 2.1.

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18 The Property Management Planning Campaign was an extension program, jointly funded by the Commonwealth and the States/Northern Territory. Its objective was to assist farm families to effectively manage change and create change (be more self reliant) through improved business and human resource management and practices; sustainable natural resource management; and a more developed culture of ongoing learning. The main outputs of the program were facilitated workshops. Total expenditure for the period 1996–97 to 2000–2001 was $87 million.

19 The Commonwealth funding commitment from 1 July 2001 to 30 June 2004 for FarmBis is $75.3 million—$71 million for FarmBis II and $4.3 million for FarmBis Australia. The estimated cost of FarmBis from 1 July 2000 to 30 June 2004 is $117.4 million—see Table 1.1. This includes expenditure on the final year of the previous FarmBis scheme, which concluded on 30 June 2000.

20 The Agriculture, Fisheries and Forestry Minister announced, on 28 May 2003, a third round of projects under the FarmBis Australia program.

21 References to States in the rest of this Chapter include the Northern Territory unless otherwise specified.

Figure 2.1

FarmBis II—program objectives

- *Enhance the capacity of participants to identify, plan and access quality learning activities;*
- *Increase participation by participants in approved learning activities;*
- *Enhance the ability of participants to effectively manage change;*
- *Develop greater acceptance by participants of the benefit of continuous learning to primary production enterprises; and*
- *Increase the adoption by participants of management practices that will lead to greater resource sustainability, profitability and competitiveness.*

Source: FarmBis II Commonwealth State agreements

2.4 Training activities supported under FarmBis II include natural resource management; business and financial planning; farm performance benchmarking; risk management; skills auditing; leadership development; and marketing. Between 1 July 2001 and 30 December 2002, over 60 000 training occasions were supported.

2.5 The Commonwealth matches FarmBis II funding commitments made by the States. The Commonwealth's current financial commitment to FarmBis II is $71 million for the period 2001–02 to 2003–04 (see Table 2.1). This commitment has changed over the life of the program as a result of changes in State commitments.[22]

Table 2.1

FarmBis II—Commonwealth funding commitment—2001–02 to 2003–04

State/Territory	$ million
Western Australia	20.0
Queensland	15.0
New South Wales	13.4
Victoria	12.0
South Australia	8.0
Northern Territory	1.5
Tasmania	1.1
Total	**71.0**

Source: AFFA

Note: The States and the Northern Territory match this funding, providing total government funding of $142 million.

[22] The South Australian Government initially committed $12 million. This was reduced, in 2002, to $8 million. The Victorian Government initially committed funding of $4 million for 2001–02 only. A further $8 million was subsequently committed for the following two years. Western Australia has sought to amend the Commonwealth/State FarmBis Agreement to reduce its matching funding contribution to the Program.

2.6 AFFA's administrative costs for FarmBis II amounted to $2.2 million in 2001–02.[23]

2.7 This Chapter addresses the FarmBis II program's:

- strategic management, including administrative arrangements between the Commonwealth and the States, and risk management;
- financial controls;
- program promotion; and
- program performance monitoring, evaluation and results.

Strategic management

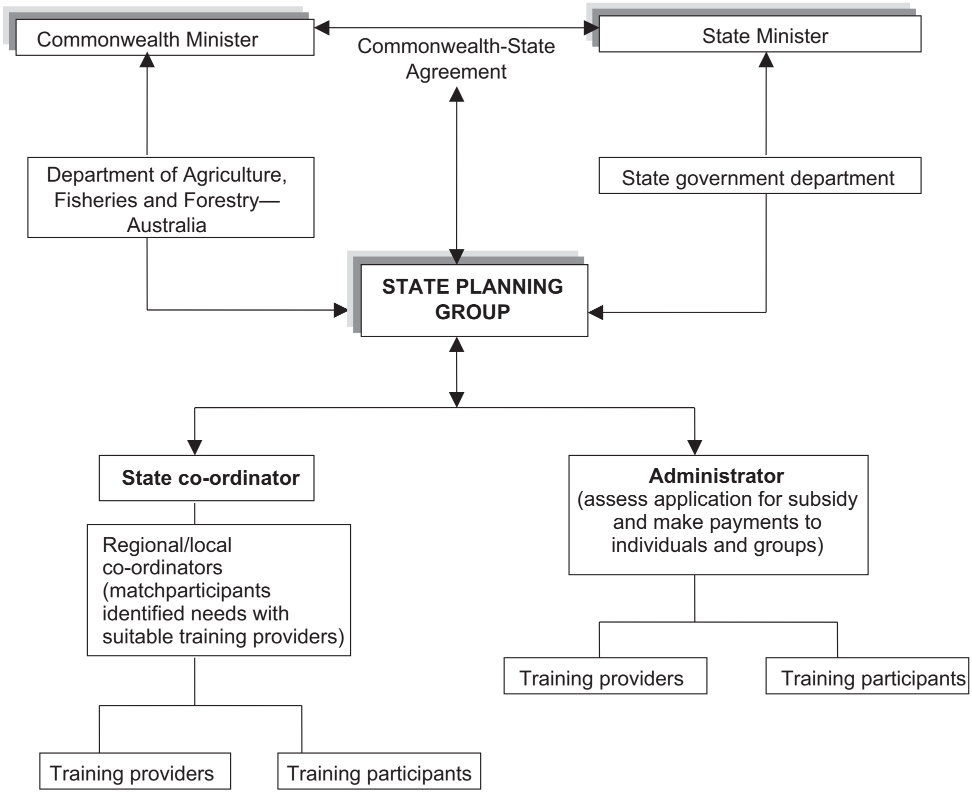
Administrative arrangements

2.8 The FarmBis II program management framework is established by agreements between the Commonwealth and each State. The agreements set out program objectives, strategies to achieve the objectives, broad areas of training activity supported under the program, program delivery principles, and a performance monitoring and evaluation framework.

2.9 The broad operational structure of the program is set out in Figure 2.2, and is discussed further below.

[23] Includes FarmBis Australia (see 2.2) as AFFA does not separate out administrative costs of the two programs.

Figure 2.2
Operational structure of FarmBis II



Source: ANAO analysis

2.10 A State Planning Group (SPG) oversees the program for each State, providing strategic direction. The SPG comprises industry, Commonwealth and State members. Industry members have a majority membership on the group, and provide the chair. The Commonwealth representative is an AFFA officer. The State representative is an officer of a State government department. The responsible State Minister appoints the SPG in consultation with the Minister for Agriculture, Fisheries and Forestry. Figure 2.3 summarises the functions of the SPGs.

Figure 2.3

Functions of State Planning Groups

- *Undertake a consultative planning process with a cross section of relevant industry, Commonwealth and State representatives to determine training priorities and performance targets and strategies (including delivery mechanisms and funding arrangements);*
- *Develop and implement a communication strategy for FarmBis II;*
- *Develop arrangements to monitor and evaluate performance in accordance with the agreement;*
- *Submit the priorities, performance targets and strategies to AFFA and the State Minister for approval;*
- *Establish a co-ordination system;*
- *Determine eligibility criteria for land managers and eligibility criteria for primary producers; and*
- *Determine the eligibility criteria for approved learning activities.*

Source: FarmBis II Commonwealth–State agreements

2.11 The program is delivered through State government departments, with oversight by the SPG. Each State government has appointed a State departmental officer to the positions of State co-ordinator and Program administrator. The State co-ordinator is responsible for managing a network of local co-ordinators[24] (see Figure 2.4), as well as providing performance information to the SPG and the Commonwealth.

Figure 2.4

Role of co-ordination system

- *Advise and assist participants to identify learning priorities;*
- *Identify and assist group formation to enable participants with common learning needs to undertake approved learning activities; and*
- *Efficiently and effectively match individual participants and/or groups of participants with training providers best able to meet their needs for content, format, time and location.*

Source: FarmBis II Commonwealth–State agreements

2.12 The Program administrator is responsible for processing applications, making subsidy payments, and undertaking all other administrative tasks associated with the program.

[24] Local co ordinators are employed by the relevant State department, except for NSW. In NSW, members of local communities have been appointed local co-ordinators and receive a fee for each training activity that they organise.

2.13 Training providers may be public or private sector organisations.[25] Training participants must be primary producers, spouses, farm family members, partners or professional farm and land managers.

2.14 FarmBis II subsidies are paid in two ways. They are paid directly to participants, where the participant has paid the full fee for the approved training. Alternatively, subsidies are paid to training providers where the provider reduces fees for participants by the approved FarmBis II subsidy amount.

Clarity of roles and responsibilities

2.15 The Commonwealth–State agreements define the roles of the Commonwealth, the States and the SPGs in administering the program. The ANAO found that the parties had a clear and consistent understanding of their roles and responsibilities.

2.16 Furthermore, documentary and interview evidence indicated that participation of AFFA in SPGs has contributed to sound administration. It has facilitated understanding by SPGs of the agreed program delivery principles and other parameters set out in the agreements.

Commonwealth–State communication

2.17 The ANAO found that the program management framework has provided a sound basis for communication between AFFA and its State counterpart agencies on administrative issues. The meetings of SPGs, which usually occur quarterly, provide the principal forum for this. Regular communication also takes place between AFFA officers and their State counterparts as part of the day-to-day administration of the program.

2.18 In addition, AFFA convenes annual meetings of SPG chairs and of State co-ordinators. These provide an opportunity for exchange of information on lessons learned from FarmBis II administration. SPG chairs and State co-ordinators advised that these meetings have helped them to identify ways to improve co-ordination, communication and priority setting processes in their States.

Stakeholder consultation

2.19 The program management framework incorporates regular consultation with primary industry representatives through industry participation on SPGs. The Commonwealth–State agreements require that industry SPG members:

> ...must, as a group, have expertise in primary production enterprises, training and education, agribusiness, natural resource management, commercial fishing,

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25 Training providers submit applications to deliver training to the Program administrator for approval.

indigenous land management and an awareness of issues affecting women and youth.[26]

2.20 The ANAO found that there was a diversity of expertise and background of SPG industry members, which provides AFFA with a range of stakeholder views.[27] In addition, the views of FarmBis II participants, non participants and industry groups are obtained through course review forms and regular surveys. These views are discussed further at paragraphs 2.55–2.62.

Risk management

2.21 AFFA completed a risk assessment for FarmBis II in June 2001. This risk assessment included the identification of risks; their likelihood and impact; and strategies to minimise the risks. Table 2.2 shows the most significant risks and associated control measures identified by AFFA.

Table 2.2
AFFA risk assessment of FarmBis II—selected risks and controls

Event	Impact	Likelihood	Treatments included
Late signing of agreements, with delays in program rollout	Major: Delays commencement of program. May result in a gap in funding available to primary producers.	Likely	Prepare draft documentation in advance of official sign off. Maintain close links with State counterparts.
States not using funding consistent with the purpose of the program	Major: Both in terms of use of Commonwealth funds and from reduced direct benefit to farmers.	Moderate	Requirement in Commonwealth-State agreements for matching funding, with reserves to be shared equally. Agreements include caps on funding of State administration. State SPG membership limited to one member.
New SPGs not established in terms of new agreements or prior to commencement of new program	Moderate: Delays commencement of program. May result in continuation of old program rules.	Likely	Commonwealth ensures States action on, and consistency with, appointment process.

Source: AFFA

[26] Clause 7.2 of the Commonwealth–State agreements.

[27] Industry members are appointed to SPGs as individuals, not as representatives of particular primary industry groups. However, many have senior positions in industry associations.

2.22 The ANAO found that AFFA had implemented the risk management strategy. Monitoring, reporting and feedback mechanisms support the strategy. These mechanisms are incorporated in Commonwealth–State agreements, a monitoring and evaluation strategy, and in quarterly acquittal processes. These are discussed further below.

2.23 The ANAO found that, overall, AFFA administrative staff were aware of the key risks surrounding the program, and that this informed their approach to program management. However, AFFA has not updated its assessment of risks since June 2001. The ANAO considers that, since program delivery has reached the mid point of its intended duration, it would be appropriate for AFFA to review the original assessment for its currency and its effectiveness in minimising risk. Better risk management practice incorporates continuous risk assessment. AFFA has recognised the value of reviewing its risk management strategy, and is planning to do so.

Managing compliance

Payments to the States

2.24 In accordance with the Commonwealth–State agreements, the Commonwealth makes quarterly payments in advance to the States. The payments are based on State estimates of funding requirements. States subsequently provide the Commonwealth with quarterly acquittals of payments, certified by the principal accounting officer in the relevant State agency. These acquittals show a breakdown of expenditure by approved learning activity, administration, communication and co-ordination costs. Any underspend against estimates is adjusted for in subsequent payments.

2.25 States are also required to subject financial accounts in relation to FarmBis II payments to annual audits by a registered company auditor, or by the Auditor-General of the State. A report on each audit must be supplied to the Commonwealth.

2.26 The ANAO found that AFFA had appropriately monitored State quarterly acquittals. File evidence indicated that all Commonwealth payments for 2001–02 had been acquitted in accordance with required procedures.

Payments by States to program participants and training providers

2.27 The Commonwealth–State agreements also specify financial controls that are to be applied to payments by States to program participants or to training providers. Money may not be paid to a participant unless the State obtains evidence by way of a tax invoice that the participant has undertaken, and paid in full, for an approved learning activity. In addition, money must not be paid to a training provider unless the provider supplies to the State evidence by way of copies of tax invoices that participants have undertaken approved learning activities and have contributed to the cost of the activities.

State administrative costs

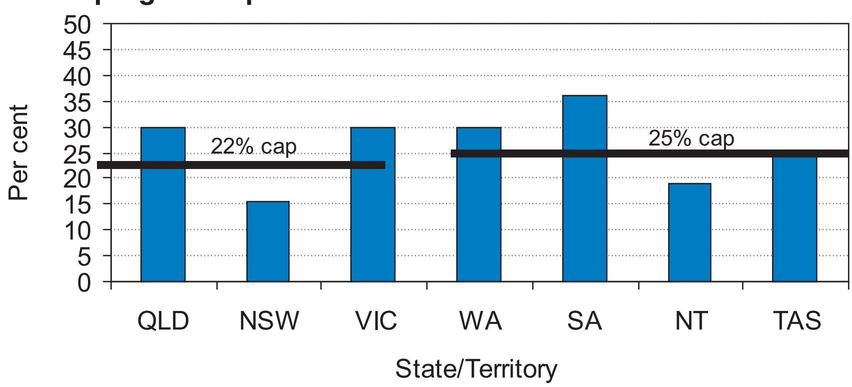
2.28 Each Commonwealth–State agreement provides for a cap on the percentage of total expenditure that can be allocated to program administration, co-ordination and communication. This cap, in part, seeks to address the risk of States not using funding consistent with the purpose of the program (see Table 2.2). Its use also aims to maximise the direct benefit of program funding to the primary producer/land manager.

2.29 The cap has been set at 22 per cent of total expenditure over the three years of the program for New South Wales, Victoria and Queensland. In the remaining States, the cap has been set at 25 per cent of total expenditure. The differences in the caps reflect differences in farming populations, geographical spread and administrative arrangements.

