

31st July 2007



The Cost of Bureaucratic Red Tape in Agriculture

Table of Contents

Introduction	3
Key Messages.....	5
Methodology	7
Results and Discussion.....	9
Overhead Expense.....	9
Wage Expense	12
Total Cost	15
Appendix 1	19
Appendix 2	20
Appendix 3	21
Appendix 4	23
Appendix 5	24

Introduction

The purpose of this report is to provide some indication of the cost to the agricultural sector of bureaucratic red tape. To do this the expenses incurred by agricultural businesses for items related to bureaucratic red tape as both a direct cash expense and the cost of labour in completing it has been analysed.

The results presented within this report, unless otherwise stated, are derived using a combination of Holmes Sackett & Associates (HSA) benchmarking and Salary Survey data. This data is obtained from farms covering a geographic area extending from the NSW New England, through the tablelands, slopes and wheat sheep zone country of NSW, down into Victoria, Tasmania and South Australia. These are predominantly family farms but also include the performance of a number of corporate agricultural businesses. Where single businesses are likely to have had a significant impact on the analysis, they have been removed. The benchmarking data used for this analysis was gathered over the nine year period from 1998 to 2006 and the Salary Survey data was collected in 2005.

The farms represented by the HSA benchmarking data are not a random sample as owners of farm businesses who choose to benchmark their performance are, by definition, not a random sample. This is evident when the results of the HSA benchmark farms are compared to those analysed by ABARE, which are representative of the industry average. The productivity and profitability of the average of the HSA farms has been shown to be significantly better than the ABARE average. (See Table 4, Appendix 1, Page 19)

It therefore must be kept in mind whilst reading this report that the average HSA benchmarking information presented does not necessarily represent the average of the industry as a whole.

Throughout the report farms have been referred to as either mixed or grazing. The definition of a mixed farm is one which generates greater than 15% of its income from cropping enterprises and grazing farms are those which generate less than 15% of income from cropping enterprises.

Data has been presented in the body of the report on a nominal basis (not adjusted for inflation) with corresponding real (inflation adjusted) data shown where appropriate in

The Cost of Bureaucratic Red Tape in Agriculture

Appendix 3 (Page 21). The inflation rate as measured by the Consumer Price Index (CPI) over the nine year period analysed (1998 to 2006) averaged 2.6%. (See Table 5, Appendix 4, Page 23) Whilst it is important to acknowledge the effect that this level of inflation has on costs such as administration and wages, it is not significant in changing their overall trend of the results shown in the report.

Key Messages

Grazing Farms

For the nine year period from 1998 to 2006 on a nominal basis the average grazing farm analysed;

- Had a total expense of \$14,134 per annum relating to bureaucratic red tape.
- Of this \$11,414 was for overhead expenses and \$2,718 was for wage expenses associated with bureaucratic red tape.
- Had a total of approximately 16 days taken up on tasks associated with bureaucratic red tape which equates to 3 full weeks (5 days) or 6.6% of the working year*.
- The total expense of \$14,134 per annum relating to bureaucratic red tape equates to 3% of income, 4% of total expenses and 13% of net farm profit of these farms.

Mixed Farms

For the nine year period from 1998 to 2006 on a nominal basis the average mixed farm analysed;

- Had a total expense of \$34,367 per annum relating to bureaucratic red tape.
- Of this \$30,659 was for overhead expenses and \$3,708 was for wage expenses associated with bureaucratic red tape.
- Had a total of approximately 20 days taken up on tasks associated with bureaucratic red tape which equates to 4 full weeks (5 days) or 8.5% of the working year*.
- The total expense of \$34,367 per annum relating to bureaucratic red tape equates to 3% of income, 4% of total expenses and 15% of net farm profit of these farms.

* A working year is 240 days or 48 weeks. This allows 52 weeks less 4 weeks for holidays.

