Impact Analysis – Farm Household Allowance

Reference: OIA23-04838

Executive Summary

The Farm Household Allowance program (the program) launched on 1 July 2014, with two main aims to:

1. provide income support and other supplements to farmers and their partners in financial hardship (while avoiding welfare-dependence), and
2. achieve measured structural adjustment in the agricultural industry by assisting recipients through case management to set achievable goals to either improve their farm enterprise, or make the difficult decision to exit farming.

Implementation of three relatively minor program adjustments, taken together, will ensure the program can continue to provide tailored, short-term support to farm households in times of hardship. The changes are:

- Better case management to unlock the investment made in case managers to drive recipient decision making and actions.
- Broadening the compliance approach to make implementation of the program more responsive to changes in recipient income.
- Adjusting the guidance to decision makers will ensure FHA is more targeted at enterprises that have a significant commercial purpose and character.

The three policy issues that we are seeking to resolve through this change process. Firstly, longitudinal analysis, evaluation and recipient case management has been frustrated by the lack of updated financial information once a person receives payment. Secondly, a key part of this proposal is to gather data more regularly to enable on-going monitoring and evaluation. Finally, analysis of over 5,000 financial assessments shows a pattern of some program recipients who have persistently low turnover suggesting that their enterprise is not operating at a commercial scale, contrary to the *Farm Household Support Act 2014*.

The changes will better ensure that eligibility for FHA is more closely aligned with the legislation and that case management and compliance practices are improved. The scheme is designed specifically for farming circumstances, and is time limited but available at multiple times through a farmer's working life. The changes will help focus the program on meeting its structural adjustment aims, and ensure that payment is made to the intended recipients, while enabling better on-going monitoring and evaluation.

Success will be measured by:

- Assessing changes in program outlays
- Sampling cases of successful applications
- Regular compliance checks, and
- Having sufficient data to implement a better Monitoring, Evaluation, and Learning strategy.

The program has helped around 10,800 farming households (equating to approximately 18,000 individual recipients) to deal with financial hardship, and has delivered around $830 million into regional Australia. The program managers in the Department of Agriculture, Fisheries and Forestry (the department) use an approach of continual improvement to ensure the program is properly targeted and is capable of meeting its dual aims. Multiple changes have been made since 2014 to reform the income support elements and now, with 9 years of practical experience, moving into the second 10 year eligibility period, it is an opportune time to revisit some elements to support achieving its structural adjustment aims.

1. Problem statement

When the program was launched, effort was prioritised into building the payment platform. The income support component of the program is a social security payment (albeit with its own Act – the *Farm Household Support Act 2014 (*FHS Act)). When the complex financial circumstances of farmers was blended with the multi–faceted social security law, the combination produced new intricacy for program management, and for recipients to understand and fulfil their obligations.

Over time, gaps in administrative process allowed non-commercial farmers into the program which presented a particular challenge for case managers. Experience has shown that many of the enterprises with extremely low turnover find it difficult to fully engage in the case management aspects of the program as their scale makes diversification difficult to impossible, and their focus is elsewhere (either on off-farm work that provides the living income, or by being largely retired).

This means it is difficult to realise benefits from the considerable public investment of the provision of individual case management support and dedicated funds for a recipient to pay for professional advice and / or training to lead them to financial self-sufficiency.

While the policy issues we are seeking to resolve are not mutually exclusive, they can largely be captured under three broad headings as follows:

Case management - No new investment in structural adjustment support

Although the payment parameters have had several changes in the intervening years, there has been no new investment in the case management infrastructure. This is an issue because case management support can be a more significant driver of structural adjustment and is key to a recipient's improved financial stability. Currently there is no meaningful (ICT) system capability to track a recipient's circumstances at an individual and program level. This limits the support provided to recipients to better understand the drivers of their business which in turn leads to limitations in their decision making when considering appropriate strategies for financial recovery or even to change careers (including retirement).

The amount of financial information requested at the point of application is significant. It is broken into two parts – the first to assess the applicant's eligibility for payment, then a separate part called a Farm Financial Assessment (FFA), to explore in detail the situation of the enterprise. This is a point–in–time snapshot of the farm enterprise's full financial position and is not requested again while payment continues. The problem for the recipient from an educative perspective is that this information is not collected again. This also presents an issue for program evaluation.

Therefore, a baseline has been established of the circumstances that predated the person coming on payment (with the preceding two years' of financial information being collected) plus the immediate situation, but there is no ability for the recipient and their case manager to review their financial progress against those financial statements since they have claimed payment, or for the program managers to assess which interventions are producing the best results. Anecdotally and through qualitative insights in the Exit Survey, farmers tell us the program has had a positive impact on both their farming businesses and family lives, but they would benefit from regular connection to their financial situation to better inform structural adjustment activities.