2.30 As illustrated in Figure 2.5, most States were exceeding 22 or 25 per cent of expenditure on administrative, co-ordination and communication activities at the halfway point of the program. This result is largely due to two factors. Firstly, there were 'start up' and other fixed costs incurred in establishing and maintaining co ordination networks. Secondly, there was lower than expected expenditure on non-administrative activities due to low take up rates at the start of the program. There is a risk that the caps may be exceeded over the three year term of the program, which would be in breach of the Commonwealth–State agreements.

Figure 2.5

Administration, co-ordination and communication costs as a percentage of total program expenditure—2001–02 and 1st half of 2002–03



Source: ANAO analysis of AFFA FarmBis II acquittals data

Note: States are ordered by size of funding within cap grouping.

2.31 AFFA has acted to address this risk by advising SPGs to take remedial action where caps have been exceeded by a substantial amount. It has also indicated to all SPGs that the Commonwealth will not pay above the agreed maximum caps.

2.32 AFFA advised that it also intends to consider options to ensure States adhere to the caps set under the agreements, such as reducing final payments. However, the ANAO notes that the Commonwealth–State agreements do not have an express provision for the repayment by States of Commonwealth funds in circumstances where caps have been breached. This could be considered for any similar future program as a means of increasing transparency, improving accountability and strengthening program governance.

Interest-sharing

2.33 Each Commonwealth–State agreement contains the clause:

> The State must ensure that any interest earned on Commonwealth monies paid to the State under this Agreement is used or applied for the purposes of this Agreement.

2.34 However, the ANAO found that, unlike other States, Western Australia (WA) had placed Commonwealth FarmBis II funds in a non-interest bearing trust account held by its Department of Treasury and Finance. This has resulted, in effect, in the State obtaining an interest free loan from the Commonwealth.[28] Thus the full benefits of Commonwealth funding have not been applied to the program.

2.35 The ANAO considered that, to improve value for money from Commonwealth advances, AFFA should consult with relevant WA State departments to encourage the placement of FarmBis II funds into an interest bearing account.

2.36 It would also be appropriate for AFFA to consider, for advice to its Minister, means of preventing such an outcome in any future extension or modification of FarmBis. Options include requiring States to pay interest to the Commonwealth at an agreed rate on funds advanced and not spent, or requiring States to place funds advanced by the Commonwealth in interest bearing accounts.

2.37 In response to the draft audit report, the Department of Agriculture, WA, advised that it 'has made submissions to WA State Treasury seeking an interest bearing account be raised so as to accommodate Commonwealth Agreements'

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[28] At 31 March 2003, Western Australia was holding some $0.6 million of Commonwealth FarmBis II funds.

and that 'such an account has been set up and any Commonwealth FarmBis funds received after 1 July 2003 will placed into that account'.

Promotion

Program promotion activities

2.38 The Commonwealth conducted a general communication campaign in July and August 2001 designed to increase awareness of the AAA package as a whole. This campaign included television, print and radio advertising.

2.39 AFFA also has a range of information products specifically on the FarmBis II program. There are brochures targeted at farmers, indigenous land managers and fishers. These outline the nature of the program, using a case study approach, and provide State contact details for readers to obtain further information. The AFFA website contains general information on eligibility and the types of activities supported, case studies of how participants have benefited from FarmBis II and State contact details. The ANAO considers that these information products are accurate; provide sufficient detail; and are clear.

2.40 Targeted promotion of FarmBis II training is largely conducted by individual States. Each State promotes the program in accordance with a strategy developed by the SPG. The ANAO found that there has been a wide range of promotional activities undertaken, ranging from advertisements to direct personal promotion (see Figure 2.6).

Figure 2.6
Examples of promotion conducted by States

- *Advertisements in the print media and on radio;*
- *Presentations at field days, conferences and other special industry events;*
- *Media releases;*
- *News articles;*
- *Use of website information for promotion and communication;*
- *Distribution of fact sheets, brochures and posters; and*
- *Personal promotion by local FarmBis II co-ordinators.*

Source: ANAO analysis of SPG meeting minutes

Effectiveness of program promotion activities

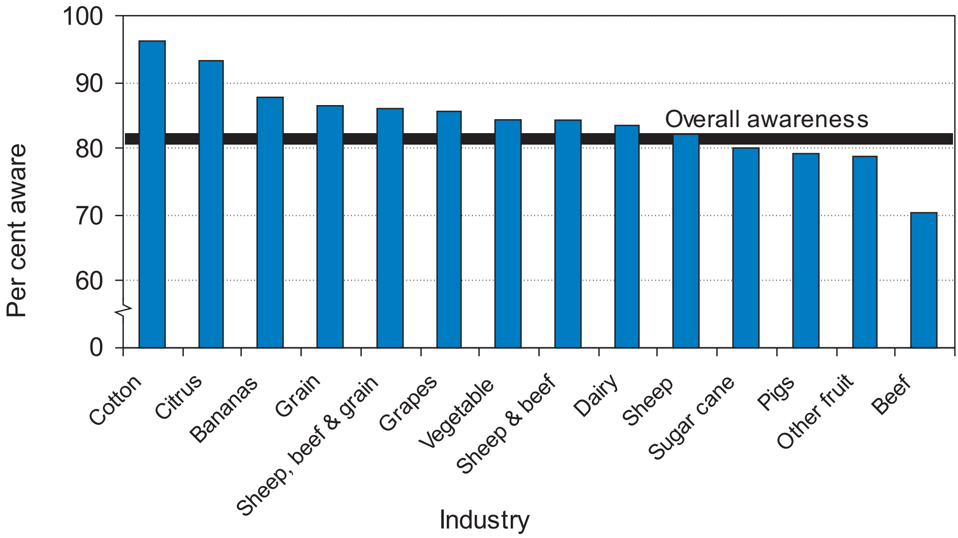
2.41 A 2002 survey[29] estimated that 81 per cent of primary producers were aware of FarmBis II. The level of awareness was high across all primary industry

[29] Department of Agriculture, Fisheries and Forestry—Australia, 2002, 2002 AAA Survey. Conducted during September and October 2002.

sectors surveyed (see Figure 2.7). The survey also indicated that there was a higher level of awareness of FarmBis II than for any other AAA program, or for the AAA package as a whole (which had a 47 per cent awareness rating).

Figure 2.7

Percentage of primary producers aware of FarmBis II



Source: ANAO analysis of 2002 AAA Survey

2.42 There is also high awareness of FarmBis II amongst industry stakeholders. An AFFA survey indicated that only eight of 163 primary industry and regional representative groups surveyed[30] in 2002 were unaware of the FarmBis II program. The most common initial sources of information about FarmBis II were State agencies (31 per cent), the media (24 per cent) and other industry organisations/contacts (23 per cent).

2.43 The ANAO concludes that, overall, promotion of the program has been effective, with high awareness levels achieved amongst primary producers and their representative organisations.

Performance monitoring and evaluation

2.44 The ANAO found that the Commonwealth–State agreements establish an adequate program monitoring and evaluation framework for FarmBis II. This is based on a program logic map linking the inputs, outputs and intended outcomes of the program. Performance indicators, data sources and the data collection responsibilities of the Commonwealth and the States are clearly set

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30 Department of Agriculture, Fisheries and Forestry—Australia, 2002, *The 2002 AFFA Industry Survey*.

out in this framework. The agreements also provide for annual review and evaluation by the Commonwealth of States' performance.

2.45 The performance indicators address the effectiveness of the program, as well as the efficiency and quality of program inputs and outputs (see Figure 2.8).

Figure 2.8
FarmBis II—key performance indicators

- ***Proportion of FarmBis II participants who indicate that implementation of the outcomes of the course has led or will lead to enhanced profitability, competitiveness and sustainability of their enterprise;***
- ***Proportion of FarmBis II stakeholders who believe that FarmBis II activities will contribute to enhanced profitability, competitiveness and sustainability of the rural sector;***
- ***Proportion of participants who incorporate appropriate outcomes of their education and training activity into their business and resource management practices;***
- ***Proportion of participants who demonstrate continuous learning behaviour since course;***
- ***Proportion of participants who indicate the course met their needs;***
- ***Proportion of eligible primary producers and land managers who have participated in FarmBis II;***
- ***Proportion of eligible participants, industry bodies and sustainable land management organisations who are aware of FarmBis II;***
- ***Participants' satisfaction with FarmBis II co-ordinators' quality of service in terms of knowledge, helpfulness and timeliness; and***
- ***Participants' satisfaction with FarmBis II administrators' quality of service in terms of knowledge, helpfulness and timeliness in processing applications.***

Source: FarmBis II Commonwealth–State agreements

2.46 There are no targets associated with these performance indicators. This makes it difficult to assess whether the program is achieving the intended level of results.

2.47 As part of the monitoring and evaluation framework, each State has more detailed performance indicators with individual targets that vary across the States. The ANAO considers that AFFA could draw on the State specific targets to establish targets for the national performance indicators. Inclusion of targets at the national level would assist in accountability and transparency for program results in the interest of all concerned.

Recommendation No.1

2.48 The ANAO recommends that AFFA establish appropriate targets for FarmBis II key performance indicators to enable better assessment of program performance.

AFFA response

2.49 Agreed. Each Commonwealth–State agreement requires the relevant State Planning Group to establish targets related to program implementation. These State specific targets are required to be submitted to Commonwealth and State Ministers on an annual basis for approval. Where appropriate, AFFA will draw on the State specific targets to establish national targets for key performance indicators.

2.50 Regular performance information has been collected by the States. This includes application data and course review assessments completed by participants. AFFA has also collected performance information through surveys of primary producers and primary industry representative groups.

2.51 The ANAO found that AFFA has monitored and evaluated State performance information in accordance with its responsibilities. In cases where States did not provide appropriate information, AFFA took action to ensure that the agreed information was provided. AFFA has established a FarmBis II database from the information provided by the States, which is used to collate performance information.

Performance results

Program expenditure

2.52 Expenditure for the first 18 months of the program amounted to \$39.7 million. This represents 28 per cent of the agreed three year FarmBis II funding.[31] This percentage varies widely across States. For example, expenditure was nine per cent of total approved funding for Western Australia, compared with 65 per cent for New South Wales (see Figure 2.9). As noted in paragraph 2.34, Western Australia has placed Commonwealth FarmBis II funds advanced to it in a non-interest bearing trust account.

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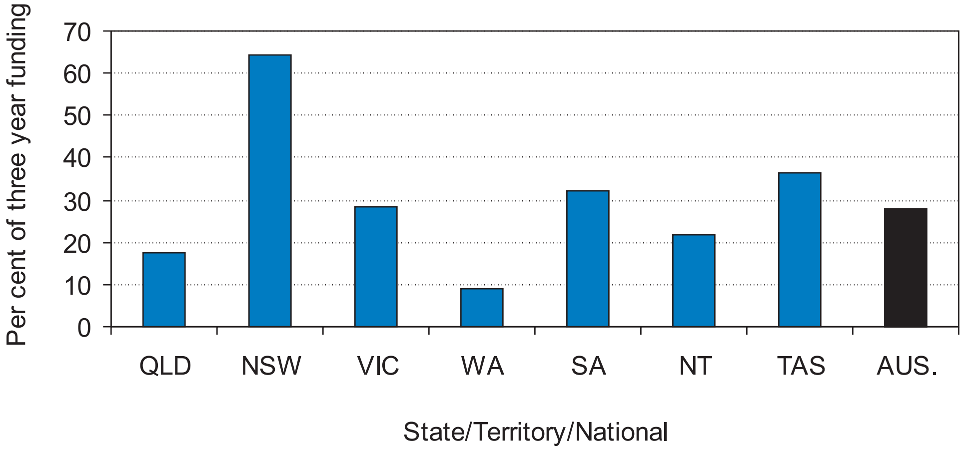
31 \$142 million over three years. The Commonwealth contribution is \$71 million—see Table 2.1.

Figure 2.9

FarmBis II expenditure—2001–02 and 1st half of 2002–03



Source: ANAO analysis of AFFA FarmBis II acquittals data

Note: States are ordered by size of funding within cap grouping.

2.53 AFFA advised that, in part, the low level of program expenditure to date reflects the impact of the drought on farmers' demand for training. In addition, the need to establish co ordination systems and communication strategies (see Figure 2.3) is considered by AFFA and stakeholders to have delayed program utilisation. Nevertheless, these trends suggest that expenditure over the life of the program may not reach the levels anticipated in the Commonwealth–State agreements. Any underspend will impact on the planned outcomes of FarmBis II by reducing the numbers of primary producers who benefit.

2.54 AFFA agrees that FarmBis II expenditure in most States is unlikely to reach anticipated levels.

Service quality

2.55 Feedback from course review sheets indicated mixed views regarding satisfaction with FarmBis II co-ordinators and administrators. Feedback from participants in FarmBis II funded training in the first 21 months of the program indicated that a majority (some 58 per cent) of participants were satisfied with FarmBis II co-ordinators' quality of service in terms of knowledge, helpfulness and timeliness. Less than one per cent of participants were dissatisfied (the remainder were neither satisfied nor dissatisfied).

Increasing participation in training

2.56 There has been a marked increase in participation in FarmBis training in the last two years. An estimated 40 per cent of primary producers had participated in FarmBis II funded training activities over a two year period to late 2002. This compares with 26 per cent for the previous two year period.[32]

Meeting education and training needs

2.57 The AFFA FarmBis II database collates information from course review sheets completed by participants at the completion of their training. These suggest that FarmBis II has been successful in meeting education and training needs. Eighty-eight per cent of participants indicated that the training was of medium to high relevance to their business.

2.58 Forty-seven per cent of participants indicated that they learned what they expected to learn; a further 52 per cent learned more than they expected. Eighty nine per cent of participants were satisfied, or very satisfied, with the overall quality of the course (34 per cent satisfied and 55 per cent very satisfied).

2.59 AFFA does not yet have data on the extent to which these views are confirmed by participants' experience. However, AFFA plans to collect this information in a survey to be conducted later this year. The survey will also collect information on the extent to which FarmBis II participants demonstrate continuous learning behaviour as a result of their training.

Use of learning outcomes

2.60 The 2002 AFFA AAA Survey estimated that 95 per cent of FarmBis II participants had incorporated (or planned to incorporate) the skills and knowledge learnt into their business and natural resource management practices. Sixty two per cent of participants also indicated that they had spent additional time or money on farm management activities as a result of their training.

2.61 AFFA does not yet have data on the impact of the training and changed management practices on businesses. This information will also be collected in a survey to be conducted later this year. However, an AFFA survey for the earlier, pre July 2001, version of FarmBis indicated a positive impact. Over 85 per cent of participants to the previous training courses considered that the courses would have at least some benefit to profitability and productivity. Over 70 per cent considered that the courses would have at least some benefit to sustainability of their enterprises.