All Farms

For the nine year period from 1998 to 2006 on a nominal basis the average of all farms analysed;

- Had a total expense of \$22,542 per annum relating to bureaucratic red tape.
- Of this \$19,412 was for overhead expenses and \$3,130 was for wage expenses associated with bureaucratic red tape.
- Had a total of approximately 18 days taken up on tasks associated with bureaucratic red tape which equates to 3.6 full weeks (5 days) or 7.5% of the working year*.
- The total expense of \$22,542 per annum relating to bureaucratic red tape relates to 3% of income, 4% of total expenses and 14% of net farm profit of these farms.

- The total cost of bureaucratic red tape on mixed farms is higher than grazing farms in each year over the nine year period. There is no explanation from the data available to clarify why this is the case.

- The total cost of bureaucratic red tape has risen on both grazing and mixed farms over the last four years with the rate of increase higher on mixed farms.

* A working year is 240 days or 48 weeks. This allows 52 weeks less 4 weeks for holidays.

Methodology

Identifying and quantifying the specific cost of red tape to agriculture would require complex analysis of various farm businesses on an individual basis. The detail required for this level of analysis is beyond the scope of the data available for this analysis. However by identifying and determining the average value of the major red tape related expenses of benchmarked farm businesses, some perspective can be offered on its cost.

For the purposes of this report the major costs related to bureaucratic red tape in the agricultural sector have been assumed to relate to the following items;

- Accounting and Associated Fees
- Legal Fees
- Bank Fees, Charges and Taxes

These cost items are accounted for as overhead expenses and relate to goods and/or services sourced off the farm. Within this report these items will be referred to as the overhead expenses related to bureaucratic red tape. These overhead items do not account for the cost incurred by farm businesses for wages incurred through time complying with red tape. Within the report this cost will be referred to as the wages expense related to bureaucratic red tape. In order to provide a cost of bureaucratic red tape to agriculture, both of these expense areas need to be accounted for.

Determining the overhead bureaucratic red tape related expenses involved the use of benchmarking data. This data required further analysis using the accounting records of a representative group of farms provided by Easdown and Partners, Chartered Accountants, Wagga Wagga. This additional analysis was required as the benchmarking data alone did not provide individual dollar figures for the items listed above.

The overhead bureaucratic red tape related expense was calculated as the amount of the total overheads of the farm business made up by the individual items above. An overhead cost is one which cannot be directly attributed to any particular enterprise and relates to the management of the whole farm. For a detailed list of overhead expense items see Appendix 5, Page 24.

The Cost of Bureaucratic Red Tape in Agriculture

The number of days spent by management of farm businesses completing bureaucratic red tape associated tasks was calculated using a combination of benchmarking and Salary Survey data. This data allowed an amount of time related to administrative tasks to be calculated and using the proportion of this time related to red tape related tasks, the total number of days associated with bureaucratic red tape was calculated.

The wages expense in dollar terms was then determined by using the number of days calculated and Australian Bureau of Statistics (ABS) average earnings data shown in Table 1. These figures represent the average earnings of a full time adult in Australia in the given year. Using these values in this analysis ensures the time spent on red tape associated tasks is valued at the appropriate rate for the time.

Table 1: Average Earnings for a full time Australian worker 1998 to 2006. Source; Australian Bureau of Statistics (ABS) Series ID A594108T, Ordinary time earnings, Full time Adult.