Compliance - Program evaluation is hampered by the need for updated data

The FHA review in 2018 recommended improving data collection methods for evaluation to allow the program to continually adapt and change in a timely manner to ensure the program is meeting its dual aims. The panel encouraged government to prioritise the development of a system that gathers the necessary information to assess the program's short–term effectiveness and its long–term viability.

The lack of investment in this space has been problematic from a program management perspective. As key data is not sought during the recipient's time on payment, the program is not adequately able to draw measurable conclusions about the impact the program's key support elements have on the recipient while they are on payment, preventing aggregated data analysis opportunities to support meaningful, data driven evidence–based program enhancements over time.

Between 2014 to 2016, the FHA application process required the FFA to be completed as part of the application for payment. The FFA provides significant detail on the farm enterprise and provides, among other things, details that decision makers draw on to determine whether the enterprise is operating on a commercial scale. In 2016, through a continuous improvement agenda, and responsive to farmer and other key stakeholder feedback that the volume of financial information presented a blocker to applying for the program, the FFA was removed from the application process. From 2016 it became a requirement for the recipient to complete once payment has been granted.

While the FFA contains vital and foundational information to support the case manager identify critical areas of focus, the renewed (later) timing of the completion of the FFA addressed one problem but created another as critical information about the scale of the enterprise was not available to support the decision maker during the application process.

Eligibility – Guidance material and training needs better targeting to ensure non-commercial enterprises are not approved for payment

A small but significant number of farmers with extremely and persistently low turnover year on year have come on payment, contrary to the qualification requirement of a farm enterprise having a significant commercial purpose or character.

A qualification criterion in the FHS Act requires a farm enterprise to have a significant commercial purpose or character. Decision-makers are given guidance in the Secretary's Rule about the matters to be considered when assessing the commerciality of the business. The current guidance is best described as a set of principles setting out the types of activities that differentiate the enterprise as a business rather than being considered a hobby, sporting activity or a form of recreation. This guidance is expressed as a binary (that something is present or absent) not as a scale.

For example, the current wording says:

Whether there is:

i. *an intention to make a profit in respect of the farm enterprise; and*

ii. *a reasonable belief that the farm enterprise is likely to generate a profit.*

Missing from this guidance is a sense of proportion or usefulness of profit, thus a farm enterprise with a profit of $1, having covered its running costs, could meet this requirement. However, without access to other capital, it would not be possible to continue to run the enterprise into the future. In addition, a farm enterprise whose total income from sales was less than $60,000 would likely be deemed unviable in the medium to long-term as few if any economies of scale could be achieved to drive profitability.

The gross income must cover all input costs, provide for ongoing business outlays, and should be capable of sustaining the household. By comparison the Average Weekly Ordinary Time Earnings (AWOTE) in May 2023 ranged in annualised terms from around $83,500 to $110,000, before tax. Therefore, an enterprise with gross income of $60,000 is likely to leave little to support the household and thus compels the owner to source other income streams.

Certain program settings, including key eligibility criteria, have proven ineffective at targeting support to those farmers who otherwise run commercially viable farm businesses where without government intervention, temporary market factors including adverse climatic conditions would see these businesses close. The program is aimed at those farmers who in otherwise better times, are commercially viable and resilient to most business shocks.

This targeting is evident in the qualification criteria in the FHS Act. Sections 8 and 9 of the FHS Act prescribe when a person is qualified for FHA for a period, as either a farmer or a farmer's partner (see **Appendix A** for full details). Neither 'significant commercial purpose or character', nor 'significant <…> labour and capital' is defined in the FHS Act. However, subsection 13(1), allows the Secretary to make rules which prescribe matters that must be taken into account in deciding whether the requirements ss 8(b) or (c), or 9(d) or (e) are met.

While s13(1) of the FHS Act allows the Secretary to prescribe matters that must be taken into accounting in deciding whether the requirement in ss 8(b) or 9(d) is met, the currently available guidance in relation to the 'significant labour and capital requirement' is only contained within the FHA Guidelines (Chapter 2.2), a policy document published on the department's website. The overarching principles within the FHA Guidelines remain current and recognise the many variables that exist in the agriculture sector. These include seasonal variations, different labour requirements between commodities and different ways people can contribute to the farm enterprise. However, these matters are not prominent.

Furthermore, the department is aware that when conducting merits reviews the Administrative Appeals Tribunal is not bound by government policy. To assist decision making at all levels, the department will embed the guidance about the matters that must be considered when determining if the person provides significant labour and capital, in the *Farm Household Support Secretary's Rule 2014* (Secretary's Rule).