2.62 A recent survey of industry stakeholders[33] suggests that FarmBis II is also likely to deliver beneficial outcomes. The survey found that 79 per cent of

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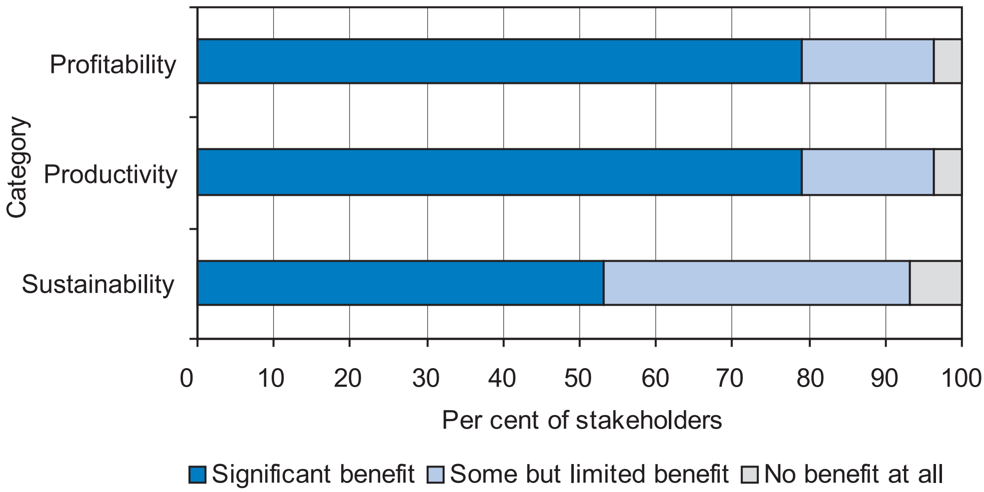
32 Department of Agriculture, Fisheries and Forestry—Australia, AAA Survey 2002 and 2000. The 2000 survey assessed the program that preceded FarmBis II (see paragraph 2.1).

33 op.cit., *The 2002 AFFA Industry Survey*.

stakeholders considered that FarmBis II courses were of significant benefit to the profitability and productivity of enterprises in their industry or region. A further 17 per cent considered the courses of some, but limited, benefit in terms of profitability and productivity (see Figure 2.10). Stakeholders also considered that there were benefits to the sustainability of the rural sector, but to a lesser degree.

Figure 2.10

Stakeholder views on the benefits of FarmBis II training



Source: ANAO analysis of data from AFFA 2002 Industry Survey

3. Farm Help

This Chapter examines the administration by AFFA and Centrelink of the Farm Help program.

Introduction

3.1 The Farm Help program commenced on 1 July 2000, replacing the Farm Family Restart Scheme.[34] Its role is to provide short-term financial support to farm families experiencing severe financial difficulty, facilitate their decisions about the future of their farming enterprise and provide adjustment support to those who decide to exit farming (see Figure 3.1).

Figure 3.1
Farm Help program objectives

- *Provide short-term income support to low income families who are experiencing financial hardship and who cannot borrow further against their assets, while they explore options for the future;*
- *Provide grants for professional advice to enable farmers to make an informed choice about their future;*
- *Provide adjustment support to farmers who have taken the decision to exit farming; and*
- *Provide grants for re-training, and assistance in identifying transferable market skills, to farmers who have chosen to exit farming.*

Source: AFFA

3.2 Farm Help has four components, as summarised in Table 3.1. All components are delivered by Centrelink, under a service delivery agreement with the AFFA.

[34] Farm Help continued several elements of the Farm Family Restart scheme. These were: income support, professional advice and exit grants. Measures introduced under Farm Help included a new case management approach, and Re-training grants for farmers who received a Re-establishment grant.

Table 3.1

Components of Farm Help—all delivered by Centrelink

Component	Key features
Income support	Fortnightly payments, for up to twelve months, to help meet the basic living needs of eligible farmers. Eligibility for, and the rate of, payment is modelled on Newstart Allowance (but with a more generous assets test, under which farm assets are disregarded, and without the Newstart requirement to seek employment). The twelve month period is intended to give farmers time to focus on making decisions about the future of their farms. Accordingly, farmers are required to seek professional advice on the viability of their enterprise. • 3616 customers received $37.4 million in payments between July 2000 and February 2003.
Professional advice grants	Grants are provided to help farmers purchase professional advice to assist them to make informed decisions about the future of their farms.[35] There is a grant limit of $3300 per family, inclusive of GST. • 3354 customers have received $5.8 million in grants between July 2000 and February 2003.
Re-establishment grants	Grants are provided to help farmers with the costs of re-establishing elsewhere, if they decide to leave farming and sell their enterprise. The grants are limited to $45 000 per family. They are subject to the condition that the farmer will not have a right or interest in land used for the purposes of a farm enterprise for at least five years. • 454 customers have received $17.1 million in grants between July 2000 and February 2003.
Re-training grants	Grants are provided to help farmers and their partners who sell their farm to retrain for a new career. Grants of up to $3500 are available after a Re-establishment grant has been received. • 68 customers have received $100 000 between July 2000 and February 2003.

Source: AFFA and Centrelink

*Note: On 13 May 2003 the Minister for Agriculture, Fisheries and Forestry announced that the Farm Help program would be extended to 30 June 2004 while consideration was given to the future of the program.

3.3 Consistent with the audit objectives, this Chapter assesses the Farm Help program in relation to:

- strategic management, including the administrative arrangements between AFFA and Centrelink, risk management and the relationship of Farm Help with other AAA programs;
- legislative compliance;
- program promotion; and
- performance monitoring, evaluation and results.

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[35] The advice may include financial planning; business management; career options; legal advice; personal and family counselling; and stress management.

Strategic management

Administrative arrangements

3.4 AFFA has overall responsibility for Farm Help. This includes policy advice to the Government as well as monitoring of, and reporting on, performance. AFFA funds Centrelink to deliver and promote the program, including assessing and making Farm Help payments and providing case management services.

3.5 Centrelink regional offices receive and record Farm Help claims and conduct an initial interview, at which time supporting documentation is collected. The resulting documentation is forwarded to Centrelink's Rural Processing Unit (RPU) for processing. At the time of the audit, the RPU was located in Warrnambool, Victoria. It comprised five experienced officers with specialist skills and knowledge in rural programs and services. Centrelink has also established Rural Call Centres that specialise in dealing with telephone enquiries from rural customers.

3.6 The administrative arrangements between AFFA and Centrelink are set out in a Memorandum of Understanding (MOU) between the agencies. The MOU, which was finalised in December 2001, covers Farm Help and a number of other programs.[36] The MOU comprises a core agreement, outlining high-level program management parameters, and protocols for individual programs (see Figure 3.2). There is also a review and appeals protocol, establishing arrangements for consultation with key stakeholders.

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36 Prior to December 2001, the arrangements between the agencies were guided by a Farm Help Service Level Agreement.

Figure 3.2

Administrative arrangements between AFFA and Centrelink

AFFA

Responsible for:

- program outcomes
- policy
- legislation
- overlaps with other government departments (including service delivery)
- purchasing delivery of services from Centrelink

Business partnership

Centrelink

Responsible for:

- service delivery of programs
- accessing and reporting on funding
- providing management / performance information to AFFA
- legal issues relating to service delivery and procedural matters
- customer satisfaction and quality of services
- promotion of program

Memorandum of Understanding (MOU)

MOU—Core agreement—December 2001

Signatories
Objectives
Principles for:

- working together
- financial management
- measuring performance

Agency responsibilities
Financial arrangements

- budget negotiation
- program funding
- service delivery funding

Reporting requirements

Key performance indicators

- timeliness targets
- payment correctness
- customer satisfaction
- provision of management information

Ministerial / Parliamentary responsibilities
Data access and records management
Consultation arrangements
Defaults and dispute resolution
Intellectual property
Termination and term of the MOU
Review of the MOU and Program Protocols

Program protocols between AFFA & Centrelink

Program protocol for the delivery of Farm Help

Program description

Program management principles

- Help desk
- Policy issues
- Agency's responsibilities requirements
- Funds availability and financial reporting

Purpose of Protocol

Services to be delivered
Payment arrangements
Program evaluation
Program performance information

Service delivery performance information
Specific management information reporting requirements

AFFA—Centrelink Protocol concerning Review and Appeals

Purpose of Protocol
Agency's responsibilities
Principles for consulting with key stakeholders
Services to be provided
Responsibilities for Court of Appeals
Statistical requirements
Communication arrangements
Timeliness performance standards

3.7 The ANAO found that the MOU is consistent with many elements of better practice for service delivery agreements.[37] For example, it clearly specifies:

- the roles and responsibilities of each agency and the services to be provided;
- consultative arrangements, including dispute resolution mechanisms;
- review mechanisms for the MOU;
- funding arrangements; and
- performance information requirements.

3.8 However, the MOU does not explicitly address risk management. Specifying processes for managing risks in service delivery agreements increases assurance that a whole-of-government approach is taken to risk management.[38] Risk management arrangements are discussed further at paragraph 3.26–3.29.

3.9 The ANAO also found some limitations in the performance indicators and funding arrangements contained in the MOU. These are discussed below.

Service delivery performance indicators

3.10 The MOU includes key performance indicators (KPIs) addressing Centrelink's performance with respect to timeliness of processing, customer satisfaction and correctness of payment.[39] Figure 3.3 outlines the KPIs and associated performance standards/targets.

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[37] Better practice principles for such agreements have been addressed in a number of recent ANAO audits. These include: ANAO Report No.47 2001–02, Administration of the 30 Per Cent Private Health Insurance Rebate; ANAO Report No.35 2000–2001, *Family and Community Services' Oversight of Centrelink's Assessment of New Claims for the Age Pension*; and ANAO Report No.1 1999–2000, *Implementing Purchaser/Provider Arrangements between the Department of Health and Aged Care and Centrelink.*

[38] ibid.

[39] Correctness of payment relates to decision-making processes within Centrelink's control. Payments may be inaccurate due to other circumstances, such as where customers do not report changes of circumstances.

Figure 3.3

Farm Help service delivery KPIs

Timeliness:

- *Determine the income support amount payable and make payments within 42 days from the lodgement of the initial claim (standard: 80 per cent); and*
- *Determine the Re-establishment grant amount payable and make payment within 13 weeks from the lodgement of the initial claim (standard: 80 per cent).*

Customer satisfaction:

- *Customer satisfaction with overall quality of Centrelink's people, services and information (target: 70 per cent of customers surveyed in Centrelink's annual customer survey rate Centrelink's quality as good or higher).*

Correctness of payment:

- *Deliver products and services with high levels of correctness (Centrelink and AFFA agree to work together to establish an appropriate measure to be implemented as soon as practicable).*

Source: AFFA-Centrelink MOU

3.11 The timeliness and customer satisfaction KPIs are well specified, with agreed measurement methods, as well as standards and targets. Performance against these targets is discussed at paragraph 3.68.

3.12 However, the payment correctness KPI does not yet have an agreed measurement method. Centrelink has advised it intends to address this through its Business Assurance Framework (BAF). Centrelink has been developing the BAF since 2001–02, working with the Department of Family and Community Services (FaCS), to provide assurance to FaCS that payments have been made in accordance with legislative requirements. [40]

3.13 The key components of the first stage of the BAF address:

- quality control, through line management accountability;
- quality assurance, for example through conduct of surveys; and
- external assurance processes to be undertaken by FaCS.[41]

3.14 The BAF is being implemented on a program by program basis, with larger programs being given priority. Centrelink does not anticipate commencing work

[40] The development of the BAF is also, in part, a response to the recommendations of recent ANAO audits regarding mechanisms to report performance on payment correctness. (See, for example, ANAO Report No.35 2000–2001, Family and Community Services' Oversight of Centrelink's Assessment of New Claims for the Age Pension, Canberra.)

[41] The development of the BAF is addressed in more detail in ANAO Report No.17 2002–03 Age Pension Entitlements, Canberra.

to include Farm Help within the BAF until March 2004. Thus this work will not commence until the end of the current funding cycle for Farm Help (30 June 2004).[42]

3.15 AFFA has advised that, notwithstanding the absence of performance data, it considers that Centrelink's controls provide adequate assurance on payment correctness pending implementation of the BAF. These controls include the use of specialist processing staff for claim assessment, guidance material and helpdesks to assist staff resolve policy and procedural queries, and six monthly reviews of all Farm Help income support payments. The ANAO's sample analysis supports the view that, with the exception of one aspect of processing, there is a high level of compliance with legislative requirements (see paragraph 3.43).

3.16 However, this approach means that AFFA will not have had performance information on the correctness of customer payments for most of the term of the program. Payment correctness is a key aspect of service delivery quality, and is necessary to adequately assess the quality of Centrelink's service delivery. Accordingly, the ANAO considers that program accountability warrants an appropriate performance measure within the life of the current program, and ahead of any extension of, or replacement for, Farm Help.

Recommendation No.2

3.17 The ANAO recommends that AFFA, in consultation with Centrelink, ensure that an appropriate performance measure for payment correctness is implemented for the Farm Help program.

AFFA response

3.18 Agreed. AFFA has been satisfied with routine internal checks by Centrelink across all their programs. However, the Department will work with Centrelink to implement an appropriate Business Assurance Framework.

Centrelink response

3.19 Agreed. Centrelink had already recognised the need to establish an organisational performance measure attributed to payment correctness by including this in the Memorandum of Understanding in 2001 as an issue to be resolved. It has now been agreed that Centrelink will develop and implement a Business Assurance Framework for AFFA similar to that developed for Family and Community Services.

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42 The Minister for Agriculture, Fisheries and Forestry announced on 13 May 2003, in the Budgetary context, that the closing date for applications would be extended to 30 June 2004. This is to facilitate transition to any new arrangements to be considered in the context of the 2004 Budget.

Funding arrangements

3.20 Under the terms of the MOU, AFFA pays Centrelink in advance each quarter for administration of 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 apply for payments and services.

3.21 The fixed payment schedule was agreed in May 2000 prior to the commencement of Farm Help. It was based on estimates of customer numbers for the four-year term of the program. Actual customer numbers have been significantly below these estimates (see Table 3.2). Accordingly, AFFA has been paying a higher rate of unit costs for administration than intended.

Table 3.2

Estimated and actual numbers of customers—2001–02

Payment / service	Estimate	Actual	Difference (per cent)
Income support	1500	1045	-30
Professional advice	1215	965	-21
Re-establishment grants	180	161	-11

Source: AFFA and Centrelink

Note: The fourth component Re-training grants, was not part of the payment schedule due to the small numbers of customers. Between July 2000 and February 2003, 68 customers have received a Re-training grant.

3.22 In March 2001, AFFA commenced discussions with Centrelink to establish a more flexible funding model. The broad parameters of a new model were agreed in August 2002. The model has a fixed cost component and a variable cost component, based on the number of Farm Help transactions processed by Centrelink.

3.23 Centrelink completed an exercise to identify its fixed and variable Farm Help administrative costs in January 2003. At the time of the audit, negotiations between AFFA and Centrelink on the specific funding parameters of the new model were continuing, having regard to the results of this exercise.

3.24 The ANAO notes that this matter had been under discussion for some two years. Accountability for value for money in delivering Commonwealth services warranted early implementation of a more appropriate funding model.