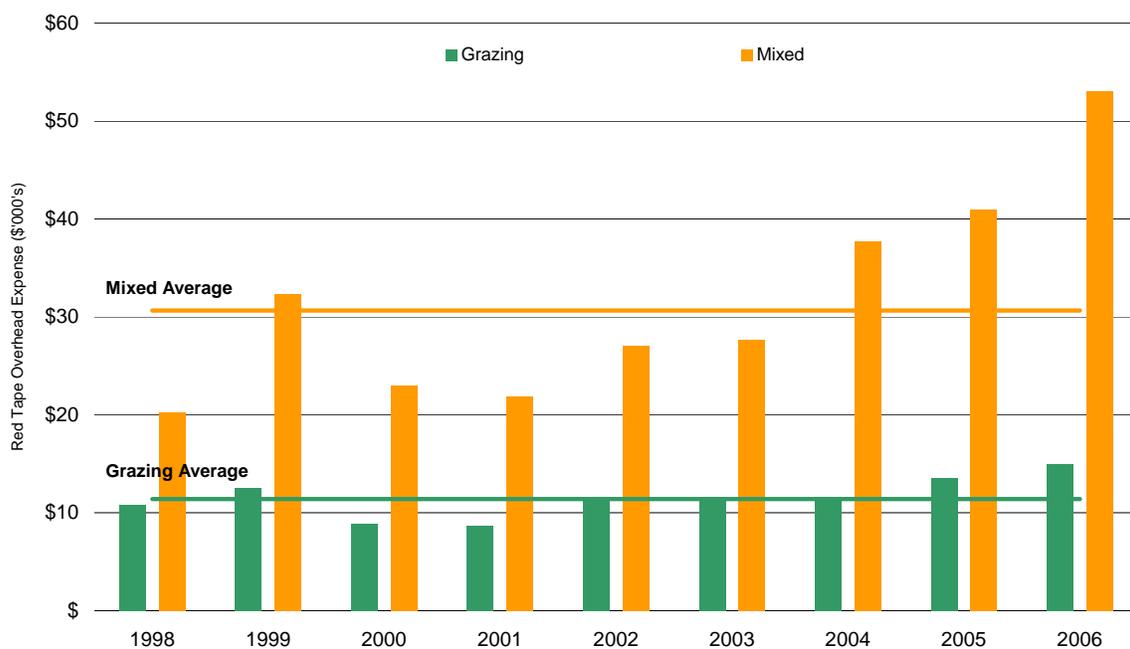
Year	Average Australian Wage p.a.
1998	\$ 37,271
1999	\$ 38,617
2000	\$ 39,991
2001	\$ 42,046
2002	\$ 44,386
2003	\$ 46,653
2004	\$ 48,971
2005	\$ 51,212
2006	\$ 53,654

Results and Discussion

Overhead Expense

The nominal total of overhead red tape related expenses for grazing and mixed farms over the nine years from 1998 to 2006 are shown in Graph 1. The average overhead red tape related expense for mixed farms has been higher than for grazing farms in all years of the period analysed and this is reflected in the higher nine year average for these farms. Both groups of farms have had increasing red tape related overhead expense over the last three to four years however the mixed farms have experienced a significantly faster rate of appreciation. It is evident that this rate of appreciation exceeds that of inflation as the corresponding real data in Graph 12, Appendix 3 on page21, shows a similar trend.

Graph 1: The nominal bureaucratic red tape related overhead expense for mixed and grazing farms over the nine years from 1998 to 2006. For real (inflation adjusted) figures see Graph 12, Appendix 3, page 21.



The fact that the mixed farms have higher red tape related overhead expenses over the period analysed warrants further analysis and discussion.

The first point to note is that the values in Graph 1 have been presented on a whole dollar basis as the purpose of the analysis is to find the total cost of red tape to an average farm