The tightening of the commerciality guidance is likely to prevent around 3,000 former recipients from having a further four years of assistance. This illustrates the strength of the problem caused by disconnecting the commerciality information from the application process. People have applied in good faith and have been granted payment, absent of the critical detail. However, those people who have remained on payment for the maximum allowable period of four years, have had an outgoing conversation with their case manager, and have been advised that if they reapplied after 1 July 2024 and had the same low turnover, it was unlikely that their application would be successful.

2. Role for Government

The FHA program arose out of a number of social reports in the late 2010's. One of the key reports was the Productivity Commission (PC) inquiry into Government Drought Support released in 2009. The FHA continues to operate in line with the objectives set out in the report which include equity, recognition of farm viability, avoidance of welfare dependence and helping recipients determine their future in farming. The PC noted the need for a scheme designed specifically for farming circumstances, and time limited but available at multiple times through a farmer's working life. The PC's recommendations were explicitly directed at ensuring farm support programs avoided short term emergency payments and encouraged adaptation and self-reliance.

Under the National Drought Agreement, the Commonwealth is responsible for: "funding and delivering a time limited household support payment based on individual and farming family needs, including:

- reciprocal obligations that encourage resilience and
- case management to support reciprocal obligation requirements".

Having a stable, scalable, and available FHA program in place for commercial farmers in the current drying conditions is crucial to preparedness for drought and other business shocks. A balance must be struck to establish a government response that does not undermine expectations of preparedness and self-reliance. It is important not to maintain a program setting that is at odds with the aim and objectives of the program.

3. Options considered

The FHA program is the Australian Government's main scalable response and support mechanism for farmers in hardship, with drivers including drought, natural disasters, biosecurity outbreaks and any other business shocks. The minor program adjustments under consideration are limited to genuinely benefitting the program and the sector by retaining access for individuals through multiple periods of need while targeting farmers with reasonable prospects of long-term financial viability. This cyclical access is a prime consideration in the context of more frequent droughts, natural disasters and other impacts of climate change.

Option 1 - Status Quo

Current arrangements in the case management space are lacking and do not provide an adequate framework to support case managers reliably support FHA recipients. As can be seen from Table 1 below, over 18,000 individuals across the country have accessed the program since its launch in 2014. Data capture and reporting is also lacking, preventing meaningful, aggregated evidence-based data analysis of the program. If no changes were made and the program continued 'as is', the government would fail to harness the full benefit case managers provide and would see the continuation of support provided to a small but significant number of farmers never intended to be part of the program because they lack commercial scale.

Table 1: Total FHA recipients, by state since 1 July 2014 (*as at 30 September 2023*)

State	NSW	QLD	VIC	SA	WA	TAS	Total
Recipients granted	6,640	4,500	4,220	2,000	420	250	**18,030**
Current recipients	870	810	520	460	90	80	**2,850**

1. Due to the small number of farmers/farmers' partners who have been granted FHA in the Northern Territory and in the Australian Capital Territory, no values are provided.

2. Numbers have been rounded to the nearest 10. Totals include NT and ACT

Option 2 – Case Management

Better case management to unlock the investment made in case managers to drive recipient decision-making

When the program was launched on 1 July 2014, effort was prioritised into building the payment platform and, to a lesser extent, to building a case management platform. Although the payment parameters have had several changes in the intervening years, there has been no new investment in the case management infrastructure. Case management support can be a more significant driver of structural adjustment and is key to a recipient's improved financial stability. This includes necessary, and long-overdue, Information and Communications Technology (ICT) changes to better capture and track the recipients' circumstances at an individual and program level.

The introduction of a new overarching improvement plan will consider the totality of the recipient's information and provide a roadmap to success, while maintaining the recipient's focus on achieving their goals. It better supports the case managers with shaping and influencing meaningful change. At present, the multiple assessments undertaken to determine eligibility and to establish the working relationship for case management are not captured in a single place, nor are the insights and commitment to broader action able to be shared with the recipient. The case management plan will succinctly summarise assessments, outline barriers to success, and give a timeline for the recipient to achieve financial self-sufficiency.

These changes will be complemented by a modest investment in targeted case manager training in the areas of coaching and mentoring and interpreting financial information.

Option 3 – Compliance

Broadening the compliance approach to make implementation more responsive to changes in recipient income

Unlike other social security payments, all FHA recipients must also run a business. This makes income assessment far less clear-cut when a recipient's circumstances are difficult to determine (unlike regular payment from employment, rental income, or other investments). This inherent complexity is compounded by the many volatilities faced by the sector, making it difficult for the recipients to confidently predict their income.