3.25 In response to the draft audit report, AFFA and Centrelink advised that they have agreed and implemented a new funding arrangement with effect from 2002–03. With respect to any overpayment in the past, the agencies do not believe that it is practical to attempt to apply the new funding model to previous years' service delivery payments.

Risk management

3.26 AFFA and Centrelink have separately developed risk management plans that cover their respective roles and responsibilities in administering Farm Help. The main risks identified in these plans are summarised in Figure 3.5.

Figure 3.5

Broad risk categories for Farm Help identified in agencies' risk assessments

AFFA	Centrelink
Risks from: • external influences; • business relationships; • administrative or organisational changes; • inconsistent or inadequate supporting policies and procedures; • non-delivery of services; • breakdown in AFFA's corporate governance framework; and • breakdown in AFFA's management control framework.	Failure to: • meet Centrelink Key Performance Indicators and balanced scorecard measures; • meet customer expectations; • provide an administrative framework to support the provision of quality customer service; • deliver services within the funds appropriated; • provide network support; • provide quality and timely management information to AFFA; • respond to emerging Government priorities; • minimise internal fraud and fraudulent claims; • effectively promote the AFFA programs internally and externally; • communicate effectively with AFFA about legislation, policy and other program related matters; and • advise AFFA of potential overspends.

Source: AFFA and Centrelink

3.27 Each agency has established controls to manage identified risks. For example, Centrelink has implemented a decision support framework for its customer service officers to address the third and fifth risks above. This is discussed further at paragraph 3.39.

3.28 As discussed at paragraph 3.8, the MOU between AFFA and Centrelink does not explicitly address risk management. However, the ANAO found that, in practice, there is good liaison between AFFA and Centrelink on the effectiveness of risk treatment controls. There is regular consultation between the agencies. They have developed a common understanding of the main risks surrounding the delivery of Farm Help. They have also reached agreement on the controls to be applied to treat these risks.

3.29 On the whole, there has been an adequate whole-of-government perspective to risk management.

Relationship with other AAA programs

3.30 In reviewing Farm Help, the ANAO found that there was an overlap between it and another part of the AAA package, the Rural Financial Counselling Service (RFCS) program.[43] The RFCS program provides grants to community groups to provide financial counselling services that:

> ...help primary producers in agriculture, fishing and small rural enterprises, who are in financial difficulty and who are unable to use private services but need information and assistance to make decisions about their future business directions.[44]

3.31 The ANAO found that about half of the Farm Enterprise Viability Assessments (FEVA)[45] funded under the Farm Help program are provided by a group supported by the RFCS program. Thus some of the income of these groups arises from Farm Help grants.

3.32 However, it is open to a group to claim income received from Farm Help as 'funding raised' by it. Under the terms of the RFCS program, AFFA matches 'funding raised'.

3.33 AFFA has not collected the data required to enable the ANAO to assess the extent to which this practice occurs. However, the ANAO found anecdotal evidence that it is occurring. AFFA has advised that it does occur.

3.34 Additional payment under the RFCS program for services already funded by the Commonwealth under Farm Help does not represent value for money. Moreover, the groups compete against private sector providers for the provision of FEVAs, which does not appear consistent with the design principles of the RFCS program. These state, *inter alia*, that the program:

> ... is not designed to compete with or replace private sector providers of information and financial advice, or duplicate Commonwealth or State programs that provide counselling.[46]

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[43] Appendix 1 provides additional information on the RFCS program.

[44] Department of Agriculture, Fisheries and Forestry—Australia, 2002, AAA—Rural Financial Counselling Service Program Guidelines, p. 2.

[45] It is compulsory for farmers who want to receive Farm Help income support to seek professional advice on the viability of their farm enterprise within the first three months of receiving payment.

[46] op. cit. Rural Financial Counselling Service Program Guidelines, p. 4.

Recommendation No.3

3.35 The ANAO recommends that AFFA address the interaction between the Rural Financial Counselling Services (RFCS) program and Farm Help, to ensure that the Commonwealth does not duplicate financial support for advisory services to primary producers, and that the operation of RFCS is consistent with its design principles.

AFFA response

3.36 Agreed. This issue will be addressed in the development of any AAA successor package.

Managing compliance

3.37 The authority to provide Farm Help payments and services is contained in the *Farm Household Support (FHS) Act 1992*, which is supported by two Disallowable Instruments: *Farm Help Re-establishment Grant Scheme*, made under subsection 52A(1); and *Farm Help Advice Scheme*, made under subsection 52B(1).

3.38 The ANAO assessed whether:

- AFFA and Centrelink had a framework to support decision making in accordance with the legislation; and
- Centrelink's administrative practices complied with the legislation.

Decision support framework

3.39 Centrelink has developed an electronic reference system, E-Reference, which includes policy and procedural guidelines for Farm Help. The system provides general information, links to the legislation, as well as detailed coverage of the procedural steps involved in assessing and recording a customer's claim. E Reference is accessible by all Centrelink staff via the Centrelink Intranet.

3.40 The ANAO found the system easy to use and understand, with clear guidance for users. It has been set out so that staff with no knowledge of the program can quickly find the basic elements of the program. However, the ANAO observed that most of the more experienced RPU staff preferred to use an earlier set of guidelines, The Farmer Assistance Library, which they found easier to use. Use of a single guidance source would provide for greater assurance of consistent decision-making.

3.41 AFFA and Centrelink have also established helpdesks to provide staff with advice on policy and procedural issues. There are agreed arrangements for seeking policy advice, and standards for the timeliness of responses. Most

Centrelink staff interviewed by the ANAO reported that they were satisfied with the level of support received from the helpdesk arrangements.

3.42 The ANAO concludes that AFFA and Centrelink have an adequate support framework to assist program delivery decisions by Centrelink staff.

Decision-making

3.43 The ANAO assessed compliance of Centrelink's processing of Farm Help customer transactions with key legislative requirements. This assessment was based on a test of a stratified random sample of 140 Farm Help case files relating to decisions made in August 2002. [47]

3.44 Overall, the ANAO found a high level of compliance with the legislation. All files examined relating to Re-establishment Grants fully complied with the key legislative requirements tested.

3.45 Income support decisions mostly complied with the legislative requirements tested, although two had administrative errors. In one case, the payment start date was incorrect; in the other case, payments were made for more than 12 months. There was, however, one area of systematic non-compliance, which is discussed below.

Processing of the Certificate of Inability to Obtain Finance

3.46 In order to obtain Farm Help income support, an applicant must obtain a Certificate of Inability to Obtain Finance (CIOF). The CIOF is a statement from a financial institution stating that the applicant has applied to the institution for a loan, and that the institution does not propose to make any loan to the applicant because of the applicant's financial situation.

3.47 Under Section 4(2) of the FHS Act, a CIOF has a maximum period of six months during which it can be used to qualify for income support. AFFA has advised that the intent was for customers to have to provide two CIOFs to receive payments for the maximum allowable 12 month period. Centrelink has administered provision of CIOFs on this basis.

3.48 However, the starting date for the CIOF qualification period is strictly defined in the FHS Act. Accordingly, if the first CIOF is obtained before the start date for Farm Help income support payments, or the second CIOF is not obtained on the required renewal date, there will be a period of payment when there is not a current CIOF. A third CIOF is necessary to qualify for the full 12 months of payment.

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47 Although the ANAO examined 140 files, it was only possible to fully complete test criteria for 104 files due to the lack of available information stored on customer files.

3.49 The ANAO examined customer files in payment for compliance with the legislative requirements for provision of CIOFs. The ANAO found that for all cases examined, customers had been, or would be, paid for a period when they did not have a current CIOF. The gap in qualification was predominantly at the end of the 12 month payment period. The ANAO also found that the Centrelink system generally recorded an incorrect start date for the first CIOF.

3.50 The ANAO recognises that if Centrelink were to administer the program in full compliance with the legislation, most farmers would have to obtain a third CIOF to qualify for a full 12 month period of payment. This would impose a significantly greater administrative compliance burden on farmers.[48] Moreover, some farmers could be faced with a loss of payments as a result of delays in obtaining CIOFs from financial institutions.

3.51 Nevertheless, agencies are required to comply with relevant legislation; this is a matter of proper corporate governance. If, as AFFA advised, administrative arrangements cannot be established that comply with the legislation, it would be necessary to consider advice to the Government about appropriate technical amendments to the legislation.

Recommendation No.4

3.52 The ANAO recommends that AFFA consider providing advice to the Minister seeking appropriate amendments to the legislation to ensure that it reflects the Government's intent for the provision by customers of a Certificate of Inability to Obtain Finance.

AFFA response

3.53 AFFA agrees with this recommendation. It is consistent with discussions and agreement between ANAO and AFFA at the exit interview in January 2003.

Recommendation No.5

3.54 The ANAO recommends that AFFA build on existing arrangements with service providers to be satisfied that they comply with legislative requirements.

AFFA response

3.55 AFFA agrees with this recommendation.

[48] A June 2002 evaluation of Farm Help indicated that farmers had experienced a range of difficulties in obtaining CIOFs. These included: financial institutions being unwilling to sign the CIOFs; a shortage of financial institutions in regional Australia; and, in some cases, loan application fees being charged for issuing CIOFs.

Requirements for obtaining a viability assessment

3.56 All successful Farm Help income support applicants are required to seek professional advice in relation to their farm enterprise within the first three months of payments commencing. This is achieved through completing a Farm Enterprise Viability Assessment (FEVA). Centrelink's standard system produced letter to the applicant, advising that the claim has been successful, states that the customer must obtain this advice within three months of the date of the claim. However, this is incorrect. The correct time period is three months from the date of grant decision.

3.57 To correct for the error in the initial letter, Centrelink has adopted the practice of sending a follow-up letter with the correct date. However, this practice risks misleading customers about their obligations, and is administratively inefficient.

3.58 Centrelink has advised that system amendments will be made to correct the standard letter and are formally scheduled for completion in December 2003.

Promotion

Program promotion activities

3.59 While AFFA is responsible for developing promotional materials for Farm Help, Centrelink distributes promotional material and conducts local promotion activities. The ANAO found that there has been a wide range of approaches used to promote the program. These include:

- an AFFA communication campaign in July and August 2001 to increase awareness of the AAA package as a whole (see paragraph 2.38);
- development by AFFA of a number of printed information products on Farm Help, which are distributed by Centrelink;
- information on both the AFFA and Centrelink websites about Farm Help;
- Centrelink participation in field days;
- Centrelink discussions with rural financial counsellors. Centrelink has also produced a CD for rural financial counsellors. This enables them to access information about Centrelink programs, including Farm Help, on their laptops while visiting rural customers; and
- personal promotion by Centrelink staff in their local communities.

3.60 Centrelink has also established Farm Contact officers, who are skilled in communicating with farmers, in key regional offices.

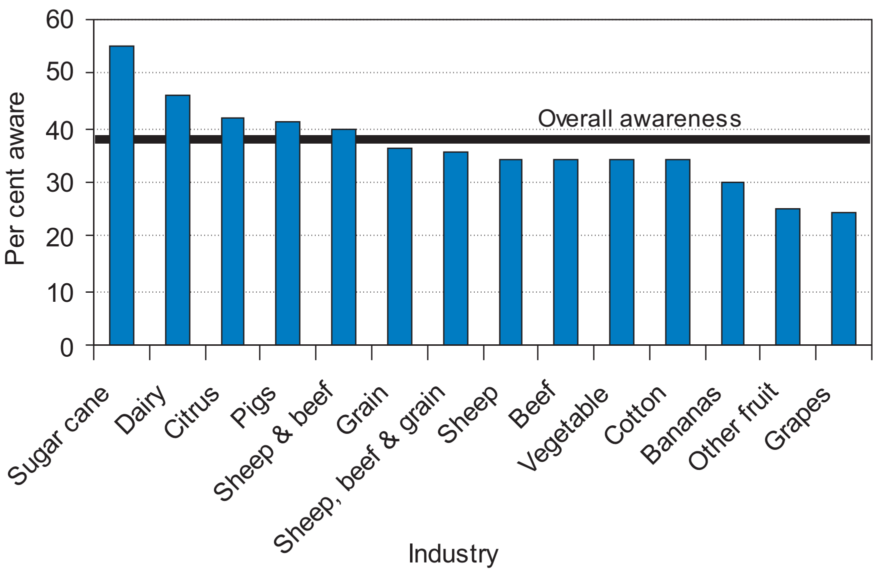
Effectiveness of program promotion

3.61 Primary producer awareness is a key performance indicator for Farm Help. The above promotion activities appear to have improved awareness. The 2002 AFFA AAA survey found that overall awareness of Farm Help had increased to 37 per cent, up from 23 per cent in 2001. This is on the way to achieving AFFA's performance target of having 50 per cent of all primary producers aware of Farm Help by June 2004.

3.62 Awareness of Farm Help varied considerably between primary industry sectors, as indicated in Figure 3.7. It is highest amongst sugar cane growers and dairy farmers, that is, sectors that have been subject to recent Government adjustment packages.

Figure 3.7

Percentage of primary producers aware of Farm Help



Source: ANAO analysis of 2002 AFFA AAA survey data

3.63 Awareness of Farm Help tended to be lower for primary producers who reported making a loss, than for those reporting to break even or make a profit (32 per cent and 39 per cent awareness respectively). The lower level of awareness amongst loss-making primary producers presents a challenge for AFFA, since potential users of Farm Help are more likely to come from loss making enterprises. Some means of increasing awareness by loss-makers warrants consideration in the further development of AFFA's promotion strategy.

Performance monitoring and evaluation

3.64 AFFA has established a framework for evaluation of the AAA package as a whole.[49] This outlines a set of KPIs for Farm Help. The KPIs and associated standards and targets are shown in Figure 3.8.

Figure 3.8

Farm Help KPIs, standards and targets

Centrelink service delivery:

As outlined in Figure 3.3, there are KPIs addressing Centrelink's performance on:

- *Timeliness of processing;*
- *Customer satisfaction; and*
- *Correctness of payment.*

Awareness:

- *By June 2004, at least half of all primary producers will be aware of the program.*

Decision support system for adjustment and/or exit:

- *Professional advice is received by a minimum of 90 per cent of those who commence income support;*
- *Eighty per cent of those who participate in a professional advice session will consider that the session was of value in providing decision-making support;*
- *Eighty per cent of those who participate in re-training sessions will consider that the training has been of benefit in identifying transferable market skills and assisting in re establishment; and*
- *Eighty-five per cent of non-viable program participants (including income support and Re-establishment grant recipients) complete an activity plan.*

Supporting industry adjustment:

- *By June 2004, the proportion of participants who undertake some form of adjustment in their current business operation (including industry exit) will increase from 10 per cent to 25 per cent.*

Source: AFFA

3.65 The ANAO considers that these performance indicators provide appropriate information on performance in the delivery of key outputs and in effectiveness in addressing program objectives (Figure 3.1).