The Cost of Bureaucratic Red Tape in Agriculture

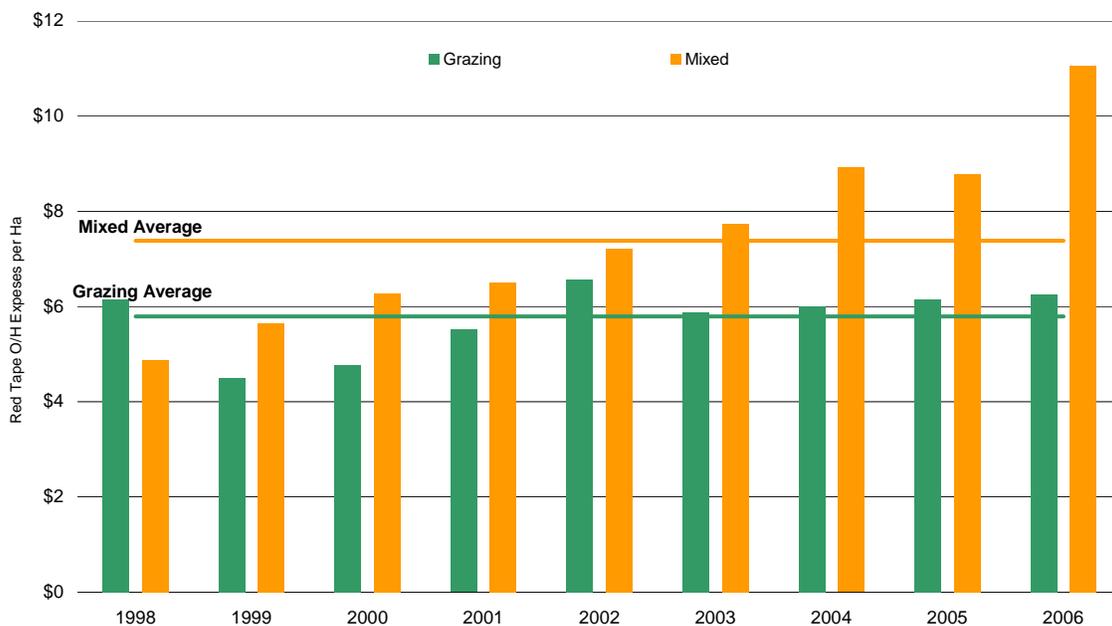
business. As such these figures give no consideration to the size of the farms involved. The average operating area in hectares of the two groups of farms is shown in Table 2 with the mixed farms having had a greater operating area than the grazing farms over the period.

Table 2: Nine year (1998 to 2006) average total operating area in hectares for mixed and grazing farms.

Total Operating Area - Hectares - 9 Year Average (1998 to 2006)	
Grazing	4,278
Mixed	7,315

If larger operating area is the primary driver of higher red tape related overhead expenses on the mixed farms, relating the total of these costs to the operating area in hectares should make the comparison valid. This has been completed and shown in Graph 2 and the results show that larger operating scale does not appear to be the driver of the higher expense on the mixed farms. The red tape related overhead expenses remain higher on a per hectare basis on the mixed farms.

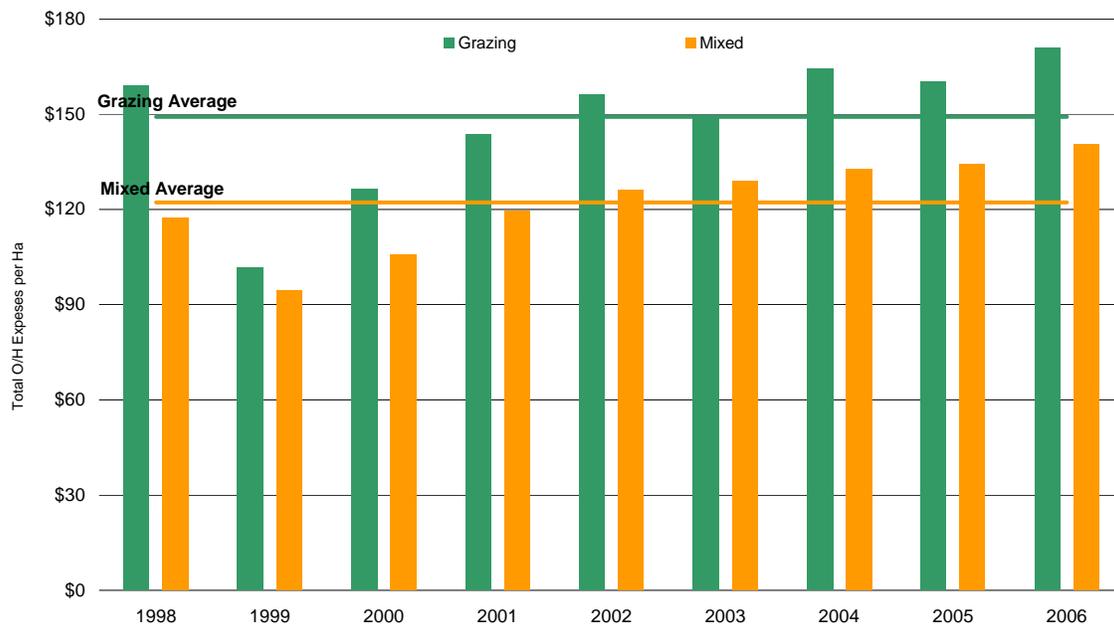
Graph 2: The nominal bureaucratic red tape related overhead expense per hectare for mixed and grazing farms over the nine years from 1998 to 2006.