Until 30 June 2020, FHA recipients were subject to Business Income Reconciliation (BIR). The BIR design was unsatisfactory and produced unintended and inequitable outcomes resulting in a high rate of incorrect payment (with around 40 per cent of recipients assessed as being overpaid). A compliance framework that more closely aligns with other social security payments was introduced on 1 July 2020. A small percentage of current recipients are selected through a rolling random sample to have their circumstances reviewed. However, it has become evident that some recipients are choosing not to update their financial details when conditions improve.

Introducing an annual income review, when the case manager becomes aware that updated financial information is available, will serve as a compliance check and an opportunity for case managers to help recipients better come to grips with their finances. This will assist the ongoing assessment of eligibility as well as actively support recipients to reflect on their situation, meaningfully, to determine if now is a strategically appropriate time to surrender their payment (and preserve the remaining for a later date/hardship). It also supports a more responsive case management approach, which wraps around and uses the changes in circumstances as a catalyst for a conversation about finances and planning.

The settings for the review, and any debts that may arise, are fundamentally different to the BIR process. Under BIR a person was required to estimate their income for the year ahead which was reconciled with actual income after tax returns had been completed. Compliance under this approach will be based around actual income which will avoid the unnecessary debts encountered under BIR.

Option 4 – Eligibility

Adjusting guidance to decision makers to target enterprises that require short-term support because they are likely to be viable in the long-term

The Secretary's Rule has been identified as insufficiently robust. While the *Farm Household Support Act 2014* (section 8) requires a farm enterprise to have a significant commercial purpose or character, matters to be considered in the assessment of that criterion sit within the Secretary's Rule. Section 5 of the Secretary's Rule specifies a range of matters that the Secretary must consider when determining if the farm enterprise has 'significant commercial purpose of character'. However, these matters are open to interpretation and do not provide sufficient clarity to guide the decision-maker.

The current wording replicates that in the Taxation Ruling (TR97/11) covering this concept. The ruling is published on the ATO website and is best described as a set of principles setting out the types of activities that differentiate the enterprise as a business rather than being considered a hobby, sporting activity or a form of recreation. As discussed earlier, missing from this assessment is a sense of proportion or usefulness of profit. The gross income covers input costs, provide for ongoing business outlays, and should be capable of sustaining the household. An enterprise with gross income of less than $60,000 is unlikely to support the household and would necessitate the owner to source other income streams.

The Australian Bureau of Agricultural and Resource Economics and Sciences estimates there are approximately 87,800 farm businesses across Australia, and that up to 35 per cent may be eligible for FHA at some point, generally when their cash flow is badly constrained such as during drought. To preserve the integrity of the FHA program and to ensure the assistance is better targeted to farmers and their partners who operate a farm enterprise on a commercial scale, the department is seeking to amend the Secretary's Rule to strengthen the guidance about the matters that must be taken into account by the Secretary when determining if the farm enterprise has significant commercial purpose or character. The *Farm Household Support Act 2014* (section 8) will remain unchanged.

The department estimates approximately 18 per cent of those previously granted FHA will no longer meet the significant commercial purpose or character, unless their circumstances have changed since they last applied for FHA. However, as a proportion of these people have either moved to a different income support payment, or left farming, the affected number is more likely to be around 15 per cent. Distribution of those impacted is anticipated to be even across the country and is largely proportional to total farm business numbers in the state, as seen in Table 2.

Table 2: Estimate of previous recipients, by state, who based on their previous circumstances, are unlikely to meet the updated guidance (*as at 30 September 2023*)

State	NSW	QLD	VIC	SA	WA	TAS	Total
All farm businesses – Australia	26,975	19,160	21,285	9,175	8,233	2,554	**87,787**
Percentage of the national distribution of farm businesses	31%	22%	24%	10%	9%	3%	**100%**
Number of FHA farms in total count of farm businesses	3,980	2,700	2,530	1,200	250	150	**10,810**
Likely number of FHA farms affected by changes	*720*	*490*	*460*	*220*	*50*	*30*	***1,970***

1. The Count of agricultural businesses is taken from the ABS Agricultural Commodities data 2020-21. The total includes 362 and 42 farm businesses for the Northern Territory and in the Australian Capital Territory respectively.
2. Due to the small number of farmers/farmers' partners who have been granted FHA in the Northern Territory and in the Australian Capital Territory, no values are provided.
3. Numbers have been rounded to the nearest 10.

This change, along with clearer guidance for decision makers to support them determine whether the farm enterprise operates on a commercial scale, will ensure the program is targeted at enterprises who are more capable of generally supporting themselves.