3.66 Overall, this is a sound framework. However, there are some areas that warrant refinement, for greater effectiveness in performance management. Reporting of performance for the indicator *professional advice is received by a*

[49] op. cit., *The Agriculture Advancing Australia (AAA) package – Framework for Evaluation.*

minimum of 90 per cent of those who commence income support, has been based on cumulative data over the lifetime of the program. This limits AFFA's ability to readily track changes in the percentage of customers who obtain professional advice. In addition, the indicator involves some approximation, since it includes those who do not need to obtain advice because they were on income support for less than three months.[50] The measure also does not take account of the lag between a customer making a claim and receiving advice.

3.67 The ANAO found that AFFA has monitored and assessed performance, and taken corrective action where considered necessary. For example, in response to a low take up of Farm Enterprise Viability Assessments, the assessments were made compulsory. Centrelink also made associated improvements to the administration and follow up of assessments. However, as previously noted, AFFA does not yet receive performance information from Centrelink on correctness of payment.

Performance results

Centrelink service delivery

Timeliness

3.68 Performance against the two timeliness measures has recently improved markedly, and is now exceeding service standards. The standard for income support processing is that 80 per cent of claims are assessed, and payments made, within 42 days of the lodgement of the initial claim. For the period July 2002 to the end of February 2003, 86 per cent of claims were assessed and paid within this timeframe. This compares with 78 per cent for 2001–02.

3.69 The service standard for Re-establishment grants is that 80 per cent of claims are assessed, and payments made, within 13 weeks of lodgement of the initial claim. Performance has increased from 59 per cent within this timeframe in 2001–02, to 87 per cent from July 2002 to the end of February 2003.

Customer satisfaction

3.70 Centrelink markedly exceeds the customer satisfaction standard of 70 per cent of Farm Help customers being satisfied. In 2001–02, it achieved a satisfaction rating of 85 per cent; this rose to 89 per cent for 2002–03.[51]

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[50] If for any reason customers on Farm Help income support payments cancel within the first three months it is not compulsory for them to seek professional advice.

[51] This is measured annually in November-December.

Awareness

3.71 Performance results for the awareness indicator have been addressed at paragraph 3.61.

Decision support system for adjustment and/or exit

Professional advice

3.72 As discussed at paragraph 3.66, there are limitations in the measure of performance for the indicator addressing professional advice. However, the ANAO estimates that over the 12 months to 31 July 2002, approximately 92 per cent of customers who commenced income support had received professional advice. [52] This slightly exceeds the target of 90 per cent.

3.73 Ninety-four per cent of respondents to a survey in March 2002, who received professional advice, indicated that the advice was at least moderately effective. Sixty-eight per cent considered the advice to be highly effective.

Re-training

3.74 There is limited information on the effectiveness of re-training sessions, supported by Re-training grants, to help farmers and their partners to prepare for a new career. Only seven farmers in AFFA's latest exit survey, in July 2002, provided a response.[53] All found the training helpful or very helpful.

Activity plans

3.75 The activity plan is an agreement between the farmer and Centrelink's Farm Help staff. The plan is based on the Farm Enterprise Viability Assessment along with the longer term goals identified by the family.[54] The activity plan is intended to assist decision making about the future of the farm enterprise by providing farm families with a structure for recording details about their current situation, their future, and the strategies they plan to use to achieve that future.

3.76 AFFA's framework for evaluation specifies a target that 85 per cent of 'non-viable' Farm Help customers complete an activity plan. However, a July 2002 exit survey by AFFA of Farm Help customers indicated that only 55 per cent of non-viable customers had undertaken a plan. AFFA and Centrelink are examining options for improving performance in this area. Centrelink advises that the 85% target is not a formal measure that has been negotiated between

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52 The ANAO based its estimates on the number of grants of income support and professional advice over a 12 month period. It was not possible to measure the outcome on a case-by-case basis.

53 Between July 2000 and February 2003, only 68 customers had received Re-training grants.

54 The plan can include referrals for professional advice or for other services and organisations.

AFFA and Centrelink. Centrelink has also advised that they and AFFA have yet to implement a performance measure as part of the service delivery arrangements outlined in the program protocol.

3.77 The ANAO also found that there is no agreed definition of non-viable. Clarification of this would improve performance management of assistance for non viable enterprises.

Supporting industry adjustment

3.78 Currently, there is no performance information for this indicator. AFFA plans to collect information, through surveys, on the proportion of Farm Help participants who undertake some form of adjustment to their business. The indicator will capture information for both participants who adjust by leaving the industry and those who make other adjustments to their business operations, such as diversification or the implementation of new management or production systems.

4. Farm Management Deposits

This Chapter addresses the administration of the FMD scheme by AFFA, the ATO and the Treasury.

Introduction

4.1 The Farm Management Deposits (FMD) scheme commenced in April 1999. It replaced the Income Equalisation Deposits and Farm Management Bonds schemes (see Appendix 4).

4.2 The FMD scheme provides an income tax concession to eligible[55] primary producers by allowing the full tax deductibility of primary production income deposited in authorised FMD accounts.[56] FMD accounts are offered through financial institutions, such as banks, building societies and credit unions. Primary producers can choose which financial institution to invest with.[57] Interest is earned, at market interest rates, on the full amount of funds deposited in an FMD account.

4.3 When primary producers withdraw funds from their FMD accounts, the amounts withdrawn are subject to income tax in the year in which they are withdrawn. The tax benefit of the scheme flows from the ability of participants to defer income tax liability.

4.4 The objective of the FMD scheme is to:

> provide an effective financial risk management tool, specifically targeted at cash-flow management, for eligible primary producers with a view to improving their financial self-reliance and capacity to respond to crises relating to climate and market variability.[58]

Trend in scheme deposits

4.5 Most FMD deposits are made in June, at the end of the financial year. Tax accountants and stakeholders advised the ANAO that primary producers typically wait until they are reasonably confident of their taxable income for the year before investing in FMDs. This enables them to estimate the extent to which an FMD tax deduction will be of benefit.

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55 To be eligible to participate in the FMD scheme, the person making the FMD deposit must be an individual primary producer with taxable non-primary production income of no more than $50 000.

56 The deduction claimed cannot exceed the person's taxable primary production income, and total FMD deposits cannot exceed $300 000 at any time.

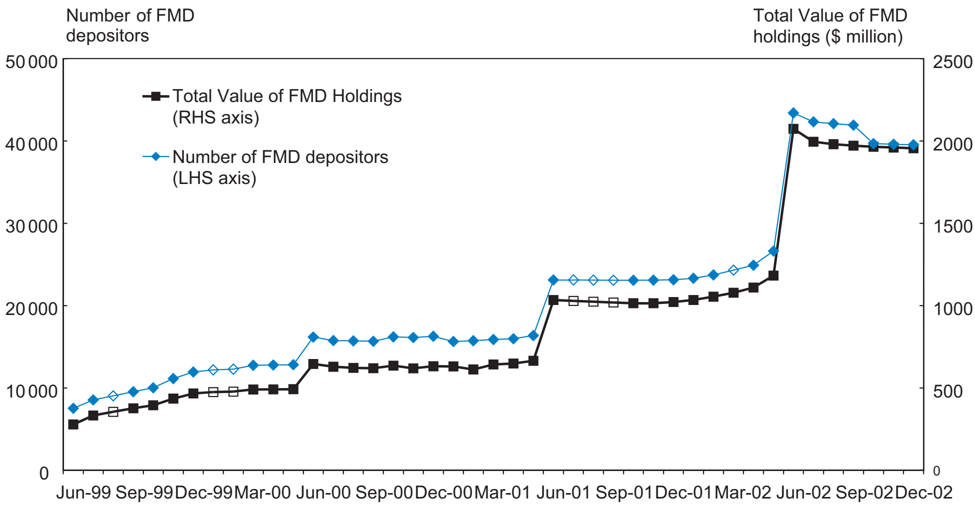
57 As at September 2002, 28 financial institutions offered FMD products. Five institutions held 78 per cent of total FMD holdings ($1.6 billion).

58 AFFA.

4.6 The number of primary producers participating in the scheme rose from 7500 in June 1999 to just under 40 000 in December 2002. Over the same period, the value of FMD holdings increased from $280 million to some $2 billion (see Figure 4.1). There has been a slight decline in the number of depositors since June 2002, which AFFA considers may partly reflect small depositors withdrawing funds in response to the impact of the drought.

Figure 4.1

FMD holdings—value and number of depositors



Source: ANAO analysis of financial institution data provided to AFFA

Note: Some points have been interpolated due to missing or inaccurate data illustrated by clear symbols.

Cost

4.7 The Department of the Treasury (Treasury) estimates that the value of assistance provided through the tax system by the FMD scheme (the 'tax expenditure') will be $470 million in 2002–03 (see Table 4.1).[59] This estimate, and the cost to revenue of FMDs, is discussed further at paragraph 4.78 of this report.

4.8 The cost of administration of the scheme is small. AFFA estimated its costs for 2001–02 at $150 000. The ATO advised that its total administrative expenses in the four years since the inception of the scheme in April 1999 amounted to some $400 000.

[59] The Department of the Treasury, 2003, 2002 Tax Expenditure Statement, Canberra, p. 49.

4.9 In line with the audit objectives, this Chapter assesses:

- strategic management of the FMD scheme, including the administrative arrangements between AFFA, the ATO and Treasury, and risk management;
- scheme promotion;
- performance monitoring and evaluation; and
- performance results.

Strategic management

Administrative arrangements

4.10 AFFA has overall responsibility for the policy objective of the FMD scheme (see paragraph 4.4). This includes some administrative responsibilities; program promotion; and monitoring, evaluating and reporting performance.

4.11 Treasury has primary responsibility for advising on taxation policies and the design of taxation laws, including the Farm Management Deposits Scheme. Treasury is also responsible for preparing, in consultation with the ATO, estimates of the cost to revenue of the scheme.

4.12 The ATO has responsibility for the administration of Schedule 2G of the *Income Tax Assessment Act 1936*, which provides the legislative basis for the FMD scheme. The ATO administers FMD tax deduction claims within its broader income tax administration system. This includes providing guidance to taxpayers and tax advisers on the interpretation of Schedule 2G.

4.13 Unlike the situation in relation to the FarmBis II and Farm Help programs, the administrative arrangements between the parties responsible for aspects of the scheme have not been formalised through an agreement or MOU. Such MOUs provide a framework for specifying roles and responsibilities, accountabilities, reporting arrangements and performance management between agencies. They are therefore an important aspect of governance for programs delivered by multiple agencies.

4.14 Establishing an MOU between AFFA and the ATO, the agencies with primary administrative responsibility, would strengthen administrative arrangements for the program by providing an agreed basis for cooperation and improve accountability. For example, an MOU recording the terms of their partnership, and how they will interact, would have contributed to addressing a number of issues identified in this audit, as discussed below and elsewhere in this report.

4.15 An evaluation by AFFA of the FMD scheme in 2002 also concluded that improved co-ordination of the administration of the scheme was required. AFFA advised that they have now agreed with the ATO to develop a MOU in relation to the scheme.

Recommendation No.6

4.16 The ANAO recommends that, to facilitate joint administration of the Farm Management Deposits scheme, AFFA and the ATO establish a Memorandum of Understanding that sets out:

- their roles and responsibilities in relation to the administration of the scheme;
- structured arrangements for regular consultation; and
- means for joint consideration of the management of risks.

AFFA response

4.17 Agreed. AFFA and the Tax Office have recently entered into a Memorandum of Understanding regarding the management and administration of the Farm Management Deposits Scheme.

ATO response

4.18 Agreed. AFFA and the Tax Office have recently entered into a Memorandum of Understanding regarding the management and administration of the Farm Management Deposits Scheme.

Communication between agencies

4.19 Most inter-agency communication on FMD administration has been between AFFA and the ATO, for example, on the resolution of legislative interpretation/implementation issues (discussed further at 4.44). However, the agencies have not had structured arrangements for regular consultation on the operation of the FMD scheme.

4.20 Structured consultation processes can facilitate the administration of programs where responsibilities are divided, by helping to ensure that relevant information is exchanged among the agencies. The absence of such arrangements for the FMD scheme has contributed to some shortcomings in communication, as discussed below.

Sharing of information

4.21 The level of holdings in FMDs, and their growth, are key parameters underlying estimates of the tax expenditure arising from the FMD tax concession. Prior to the audit fieldwork, Treasury and the ATO used ATO tax data as the basis for estimating the growth in FMD holdings. However, they were not aware that AFFA had more up-to-date data, which showed substantially higher levels of holdings than assumed.

4.22 For example, the Tax Expenditure Statements (TES) for 2001 contained a $25 million cost to revenue estimate for 2001–02. This was based on an assumption that FMD holdings would increase by $85 million in 2000–01.[60] However, AFFA data available at that time showed that FMD holdings had actually risen by $291 million. Had the AFFA data been incorporated in the estimation process, the estimate for 2001–02 would have increased more than three fold, from $25 million to around $85 million.

4.23 The ANAO also found that the AFFA data was under-recording holdings, because some financial institution returns had not been fully incorporated into AFFA's database. In particular, the omission of returns for one large bank reduced the estimated increase in FMD holdings for 2000–01 from $385 million to $291 million. Including returns from this bank would have increased the estimated tax expenditure for 2001–02 to around $115 million.

4.24 Thus, the accuracy of estimates of the value of assistance from FMDs was substantially reduced due to limitations in the sharing, and use, of data available to the Commonwealth. Better information exchange would have contributed to better informed decision-making and advice.

4.25 The Treasury and the ATO do now use up to date AFFA data in their estimates (see paragraph 4.7). Paragraph 4.80 further discusses current estimates of FMD tax expenditure.

Risk management

4.26 The FMD scheme replaced the Income Equalisation Deposit and Farm Management Bond schemes, which were administered wholly within the public sector. A range of benefits were expected from commercialising account administration through the FMD scheme. It was also recognised that there would be risks to program integrity and the security of deposits, as indicated in the second reading speech for the *Taxation Laws Amendment (Farm Management Deposits) Bill 1998*:

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[60] FMD deposits in one financial year give rise to reduced tax revenue for the following financial year.

> Financial institutions are likely to offer a range of products, providing farmers with more choice as well as increased flexibility in their investment decisions.
>
> The Minister for Primary Industries and Energy (Mr Anderson) will be asking the Department of Primary Industries and Energy and the Australian Taxation Office to ensure reporting arrangements are in place so that the scheme retains its integrity and can achieve its objectives. The restriction of the scheme to prudentially controlled deposit taking institutions or those with government guarantees on the deposits will increase the security of deposits.[61]

4.27 Accordingly, legislative provisions require financial institutions to report aggregated data on FMD deposits, withdrawals and balances to AFFA quarterly and disaggregated data on FMD withdrawals to the ATO annually.[62]

4.28 AFFA has acted to address key risks to the integrity of the scheme as they have emerged. In particular, AFFA has played an active role in seeking to address legislative implementation issues (see paragraph 4.44). However, notwithstanding the intention for a systematic approach to program integrity, AFFA has not identified the key risks to outcomes of the scheme; assessed their likelihood and potential impact; nor established an appropriate and documented risk management strategy. This contrasts with the approach adopted for FarmBis II and Farm Help.