The Cost of Bureaucratic Red Tape in Agriculture

If the mixed farms are run with a higher total overhead cost base, which includes the bureaucratic red tape related overhead expense, this may influence the amount which is attributable to red tape. As mentioned previously an overhead is an expense which cannot be attributed to an individual enterprise and relates to the management of the whole farm (See Appendix 5, Page 24 for details of items included). The total overhead costs of the two groups of farms on a per hectare basis over the period are shown in Graph 3. Graph 3 shows that the grazing farms in fact have higher overhead expenses than the mixed farms and it is therefore not a matter of higher overhead expenses influencing the result.

Graph 3: The nominal total overhead expense per hectare for mixed and grazing farms over the nine years from 1998 to 2006



The net farm profit of these two groups of farms does not appear to have had any influence on the amount incurred for overhead red tape related expenses either. Graph 11 (Appendix 2, Page 20) shows the net farm profit of the grazing and mixed farms and from the data in this graph there appears to be no correlation between net profit and overhead red tape related expenses of the two groups.

From the data presented and available on these farms there appears to be no logical explanation for the higher red tape related overhead expenses on the mixed farms. Given that greater than 15% of the income these farms generate is derived from cropping, could indicate

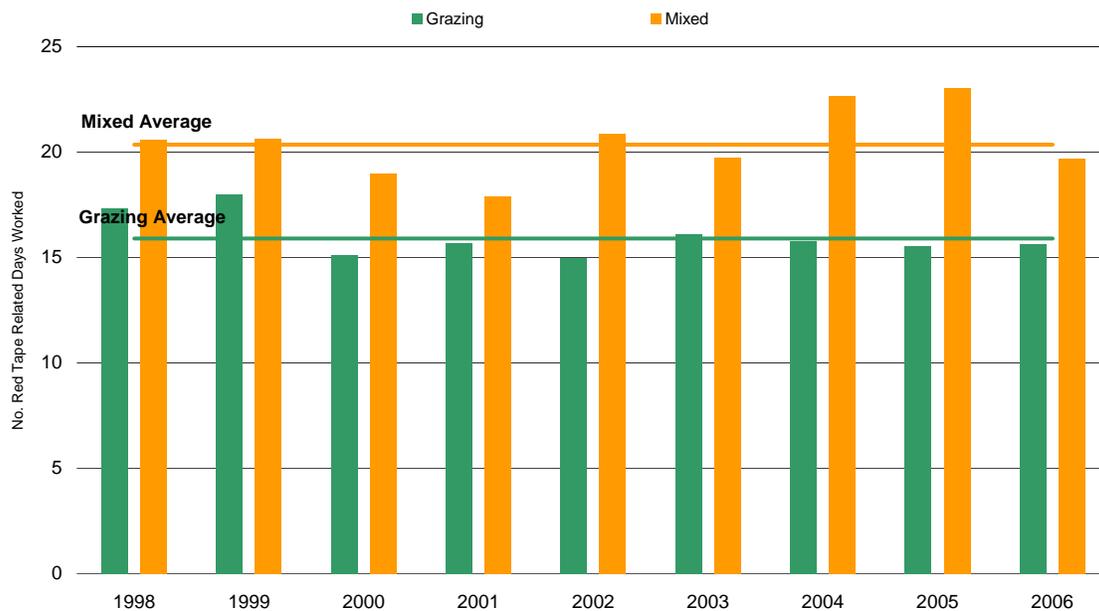
that these enterprises require a higher cost for red tape related expenses than grazing enterprises, however there is no data available which will support this claim.