4. Net Benefit of Options

The FHA program has direct positive financial impacts on the farming families and, by extension, on the rural and regional communities. Therefore, the impacts of Option 2, 3 and 4 will be felt through regional Australia, as FHA farms are located in every state and territory, with the distribution broadly consistent with the national distribution of agricultural business (Table 2). The majority of FHA farms are located in New South Wales, followed by Victoria and Queensland. The program has helped around 10,800 farming households (equating to approximately 18,000 individual recipients).

The FHA program will continue to provide support to farming families and, by extension, to wider regional and rural communities. The program means that people can spend their money locally and help other businesses (which do not receive hardship payments).
By maintaining the major components of the program, the Australian Government is giving certainty to the farming sector.

The program will continue to provide short term support to farmers and their partners in times of hardship. However, it will be more tailored and no longer support small–scale farms with persistently low turnover in normal production years (that is where they were not affected by drought, flood or bushfire or other external high-impact variable).

Key benefit of Option 2 (Better case management to unlock the investment made in case managers to drive recipient decision-making) compared to Option 1 (Status quo)

Case management support can be a more significant driver of structural adjustment and is key to a recipient's improved financial stability. The introduction of a new overarching improvement plan will consider the totality of the recipient's information and provide a roadmap to success, while maintaining the recipient's focus on achieving their goals. It better supports the case managers to shape and influence sustainable change.

The intended return on the investment of providing a case manager to each recipient is for recipients to make sustainable changes and therefore to have longer periods without needing assistance, and/ or have shorter periods on payment. These benefits are largely unquantified at present. Once the new policy is implemented, the government will be in a better place to assess the return on investment both qualitatively and quantitatively.

Each farmer's circumstance is different, and the insights gained through improved data capture and analysis will allow us to group similar settings to use this data to inform future pathways for case managers. This will allow them to support their farmers in more timely, expedient ways thereby reducing the time the farmer requires government assistance in the form of FHA and/or other offerings.

The FHA data demonstrates that there is a substantial proportion of medium performing farms that are increasingly vulnerable to financial hardship. There is growing financial vulnerability in the medium performing group and these comprise around 35 per cent of the FHA cohort. These businesses are characterised by carrying debt of over $500,000, yearly expenditure of over $300,000 and generally return a minimum profit of $50,000 in the years leading up to the claim (typically by reducing input costs as conditions weaken). This group is more likely to suffer a high economic impact from drought and other climatic risks but also have strong potential to seek payment for fewer than the 4 years in the 10-year period, particularly if supported by improved case management.

Enhancements to case management are designed to deliver a better framework to support recipients and help them set and meet achievable goals. These enhancements will include necessary, and long-overdue, information and communications technology (ICT) changes to better capture and track the recipients' circumstances at an individual and program level. The adjustments to the system will facilitate better support to recipients to understand the drivers of their business, and to make decisions that will help them either to recover financially or to change careers, (including retirement).

Key benefit of Option 3 (Broadening the compliance approach to make implementation more responsive to changes in recipient income) compared to Option 1 (Status quo)

Introducing an annual income review, when the case manager becomes aware that updated financial information is available, will serve as an opportunity for case managers to help recipients better come to grips with their finances, and as a compliance check. This will assist the ongoing assessment of eligibility as well as actively support recipients to reflect on their situation, meaningfully, to determine if now is a strategically appropriate time to surrender their payment (and preserve the remaining for a later date/hardship). It also supports a more responsive case management approach, which wraps around and tracks changes in circumstances.

Under this new arrangement, the time taken for an individual to participate in an annual review of their income is not expected to add a material impact on their time. Firstly, recipients will not be selected for a review unless they have already completed and lodged their tax return and prepared the supporting financial paperwork, such as profit and loss statements, and balance sheets. Secondly, this activity will be rolled into their ongoing requirements to meet regularly with their case manager.

A random sample of 10 per cent of FHA recipients is currently selected to participate in a compliance activity. Increasing the compliance activity to a sample of 30 per cent of the FHA cohort will mean more recipients are required to provide business income and other information as required. However, the time taken to fulfil these requirements, at an individual recipient level, is expected to remain the same. It is only the number of recipients through this process that will increase.

It is important to note all recipients are expected to abide by other business reporting requirements including tax reporting responsibilities. Recipients are generally selected to participate in a compliance activity after the required reporting period for taxation matters has expired. Experience shows most participants in compliance activities have their income information and relevant paperwork to hand and some will not. Accordingly, in real terms, the time impact for an FHA recipient to participate in this increased compliance approach will vary in accordance with their adherence or otherwise to their income reporting requirements.