4.29 Nor has AFFA had a structured approach to considering, with the ATO, risk management from a whole-of-government perspective, for example, addressing appropriate financial institution reporting arrangements.

4.30 AFFA did implement a system for the collection of aggregate FMD data from financial institutions, and the ATO introduced a system for the collection of FMD data on individuals from financial institutions. The latter was to facilitate data matching checks of taxpayer compliance with the FMD provisions of the *Income Tax Assessment Act 1936*. However, the ANAO found that there has been a high level of non-compliance with the ATO's reporting requirements by financial institutions. Less than one third of institutions complied in each of the first three years of the FMD scheme. In addition, the ANAO found that there were anomalies in data submitted for all of the financial institutions that provided reports to the ATO for 2000–01.

4.31 AFFA advised, at the commencement of the audit, that it understood that the ATO was using data collected from financial institutions to conduct data matching checks of taxpayer compliance. However, the ANAO found that this was not the case. The ATO advised that their ability to conduct data matching

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61 Commonwealth of Australia, 1998, House of Representatives Official Hansard, 28 May 1998, p. 4066.

62 The authority to establish the reporting arrangements is contained in Sections 221ZXD and 264AA of the *Income Tax Assessment Act 1936* and *Schedule 3 of the Income Tax (Farm Management Deposits) Regulations 1998.*

has been limited due to current system capabilities. The ATO further advised that the system's capability is being enhanced, and is expected to be available in the next 18 months.

4.32 The ATO has not used the FMD data provided by financial institutions and has not monitored the compliance of the institutions with its reporting requirements. Accordingly, financial institutions that comply with the ATO's stated data requirements incur compliance costs that are avoided by the non-compliant institutions.

4.33 The ATO advised that this results from its agency-wide risk management approach, under which risks to budget of less than $50 million are generally assigned a consequence rating of low.[63] As the FMD scheme was initially estimated to have a cost to revenue of $24 million per annum, the ATO's risk management process resulted in a low level of management resources being applied to the scheme. The ATO further advised that tax returns that have involved FMD tax deduction claims will, however, have been subject to its standard suite of income tax compliance controls, including audits.

4.34 The ATO has advised that it will review its risk assessment of the FMD scheme in view of the large increase in the estimated cost to revenue of the scheme in the past year (discussed further at paragraph 4.84).

4.35 The ANAO considers that a more consistent approach to risk management is required to appropriately address program integrity. This would require more systematic risk management planning by AFFA, consistent with its approach to FarmBis II and Farm Help, and a means of ensuring consideration of risks from a whole-of-government perspective. The latter could include agreement on a consistent approach to the collection and analysis of financial institution data, and should be articulated in the recommended MOU (see recommendation no.6)

Recommendation No.7

4.36 The ANAO recommends that AFFA, in consultation with the ATO, conduct a risk assessment of the FMD scheme and develop an appropriate risk management strategy, including risk treatments, monitoring, and review, as well as consideration of whole-of-government risks.

[63] ATO uses a structured risk assessment process to assess the consequences, likelihood and risk level to determine resource allocation. This process is built around a framework of four risk criteria: deliver to government on budget and non-budget objectives; maintain community confidence in the ATO's administration; minimise compliance costs; improve client experience; and be known as an efficient, adaptive organisation.

AFFA response

4.37 Agreed. A coordinated approach to risk management involving AFFA and the ATO including a whole of government approach is a key element of the Memorandum of Understanding referred to in Recommendation No.6.

ATO response

4.38 Agreed. A coordinated approach to risk management involving AFFA and the Tax Office including a whole of government approach is a key element of the Memorandum of Understanding referred to in recommendation 6. The approach will be consistent with the risk rating process and priorities of the respective agencies.

Managing compliance

Compliance by primary producers

4.39 An important aspect of the integrity of the FMD scheme is the risk of primary producer non-compliance with the FMD provisions of the *Income Tax Assessment Act 1936*. A high level of non-compliance has the potential to undermine confidence in the scheme, as well as to reduce the effectiveness of the scheme in achieving its intended outcomes. As discussed at paragraph 4.33, the ATO took a risk management decision to apply a low level of resources to addressing this compliance risk.

4.40 There was no estimate of the potential level of primary producer non-compliance.[64] The ANAO sought to assess the risk of non-compliance, where data was available. This was possible, by analysing individual tax return data, for the following breaches of FMD deductibility provisions:

- claims of an FMD tax deduction where the primary producer earns in excess of $50 000 in taxable non-primary production income; and
- claims for an FMD deduction in excess of taxable primary production income.

4.41 The ANAO's analysis indicates that in 2001–02 there was a cost to revenue of a little in excess of $5 million as a result of non-compliance with these two conditions. This represented some four per cent of the FMD scheme's total cost to revenue.

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[64] The ATO advised in response to the draft audit report, that its view that the FMD scheme had relatively low compliance risks was supported by a range of factors. These included: the relatively small proportion of Australian taxpayers involved in FMDs; that the scheme is designed to achieve deferral, rather than omission of tax; and that most farmers go through Tax Agents, which in itself provides a level of integrity.

4.42 The ANAO was unable to estimate the incidence, and cost of, non-compliance with the other FMD deductibility conditions, due to the absence of reliable financial institution data on FMD transactions. Potential breaches that could not be addressed, included the risk of primary producer non-compliance:

- claiming cumulative net FMD deductions in excess of $300 000 over the course of several tax years;
- withdrawing an FMD that has been claimed as a tax deduction within 12 months of the date of deposit, without varying the tax assessment;
- withdrawing an FMD that has previously been claimed as a tax deduction, but not declaring it as assessable income;[65] and
- overstating FMD deduction.

4.43 Implementation of the data-matching program with financial institutions, envisaged in the design of the FMD scheme (see paragraph 4.30), would enable the ATO to quantify the extent of non-compliance from these sources.

Compliance by financial institutions

4.44 Two major issues have arisen since implementation of the scheme regarding compliance by financial institutions with the FMD provisions of the *Income Tax Assessment Act 1936*, as discussed below.

Requirement that FMD products be 12-month term deposits

4.45 The original FMD legislation required that no 'part of the deposit must be able to be repaid within 12 months'.[66] However, it was established that some FMD providers offered 'at call' deposits, creating doubt as to whether the deposits were eligible under the FMD scheme—whether or not the monies were actually withdrawn within 12 months. If the products were not eligible, then the depositors would not have been entitled to tax deductions claimed since the commencement of the scheme in April 1999.

4.46 This issue was resolved by AFFA, the ATO and Treasury working together on an appropriate legislative amendment. The *Taxation Laws Amendment (Earlier Access to Farm Management Deposits) Act 2002* made it clear that the only requirement on FMD products was that they were not withdrawn within 12 months of the date of deposit. This allowed financial institutions to offer 'at

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65 Taxpayers only declare net withdrawal of FMDs (i.e. FMD withdrawals less FMD deposits) in any financial year. In addition, taxpayers do not need to declare FMD withdrawals as income to the extent that deposits were not previously claimed as deductions.

66 Introduced via the *Taxation Laws Amendment (Farm Management Deposits) Act 1998.*

call' and short-term FMD products provided depositors met the 12 month condition.

Type of financial institution authorised to provide FMD accounts

4.47 AFFA advised that the policy intention was for FMDs to be offered only by Authorised Deposit-Taking Institutions regulated by the Australian Prudential Regulation Authority (APRA). That is, banks, credit unions and building societies. However, some other finance companies have sought to provide FMD accounts on the basis that the legislation appears to encompass such companies.[67]

4.48 Two such finance companies approached AFFA for advice on this matter in April 2001. AFFA referred this to the ATO in June 2001, following consultations with the ATO, APRA and the Reserve Bank of Australia, on the basis that the issue related solely to the interpretation of the *Income Tax Assessment Act 1936*. A further three finance companies approached AFFA for similar clarification between July 2001 and November 2001. These cases were also referred to the ATO.

4.49 The ANAO found that the ATO had not yet provided guidance to these companies by February 2003. The lack of clarity on which institutions are eligible to offer FMD has created some uncertainty for primary producers and financial institutions. AFFA has identified this as a risk to the integrity of the FMD scheme and has communicated this view to the ATO on a number of occasions since mid-2001.

4.50 The ANAO also found that the delays, combined with limitations in communication on the matter, have led to inconsistent advice being provided to finance companies. AFFA advised one company that finance companies were not authorised to provide FMD accounts, while the ATO advised another company that the issue of finance company eligibility remained under consideration.

4.51 On 17 June 2003, the Minister for Revenue and Assistant Treasurer detailed in a media release that deposits made with an ineligible financial institution before 1 July 2003 will be deemed an FMD, provided they are transferred to an FMD with an Authorised Deposit-Taking Institution (ADI), or institution with a State or Territory guarantee within a transfer period. The Minister also stated that to improve certainty about the eligibility criteria going forward, the legislation will be amended to state that FMDs may only be made with ADIs or with financial institutions that have a State or Territory guarantee. This amendment will take effect from 1 July 2003.

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[67] The relevant provision in the FMD legislation is Section 393–425 of Schedule 2G of the *Income Tax Assessment Act 1936.*

4.52 The ATO advised that it intends to issue a Taxation Ruling, which would clarify the interpretation and application of the law following this announcement. The ATO have not indicated when the ruling will be issued.

4.53 The ANAO considers that the ATO should provide this legislative guidance as soon as possible, to avoid any potential detriment to the scheme integrity and outcomes.

Promotion

Promotion activities

4.54 Information on the FMD scheme is available to primary producers via a number of public and private sources, including AFFA and the ATO telephone information services and websites; information products from financial institutions on their FMD products; and advice from tax agents and financial counsellors. FMDs were also promoted as part of the AAA communication campaign in 2001 (see paragraph 2.38).

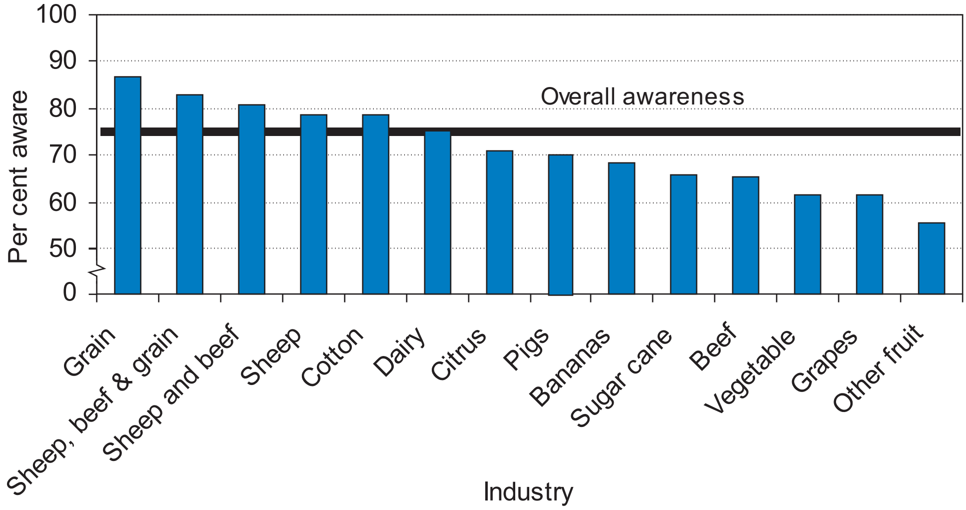
4.55 The ATO is also preparing a suite of communications products on the FMD scheme, which will encompass the 2002 FMD amendments to the *Income Tax Assessment Act 1936*.

Effectiveness of promotion activities

4.56 These promotion activities have successfully contributed to raised awareness of the scheme. The October 2002 AAA survey of primary producers estimated that 72 per cent of primary producers were aware of the FMD scheme. This was the second highest awareness level of a AAA program, after FarmBis II, and was a substantial increase on the 32 per cent awareness level estimated in July 2001. The proportion of primary producers aware of the FMD scheme varied from 87 per cent for grain growers to 55 per cent for 'other fruit' growers (see Figure 4.2).

Figure 4.2

Percentage of primary producers aware of FMD scheme

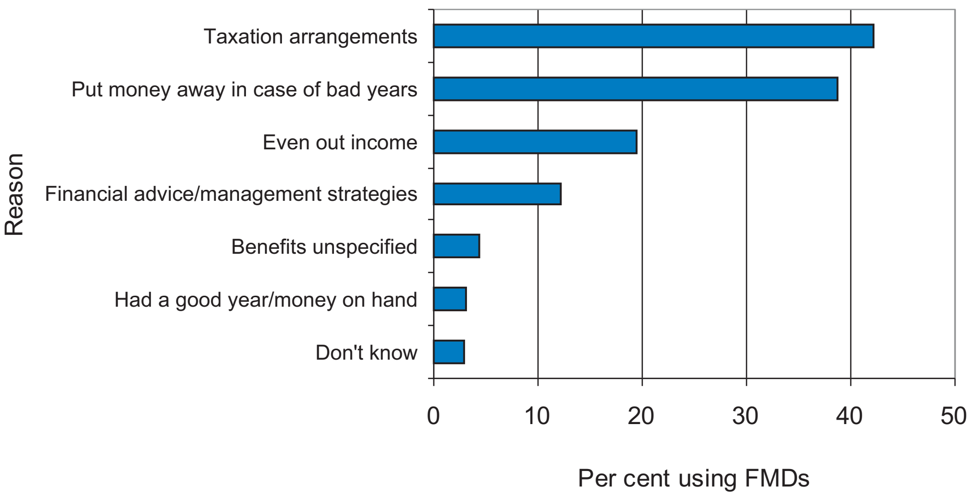


Source: ANAO analysis of 2002 AFFA AAA survey data

4.57 The 2002 survey also sought to establish why producers were using FMDs, or not. The main reasons for using FMDs were for 'taxation arrangements' and to 'put money away in case of bad years'—see Figure 4.3.

Figure 4.3

Reasons for using the FMD scheme—September–October 2002



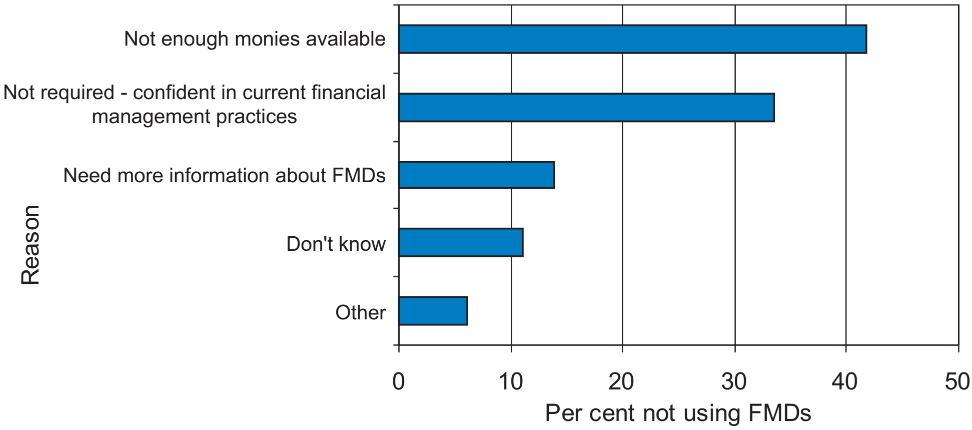
Source: ANAO analysis of 2002 AFFA AAA survey data

Note: The percentages total more than 100 per cent, because some respondents provided multiple responses.