There is a wide range of information available in the FHA application form, the Farm Financial Assessment (FFA), and the Personal Barriers Assessment that, when considered together, indicates the probability of a farm enterprise being able to transition to financial self-sufficiency. However, this data is rarely updated once a recipient receives payment. There is a clear opportunity with an annual collection of financial performance information for meaningful analysis tracking progress and outcomes. Gathering financial data while the person is on payment has a threefold benefit:

- It ensures payment is, or has been, paid to those who maintain their eligibility (compliance)
- Case managers can support recipients to engage with their financial situation and focus on improvement on an annual basis. Experience with FHA recipients suggests there is frequently a disconnect between the production of the commodity/ies and finances. There is an opportunity to build greater financial self-sufficiency among recipients.
- Program managers are able to use the data for full program evaluation and reporting.

Addressing a number of key challenges in the case management space, underpinned by enhanced data capture and reporting capability, the program will be able to establish a true program evaluation strategy, rather than the current approach that is able to track some isolated trends, but is limited in being able to draw inferences.

Key benefit of Option 4 (Adjusting guidance to decision makers to target enterprises that require short-term support because they are likely to be viable in the long-term) compared to Option 1 (Status quo).

Clearer guidance for decision makers to support them to determine whether a farm enterprise operates on a commercial scale ensures the program is targeted at enterprises who are more capable of generally supporting themselves. The government prefers a guidance model rather than a definitive, binary approach, in recognition of the many varying circumstances experienced by farmers.

There is no single factor to determine commerciality. A guidance approach allows decision makers to draw on a wide variety of factors including but not limited to the many and varied farm inputs, debt carried and size of operation, to assess each farm business/enterprise using the information provided by the farmer at the time of their application, noting this data is largely unvalidated. Consequently, the FHA program under current settings has provided payment to recipients who:

- have not made a profit in the 3 years immediately preceding FHA payment;
- have very low input costs that cannot sustain a commercial level of production;
- do not have the size of land suitable for their preferred commodity to be profitable.

A review of around 5,000 Farm Financial Assessments (which equates to around half of the FHA population) explored the interaction of farm profit and off-farm income. Using data supplied by farmers at the time of application, just under 60 per cent of farm businesses in the sample sourced off-farm income in their year of application or preceding two years.

There is a clear distinction between farms with a self-reported profit of less than $50,000 (see Table 3 below, and overleaf Chart 1: Farms earning off farm income who have a profit of less than $50,000) and those exceeding $200,000 (see overleaf, Chart 2: Farms earning off farm income who have a profit of more than $200,000).

Table 3 and Chart 1 shows the number of farm businesses that made a profit of less than $50,000 and who sourced off farm income. This group comprises almost 60% of the total FHA population.

In comparison table 3 and Chart 2 shows around 40 farms made a profit of more than $200,000 and sourced off farm income. This is less than 1 per cent of the FHA population. This highlights that small farms making small (or no) profit struggle to sustain the business and/ or pay for household needs necessitating off-farm work as an important factor in being able to retain their land.

Table 3: Comparison of farm profit and off-farm income

Amount of off-farm income	Up to $30,000	$30,000 to $40,000	$40,000 to $50,000	More than $50,000
Farms with Off Farm Income - 2 Financial Years Before Claim				
Farm Profit <$50,000	1,745	206	189	478
Farm Profit >$200,000	87	0	6	10
Farms with Off Farm Income - Financial Year Before Claim				
Farm Profit <$50,000	2,014	234	182	451
Farm Profit >$200,000	49	3	2	4
Farms with Off Farm Income - Year of Claim				
Farm Profit <$50,000	2,285	251	178	350
Farm Profit >$200,000	23	1	5	10

Chart 1: Farms earning off farm income who have a profit of less than $50,000

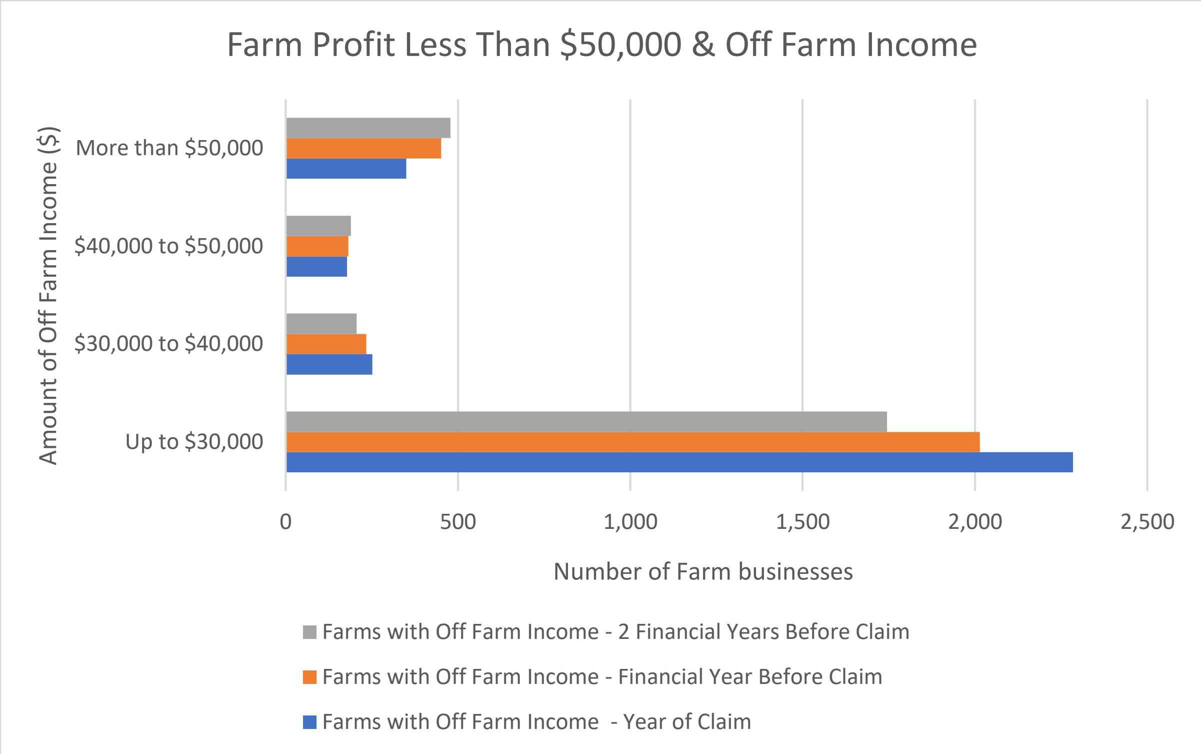

Chart 2: Farms earning off farm income who have a profit of more than $200,000

Making more prominent the guidance about matters that must be considered when determining if a farmer provides significant labour and capital in the Secretary's Rule will assist decision makers at all levels. Content already contained in the FHA Guidelines on the department's website will be used, in line with the following principles:

- The purpose of the significant labour qualification requirement is to exclude individuals who meet the definition of a 'farmer' but whose principal or usual occupation is not farming. The requirement excludes absent or retired farmers, for example, a farmer who is in a nursing home or an investor in a farm enterprise.
- An assessment of the labour a person contributes to a farm, will seek to establish that the labour is both significant to the individual **and** to the farm enterprise, including examining the time spent working the farm enterprise as compared with other activities.
- When balancing labour from other activities such as employment, it is important to consider if the off-farm work is sporadic, episodic or seasonal and how it works around the requirements of the farm.
- There is not a pre-determined proportion of labour for the qualification requirement to be satisfied, however, labour contribution must be critical to the ongoing operation of the farm enterprise.
- Labour includes non-physical activities that relate to the farm enterprise, such as financial and administrative management of the farm enterprise. For example, where the farm enterprise is operated as a partnership and one member is largely responsible for the physical labour and another for the bookkeeping, the person who is responsible for the book work may still qualify because they contribute a significant part of their labour and capital to a farm enterprise and the labour contribution is critical to the ongoing operations of the farm business.
- There are exemptions from the activity test available under sections 11 and 31 of the FHS Act, however, these are temporary in nature (as per s32 of the FHS Act).
- There is not a pre-determined proportion of capital for the significant capital requirement to be satisfied. It is relative to other capital and liabilities held by the person and must be significant to the capital held by the farm enterprise.

5. Consultation

Consultation was limited to stakeholders within government.

However, past experience with drought and other agriculture industry shocks such as natural disasters and sudden market changes have demonstrated that the public expect government to provide some kind of assistance to farmers. Repeated but time limited access to FHA demonstrates to the farming and urban community that the government has planned for downturns, rather than reacting to individual events. The proposed changes are sensible and measured, with a significantly lower risk than a reactive new program.

6. Best option and implementation

The recommendation is to strongly endorse and implement Options 2, 3 and 4, together, to better achieve the dual aims of supporting farmers and their partners in need while helping them to address the reasons for the hardship. These include:

- strengthening case management by:
  - introducing an annual financial review between recipients and their case manager to better understand their financial position and encourage decision making
  - additional training for case managers to shape and support the change process, and
  - ICT changes that present the gathered data in a cohesive way to assist case managers to drive change and improve financial outcomes.
- broadening the compliance framework by adding an annual collection of financial information, requested at an appropriate time determined by the case manager, to ensure that FHA is paid to recipients who maintain their eligibility.
- tightening the significant commercial purpose or character guidance to ensure access is limited to commercial–scale farms that have reasonable prospects of financial success.