4.58 The main reasons cited for not using FMDs were 'not enough monies available' and 'not required—confident in current financial management practices'—see Figure 4.4.

Figure 4.4

Reasons for not using the FMD scheme—September–October 2002



Source: ANAO analysis of 2002 AFFA AAA survey data

Note: The percentages total more than 100 per cent, because some respondents provided multiple responses.

4.59 These survey findings indicate that the level of taxable income is a key determinant of whether an individual primary producer will use FMDs. In addition, the tax deductibility of FMD deposits appears to be a key factor underpinning the growth in FMD holdings. Overall, AFFA advised that these findings were consistent with the purpose of the scheme.

4.60 The ANAO also found, from interviews with financial institution representatives, rural tax accountants and primary producer representatives, that the FMD scheme is considered to have been promoted more effectively than the schemes it replaced. The stakeholders attributed this improvement to the involvement of private sector financial institutions in the FMD scheme.[68]

4.61 The ANAO was also advised that many rural tax accountants market the benefits of the FMD scheme to their primary producer clients, largely based on information provided by financial institutions. This is often the first time that these clients have heard of the FMD scheme.

4.62 Most stakeholders considered that AFFA information products and its telephone information service were helpful and professional. However, some considered that there were areas that need to be improved. These included

[68] The previous Income Equalisation Deposits and Farm Management Bonds schemes were delivered entirely by the public sector.

ensuring that information provided was sufficiently detailed and comprehensive; more timely handling of telephone enquiries; and accessibility of FMD information on the AFFA and the ATO websites.

Performance monitoring and evaluation

Performance monitoring and evaluation framework

4.63 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 and KPIs and targets (see Figure 4.5). This provides a good basis for performance management, but there are also aspects of the framework that warrant improvement, as discussed below.

Figure 4.5
FMD scheme—KPIs and targets

Awareness:

- *Awareness of the program will increase each year, as measured by: evaluations and market research findings; number of enquiries and/or 'hits' through phone lines and websites.*

Participation:

- *The number of participants in the program will increase by at least one per cent per annum on average, recognising that participation may fall in years when primary production incomes are low and primary producers withdraw their deposits.*

Effective use as a risk management tool:

- *The amount deposited will show an increase (targeted at one per cent) in year when conditions are optimal and will show that funds are drawn down when incomes from primary production fall.*

Efficient and effective management by AFFA:

- *Effective management of the scheme will result in a decrease in requests for information that highlight problems with the scheme relative to the increase in number of participants.*

Source: AFFA

Specification of KPIs and targets

4.64 Unlike the FarmBis II program, FMD KPIs have targets. However, the target for the third KPI—effective use of FMD as a risk management tool—has been of very limited value as a comparison point against which to assess performance. The target of only one per cent annual growth in the amount deposited was a very modest target. The target is lower than the average historical growth rates for the preceding schemes (over 44 per cent per annum). Furthermore, considerable growth was to be expected because FMDs have a more generous tax treatment than the schemes they replaced.[69] As well, improved access through private sector delivery was expected to result in higher growth rates for FMD holdings. The very rapid growth experienced in FMD holdings is illustrated in Figure 4.1.

4.65 The performance target for the participation KPI is also too low to provide a useful reference point for judging performance, for similar reasons. The ANAO considers that it would be more useful to specify a FMD scheme participation performance indicator based on the proportion of eligible primary producers who have participated in the FMD scheme.

4.66 The ANAO also notes that the final KPI—on management effectiveness—is of limited value in its present form. It does not cover the number and nature of enquiries directed to the ATO, which, during the course of the audit, assumed responsibility for providing all FMD telephone information services. More broadly, services provided by the ATO are an important factor influencing the achievement of the outcomes of the scheme. It would seem appropriate to incorporate this in assessing management performance for FMDs.

Recommendation No.8

4.67 The ANAO recommends that AFFA, in consultation with the ATO, strengthen its performance monitoring and evaluation framework for the Farm Management Deposits scheme by revising performance indicators and targets to ensure that they provide appropriate means of assessing administrative performance, and effectiveness in achieving required outcomes.

AFFA response

4.68 Agreed. AFFA notes that the FMD Scheme introduced a new approach to managing risk for primary producers which in its three years of operation has seen significant growth in both awareness and participation. In light of this growth, and as usage data becomes available as the Scheme matures AFFA agrees, that best practice program management requires ongoing review of performance indicators and targets to ensure they remain relevant.

ATO response

4.69 Agreed. The Tax Office will provide input on administration matters as provided for by the MOU.

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[69] Income Equalisation Deposits and Farm Management Bonds schemes.

Implementation of the performance monitoring and evaluation framework

4.70 In line with its monitoring and evaluation strategy, AFFA has:

- monitored and reported on the number of primary producers utilising FMDs based on quarterly information submitted by financial institutions;
- commissioned independent surveys of primary producers, which included questions on FMD scheme usage and awareness as well as questions on risk management practices;
- analysed market research findings and stakeholder feedback on FMD policy issues arising from correspondence and the AFFA FMD hotline; and
- commissioned an evaluation, which was completed in June 2002.

4.71 The ANAO found that these data collection mechanisms have, on the whole, been managed appropriately. However, as mentioned at paragraph 4.23, there have been some problems with the collection and processing of quarterly data from financial institutions.

4.72 Financial institutions offering FMD products are required to report to AFFA each quarter on their number of FMD accounts, number of FMD depositors by industry sector and State, value of new deposits and new withdrawals, and total FMD balances. However, much of this data had not been used by AFFA in its monitoring of the scheme. The data was also of limited analytical value because the degree of aggregation did not enable AFFA to identify the underlying sources of movements in total FMD holdings.

4.73 AFFA provides financial institutions with its preferred electronic reporting templates and guidelines on how to collect and submit these reports. However, financial institutions consulted by the ANAO expressed some dissatisfaction with the reporting arrangements. Some considered that AFFA's reporting specifications were difficult to comply with. As a result, AFFA received incomplete data from a number of institutions. AFFA has yet to address the perceived difficulties in reporting requirements.

4.74 The ANAO also found that the accuracy of aggregate data reported by AFFA have been affected by some returns not being fully processed. For example, the quarterly return of one large bank was not incorporated in the June 2001 data. This reduced the end of year total by almost $100 million.

4.75 FMD data reported on AFFA's website, which is based on the data collected from financial institutions, has also been up to 18 months out of date. AFFA has now taken steps to rectify this.

Recommendation No.9

4.76 The ANAO recommends that AFFA review its FMD reporting requirements to ensure that:

- financial institutions are only required to provide data necessary for appropriate monitoring of performance and scheme integrity; and
- data supplied is appropriately used for performance management purposes.

AFFA response

4.77 Agreed. AFFA notes that it has established contact arrangements with financial institutions that has seen an improvement in the accuracy and timeliness of the reporting requirements set out in the legislation that governs the Farm Management Deposits Scheme. AFFA intends to review, in consultation with financial institutions, the reporting format to improve the reporting process.

Performance results

Costs of FMD scheme

4.78 As an income tax concession, the FMD scheme results in the Commonwealth forgoing tax revenue that it would have collected in the absence of the scheme. Revenue is forgone when a primary producer's tax deductible FMD deposits exceed their taxable FMD withdrawals. Revenue forgone in years in which a primary producer makes net FMD deposits will be partially recovered in subsequent years when the producer makes net FMD withdrawals.[70]

4.79 Treasury and the ATO prepare two types of estimates of the cost to the Commonwealth of the revenue forgone through the scheme—the 'tax expenditure' and the 'cost to revenue'. These estimates are discussed below.

Tax expenditures

4.80 Estimates of the tax expenditure on the FMD scheme are published in Treasury's annual TES. These are estimates of the value of assistance provided through the tax system by the FMD scheme. The estimated FMD tax expenditure is a hypothetical construct defined as the increase in revenue that would be obtained if primary producers' income deposited in FMD accounts was taxed

[70] There is a net present value cost to the Commonwealth of the scheme due to the deferral of tax liability and because net FMD withdrawals may occur in years in which a primary producer has lower income and hence faces lower marginal income tax rates than in the years in which net FMD deposits are made.

under 'normal' tax arrangements without the possibility of using other tax concessions.[71]

4.81 The Treasury has primary responsibility for the preparation of the tax expenditures estimates, which are prepared in consultation with the ATO and then published by the Treasury.

4.82 The tax expenditure for the scheme is estimated by the Treasury to be $470 million in 2002–03. As discussed at paragraph 4.78, revenue foregone in 2002–03 will be partially recovered in future years when producers make FMD withdrawals.

4.83 The TES estimates have increased over time as more data has become available on holdings, better use has been made of AFFA data in the estimates (see paragraph 4.25), and the estimation methodology has been refined. Table 4.1 summarises changes to the estimates as published in the TES.

Table 4.1

FMD tax expenditure estimates and projections (projections shaded) ($ million)

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
TES 2000	**25**	**40**	**30**	**35**	**35**		
TES 2001	**25**	**30**	**25**	**30**	**30**	**30**	
TES 2002	**35**	**50**	**150**	**470**	**n/a**	**n/a**	**n/a**

Source: Treasury, Tax Expenditure Statements

Cost to revenue

4.84 The Treasury prepares estimates of the cost to revenue of the FMD scheme. These estimates are not published, but are used in preparing tax revenue estimates for the Commonwealth Budget. The estimated cost to revenue of the FMD scheme is the difference between the estimated revenue that would be collected if the FMD scheme were abolished and the estimated revenue that would be collected if the scheme were to continue.[72]

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[71] These normal arrangements are termed the 'tax expenditure benchmark'. Tax concessions considered to be structural (or permanent) features of the tax system are incorporated in the benchmark and do not give rise to tax expenditures.

[72] As part of the Commonwealth Budget process, Treasury prepares taxation revenue estimates with input from the ATO. Estimates of cost to revenue are prepared for individual tax concession measures in each Budget process until these measures have matured. The FMD scheme is treated as a measure that has not yet matured and so Treasury makes ongoing adjustments to the FMD cost to revenue estimates as an input to the Budget estimates. For the 2003–04 Budget, Treasury decided that the FMD cost to revenue was unquantifiable for 2003–04 and forward years due to a high level of uncertainty about the value of FMD deposits and withdrawals, as a result of the impact of the drought. The effect of this decision is that the 2003–04 Budget revenue estimates embody an assumed zero cost in relation to the FMD scheme for 2003–04 and forward years.

4.85 Cost to revenue estimates for the FMD scheme are lower than tax expenditure estimates, because of the availability of other tax concessions for primary producers, particularly tax averaging. The cost to revenue estimates assume that, if the FMD scheme were abolished, many primary producers would utilise these other tax concessions.

4.86 Table 4.2 shows that the most recent estimates of the cost to revenue of the FMD scheme. These markedly exceed initial estimates published in the Explanatory Memorandum to the *Taxation Laws Amendment (Farm Management Deposits) Bill 1998*, reflecting higher than anticipated growth in usage.

Table 4.2
FMD cost to revenue estimates ($ million)

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
1998	**12**	**24**	**24**	**-**	**-**	**-**	**-**
2003	**-**	**45**	**120**	**410 (p)**	**-**	**-**	**-**

Source: Treasury

Note: (p) = Preliminary estimate subject to revision.

FMD usage rates

4.87 The ANAO estimates that some 14 per cent of eligible primary producers had used the FMD scheme as at June 2002.[73] Usage has increased strongly since the scheme's introduction (see Table 4.3) and has substantially surpassed the extent of use of the schemes it replaced.[74]

Table 4.3
FMD usage rate (per cent)—1998–2002

	1998-99	1999-00	2000-01	2001-02
Per cent of eligible primary producers who had used the FMD scheme	**2.8**	**4.3**	**7.5**	**14**

Source: ANAO estimates based on ATO and AFFA data

4.88 It is also likely that FMD usage will rise further. The 2002 AAA Survey found that about one-third of primary producers planned to use FMDs in the future.

4.89 Representatives of primary producers and tax accountants interviewed advised the ANAO that the FMD scheme was popular and regarded as a useful

[73] Estimates are based on actual ATO data on tax returns and AFFA data on FMD holdings.

[74] The previous schemes were phased out over 1998–99 and 1999–2000 and replaced by the FMD. The number of primary producers having holdings in the schemes was estimated at 8119 in June 1998. This was around 3.5 per cent of eligible primary producers at that time. Their total holdings were $453 million.

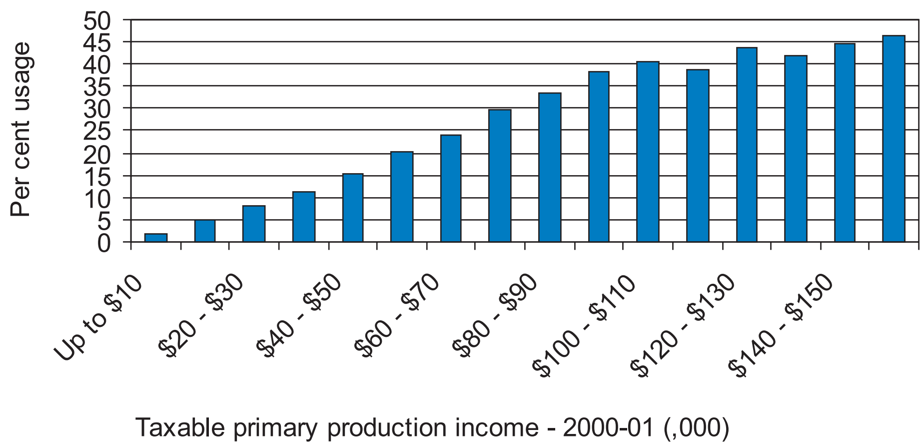
risk management tool by primary producers. This is consistent with the findings of the 2002 survey, which found that the main reasons for using FMDs were for 'taxation arrangements' and to 'put money away in case of bad years'—see paragraph 4.54.

4.90 Delivery by the private sector was widely regarded as having improved visibility and accessibility of the FMD scheme compared with its predecessors. The ANAO notes that rural tax accountants also suggested that there was some anecdotal evidence that primary producers were withdrawing FMD deposits in order to meet operating expenses arising from the 2002–03 drought.

4.91 The FMD scheme offers the largest potential tax benefits to eligible primary producers whose incomes are in the top marginal income tax bracket. ANAO analysis of the ATO data indicated that, in 2000–01[75], the average taxable primary production income of eligible primary producers who had used the FMD scheme was $64 776. This was more than three times the average income for those eligible primary producers who had not used the FMD scheme ($19 335).