While implementing any one of the preferred options would see an enhancement to the program and/or improved outcomes for recipients, the totality of benefits each of the preferred options bring is better realised through fully implementing options 2, 3 and 4 and ensures the program can refocus on its original intent. A key consideration is collecting information once and using it for multiple purposes within the program. That is, the assessment of eligibility and the opportunity for learning and goal setting from the one piece of financial information – that was also produced for a different program, namely taxation.

The next legislated 10-year period for the program commences on 1 July 2024. This date is the commencement date for much of the recommendations however given the short time frame and large ICT deliverable component, a phased implementation approach has been adopted. A phased delivery approach will ensure critical ICT requirements such as the collection of commercial scale information at the new claim stage, and amended text for customer letters, are available from 1 July 2024. The changes are timed to align with process and service delivery needs without compromising data capture requirements.

Case managers will require additional training in how to best leverage the new annual financial reviews. The department is currently working collaboratively with key stakeholders including our service delivery partners, to define and schedule key deliverables from 1 July 2024 as well as establishing key artefacts including a project implementation plan, risk plan and communication plan, designed to maximise a smooth delivery but ensuring appropriate controls/treatments are in place where required. It is anticipated that all ICT requirements will be delivered by the end of the 2024-25 financial year.

7. Evaluation

The department understands the importance of continued program improvement and for this to be effective, we will endeavour to conduct a series of post implementation analysis to review the impact/effectiveness of these adjustments on the FHA community and broader community as appropriate. DAFF will work collaboratively with key stakeholders to ensure a review is fit for purpose. Broadly, evaluation will consider:

- sampling a random selection of cases as early as the first quarter of the 2024-25 financial year to evaluate the impact of the change to the guidance to meet the significant commercial purpose or character and labour input criterion.
- designing and implementing a program logic that includes measures to analyse the effectiveness of the program settings (including the provision of case management) to help drive structural adjustment within the agricultural industry. This will be measured through exit surveys were recipients note how the program has assisted them, and by analysing longitudinal financial data to show if financial improvements are made while on payment.

The effectiveness of the changed settings for case management and compliance will require longer periods to assess the efficacy. Both of these are greatly affected by external factors (such as, but not limited to, high production or low production years, impacts of natural disasters, and trade conditions) and therefore it will be important not to conflate recipient action or inaction with the effectiveness of the policy setting/s.

Appendix A - Section 8 and 9 of the *Farm Household Support Act 2014*

8 Qualification of farmers for farm household allowance

A person is qualified for farm household allowance for a period if throughout the period:

(a) the person is a farmer; and

(b) the person contributes a significant part of his or her labour and capital to a farm enterprise; and

(c) the farm enterprise has a significant commercial purpose or character; and

(d) the land that is used for the purposes of the farm enterprise is in Australia; and

(e) the person has turned 16; and

(f) the person is an Australian resident, and is in Australia; and

(g) either:

  (i) the person has indicated, in writing, that the person is willing to enter into, and comply with, a financial improvement agreement; or

  (ii) a financial improvement agreement is in force in relation to the person; and

(h) the person meets the 4 years or less requirement.

Note 1: For paragraph (d), see section 11 if a person is exempt from the activity test under section 31 (temporary incapacity).
Note 2: Paragraph (h) is subject to Division 7 (overseas portability).
Note 3: This section is subject to sections 10 (grace period for farmers' partners) and 12 (no effective control of farm enterprises).

9 Qualification of farmers' partners for farm household allowance

A person is qualified for farm household allowance for a period if throughout the period:

(a) the person is not qualified for farm household allowance under section 8; and

(b) the person is a member of a couple; and

(c) the person's partner is a farmer; and

(d) the farmer contributes a significant part of his or her labour and capital to a farm enterprise; and

(e) the farm enterprise has a significant commercial purpose or character; and

(f) the land that is used for the purposes of the farm enterprise is in Australia; and

(g) the farmer resides in Australia; and

(h) the person is an Australian resident, and is in Australia; and

(i) either:

  (i) the person has indicated, in writing, that the person is willing to enter into, and comply with, a financial improvement agreement; or

  (ii) a financial improvement agreement is in force in relation to the person; and

(j) the person meets the 4 years or less requirement.

Note 1: For paragraph (d), see section 11 if a person is exempt from the activity test under section 31 (temporary incapacity).
Note 2: Paragraph (h) is subject to Division 7 (overseas portability).
Note 3: This section is subject to sections 10 (grace period for farmers' partners) and 12 (no effective control of farm enterprises).