4.92 The usage rate increased with taxable primary production income, as summarised in Figure 4.6.

Figure 4.6
FMD usage rate across primary production income ranges—2000–01



Source: ANAO analysis of individual ATO data

4.93 Separate data from the 2002 AAA survey also suggests that use of the scheme varies by industry. For example, usage by grain and mixed livestock-crop producers was some three times that of vegetable growers. AFFA has advised that grain growing is subject to considerable climate-related income volatility, whereas this is far less the case for vegetable growing.

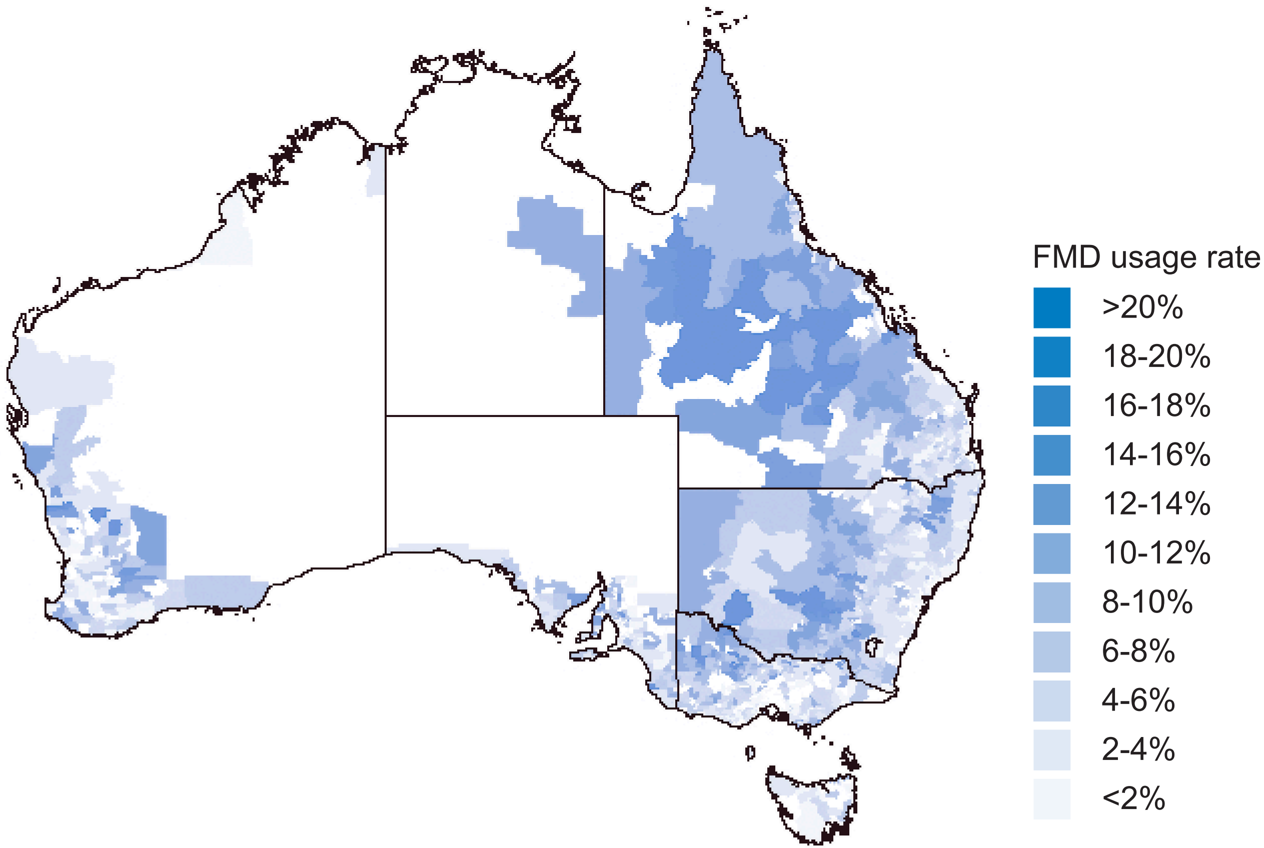
[75] The latest year for which sufficiently comprehensive data was available to undertake the analysis.

4.94 Figure 4.7 shows 2000–01 FMD usage rates analysed by postcode, with darker shading representing higher usage rates (postcodes with less than 50 eligible primary producers are not included). For 2000–01, the national FMD usage rate was 7.5 per cent. ANAO analysis indicates that the variability in FMD usage by region largely reflects differences in primary production incomes.

Canberra ACT
31 July 2003

P.J. Barrett
Auditor-General

Figure 4.7
FMD usage rates across postcode areas—30 June 2001



Source: ANAO analysis of ATO data

Appendices

Appendix 1

Components of AAA package not audited

Rural Financial Counselling Service program

Under the Rural Financial Counselling Service program, grants are provided to non-profit community groups as a contribution towards employing suitably skilled/qualified rural financial counsellors for specific projects. The Commonwealth meets up to 50 per cent of the costs of any Rural Financial Counselling Service. Community contributions may be made in cash or 'in-kind', and may include State funding. The maximum project period is 20 months and it must conclude before 30 June 2004.

Rural Financial Counselling Services help primary producers, fishing enterprises and small businesses in rural areas who are experiencing financial hardship and are unable to use private services, but who need information and assistance to make decisions about their future business directions. The service is free and independent of financial institutions, welfare agencies or government.

Rural Financial Counsellors can assist with:

- assessment of a farmer's current financial position and cash flow budgeting;
- reviews of contracts and loan applications with lending institutions;
- communication with lenders and facilitation of meetings with financial institutions;
- information on government schemes, including other components of the AAA package;
- information on, and referral to, Centrelink and other professional counselling services; and
- family decision-making in relation to their rural enterprise.

Farm Innovation program

The Farm Innovation program commenced in 2000–01 and is due to conclude in June 2003. The main objective of the program is to encourage the adoption of innovative and already researched practices, production techniques, technologies and products in farming, food, fishing and forestry industries.

The program provides financial assistance to businesses for innovation adoption. AFFA program staff work with project proponents in designing appropriate demonstration strategies to ensure that program benefits are captured by the wider community and that proponents operate under a business plan that clearly sets out strategies to market the end product.

AFFA funds up to a maximum of 50 per cent of the eligible project costs, with the proponents funding the other 50 per cent. They must demonstrate they are able to fund the project by submitting financial records as part of the application. There are no minimum or maximum funding levels under this program. Funding for projects has ranged between $4000 and $500 000. Applications are assessed on merit by the Rural Innovation Advisory Council, which makes recommendations to the Minister for funding approval.

Farm Growth Through Export Growth program

The Farm Growth Through Export Growth program commenced in 2000–01, absorbing the Australia-China Agricultural Cooperation Agreement program and the Australia-Indonesia Working Group on Agriculture and Food Cooperation program. The program was established to achieve the following three objectives:

- foster, at a government to government level with a limited number of counterpart countries, efforts to develop and maintain export markets for Australia's agriculture, fisheries and forestry industries via a program of international co operation activities;
- facilitate a range of activities aimed at identifying and exploiting mutually beneficial trading opportunities; and
- assist Australian agricultural exporters to at least maintain their market position in the face of identified barriers, including by the provision of appropriately targeted technical assistance and capacity building measures.

The program is delivered by the International Cooperation project (ICP), under an agreement with AFFA. Other targeted project activities are handled by line managers within AFFA, on a case-by-case basis. The ICP arranges for the assessment and approval of activities, seeking input from government departments, industry organisations and foreign governments as appropriate.

Climate Variability in Agriculture Research & Development program

The Climate Variability in Agriculture Research and Development program (CVAP) commenced in 1997 and has attracted $3.5 million of Commonwealth funding between 1997–98 and 2000–01. The objectives of the program have been to:

- improve climate prediction and the monitoring of the impacts of climate variability through increased understanding of climate variability;
- develop new farming systems better adapted to climate variability;
- develop ways to meet managers' needs for climate information based on improved knowledge of their needs; and
- provide managers with information requirements on the value of seasonal climate forecasts in supporting decisions for specific applications.

The program has involved the Commonwealth funding a number of research projects. These projects have also been funded by several research and development corporations. Generally, CVAP has co-funded research and development projects with the host organisation/s of the project leader/s.

There have been three phases of the program, with 29 projects funded under the most recent phase. The focus of CVAP-funded projects has been on seasonal forecasts rather than short-term weather information and on understanding the pasture and crop response to different climates.

The program has also supported improved access to information by producers and agricultural industries through websites, CD applications, seminars and workshops.

All approved CVAP funding had been expended by June 2002. A prospectus to raise more funding and continue the program on a commercial basis was subsequently released.

Women In Rural Industries program

The Women in Rural Industries program was established to ensure that rural women were included in consultation and decision-making, and supported in taking an increasing role as industry leaders. AFFA, in conjunction with other government agencies and industry organisations administers initiatives to increase the involvement, experience and profile of women in rural industries and government policy and decision making processes.

The program was launched in 1998. The two most recent projects undertaken as part of the program were:

- supporting Australia's attendance at the third World Congress for Rural Women in Spain (in October 2002); and
- a scholarship program for rural women to attend corporate governance courses with the Australian Institute of Company Directors.

Since 1 July 2002, the direction of the program has changed to focus more on individuals than on organisations.

Young People in Rural Industries program

The Young People in Rural Industries program was established to increase the involvement, experience and profile of young people aged 18–35 years in rural industries and government policy and decision-making processes. The program was launched in 2001 and has five components:

- Young People's Rural Leaders course;
- Young People's Rural Network grants;
- Study Awards program;
- Corporate Governance course;
- Mentoring program;
- Export Market Development Training Course; and
- International Observers.

Appendix 2

Audit criteria

FarmBis II program

1. Is there effective strategic management of the FarmBis II program?
2. Are there adequate financial controls in place to ensure Commonwealth funds are appropriately accounted for and delivering value for money?
3. Has there been adequate promotion of the FarmBis II program to eligible land managers and primary producers?
4. Has the FarmBis II program been adequately monitored and evaluated?

Farm Help Supporting Families Through Change program

1. Is there effective strategic management of the Farm Help program?
2. Is there a decision support framework in place to ensure programs are delivered in accordance with legislation?
3. Has the Farm Help program been adequately promoted to eligible primary producers?
4. Has the program been adequately monitored and evaluated?

Farm Management Deposits scheme

1. Is there effective strategic management of the FMD scheme?
2. Has the FMD scheme been adequately promoted to eligible primary producers?
3. Has the FMD scheme been adequately monitored and evaluated?

Appendix 3

FarmBis Australia—projects funded

Funding Round 1—announced 26 April 2001

Project details	Grant amount ($)
Design a training course to maximise the value of kangaroo skins and improve the quality for processing establishments and kangaroo harvesters.	27 000
Develop an Australian honey quality standard.	211 000
Improve the business skills of Australian abalone fishers.	12 000
Provide training for Australian Women in Agriculture members in leadership, business and industry knowledge and to establish reference groups.	325 600
Develop a strategic approach for Australia's horticultural marketing groups	120 000
Identify and remove the barriers preventing the full participation of women in the seafood industry.	264 000
Develop *Innovative Farm Business Management Training Modules* for the Australian sugar industry.	129 260
Seafood Industry of Australia: Leadership Development Program.	150 000
Aglink — A Leadership Program for Youth in Agriculture.	197 450
Pilot programs for Land Enterprise Australia's *Extension, Education and Training Strategy*.	327 500
Develop Internet-based decision support tools.	392 000

Source: AFFA

Funding Round 2—announced 25 February 2002[76]

Project details	Grant amount ($)
Develop and pilot a program for growers to give them the skills to develop grower alliances. The program will be an action learning program, covering both social and capital skills development.	99 985
Collate, assess and further develop available manuals, field tools and information systems to assist in undertaking resource inventories on-farm and for on-farm environmental monitoring; and develop training modules for these kits and information systems.	191 000
Prepare Australian horticulturists for successful export marketing. Business competitiveness will be enhanced by strengthening collaboration between growers and embedding continuous learning within supply chain management.	269 781
Develop an innovative learning package that supports farm business managers to develop the interpersonal capabilities and establish the workplace practices and supporting business systems which underpin a cooperative, participative safe work environment which recognises the value of all people contributing to the farm business.	43 036
Develop training resources that will provide producers and other supply chain participants with the specific business skills and knowledge required to develop and implement competent supply chains.	86 500
A pilot training program on information technology that empowers Australian farm businesses to better deal with climate, market and environmental risks.	253 600
Develop a national integrated turf management training package for turf farmers.	95 370
Improve access and participation of horticulturists from non-English speaking backgrounds in mainstream business management training through targeted farm business management training with integrated, contextualised English language, literacy and numeracy skills development.	Up to 511 300
Provide skills, understanding and resources, to assist in preparing for and managing long-term management issues emanating from adversity.	72 775
Develop world-class innovative programs in Rangelands Management and provide regional and industry groups with the opportunity to access critical higher education from their regional workplaces through flexible delivery and learning options.	115 000
Provide information to assist in recruitment, labour hiring, worker induction and development of safer practices in rural industries.	65 000
An accredited training program, with associated course materials, for better management of our variable climate.	Up to 300 000

Source: AFFA

[76] The Agriculture, Fisheries and Forestry Minister announced, on 28 May 2003, a third round of projects under the FarmBis Australia program.

Appendix 4

Comparison of the FMD scheme with the schemes it replaced

The FMD scheme had its origins in the Drought Bond scheme that operated from 1969–75. The Drought Bond scheme was quite restrictive: only graziers who derived at least 90 per cent of their income from sheep or cattle could purchase drought bonds; and deposits were limited to 20 per cent of gross farm income. The bonds had a 10 year term and withdrawals could only be made before expiry because of drought or loss of pastures due to fire or flood.

In 1975, the Drought Bond scheme was replaced by the Income Equalisation Deposit (IED) scheme. The IED scheme was less restrictive in its terms and available to all primary producers. In 1992, the Farm Management Bond (FMB) scheme was introduced to operate in parallel with the IED scheme.

[77] The investment component is the percentage of the deposit that earns interest.

The following table compares the features of the FMD, IED and FMB scheme.

Component	FMDs	IEDs	FMBs
Administration	Financial institutions	Government	Government
Maximum holding	$300 000	$300 000 (combined IED's/ FMB's)	Initially $80 000, subsequently $150 000
Interest earned	Market rates	Commonwealth three year bond rates	Commonwealth three year bond rates
Investment component[77]	100 per cent	61 per cent	Initially 80 per cent, subsequently 100 per cent
Maximum non-primary production income	$50 000	No restrictions	$50 000
Tax liability on withdrawals	Initially 20 per cent withholding tax, this changed to individual instalment rate under the New Tax System	20 per cent withholding tax	If financial hardship was proved, withholding tax was not levied. If not, the deposit was treated as an IED
Can interest be compounded to the principal?	No	Yes	Yes
Lodgement fee	Financial institutions are not permitted to deduct fees from the principal of an FMD. Notwithstanding, they may charge fees on the deposit	$20	$20

Source: AFFA

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