The conclusion will have to be drawn that mixed farms do have higher overhead costs related to red tape however there is no credible data available which will explain why this is the case. Further speculation with the data available on the reasoning behind this phenomenon would be just that, speculation, and would have no credible basis. This issue warrants further investigation and this could be carried out as part of the Productivity Commission review.

Wage Expense

The second component of bureaucratic red tape compliance is the amount of time and therefore the wages expense of completing associated tasks. The number of days spent completing these tasks for the grazing and mixed farms over the analysis period are shown in Graph 4.

Graph 4: The average number of days spent per year completing red tape related tasks on grazing and mixed farms over the nine years from 1998 to 2006.

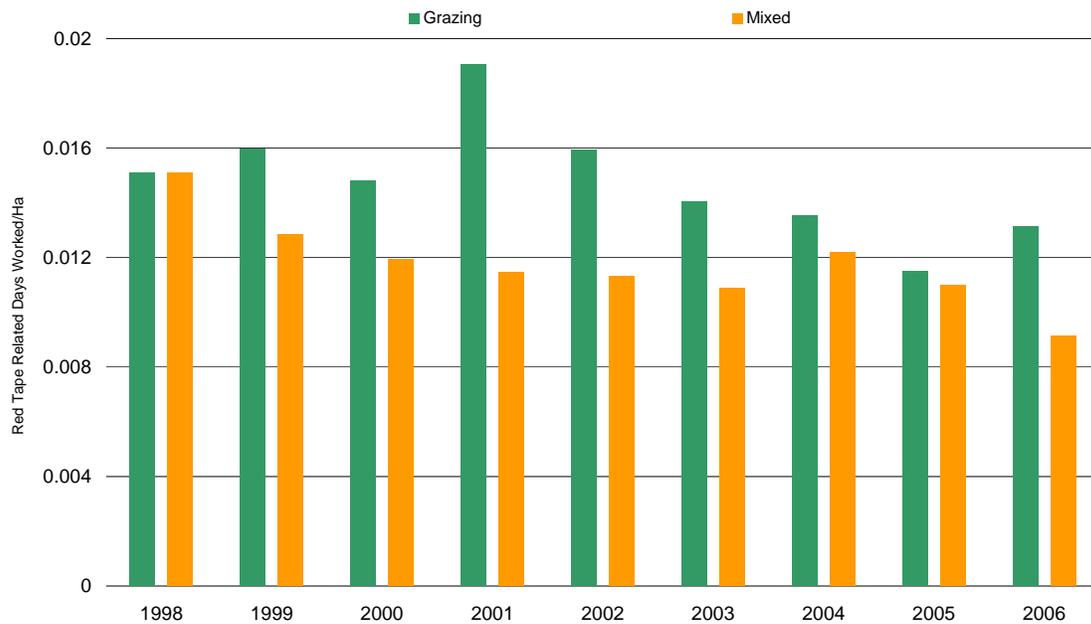


The Cost of Bureaucratic Red Tape in Agriculture

On a total days worked basis, on average more days each year are spent on bureaucratic red tape related tasks on the mixed farms than the grazing farms. Graph 5 shows the number of days worked relating to bureaucratic red tape presented on a per hectare basis to remove any bias to the mixed farms due to their larger operating scale (Table 2).

The number of days worked by the grazing farms is greater than the mixed farms when shown on this basis. This suggests that the greater total number of days worked by the mixed farms each year is influenced by their operating scale, not necessarily because they have a larger workload related to these tasks.

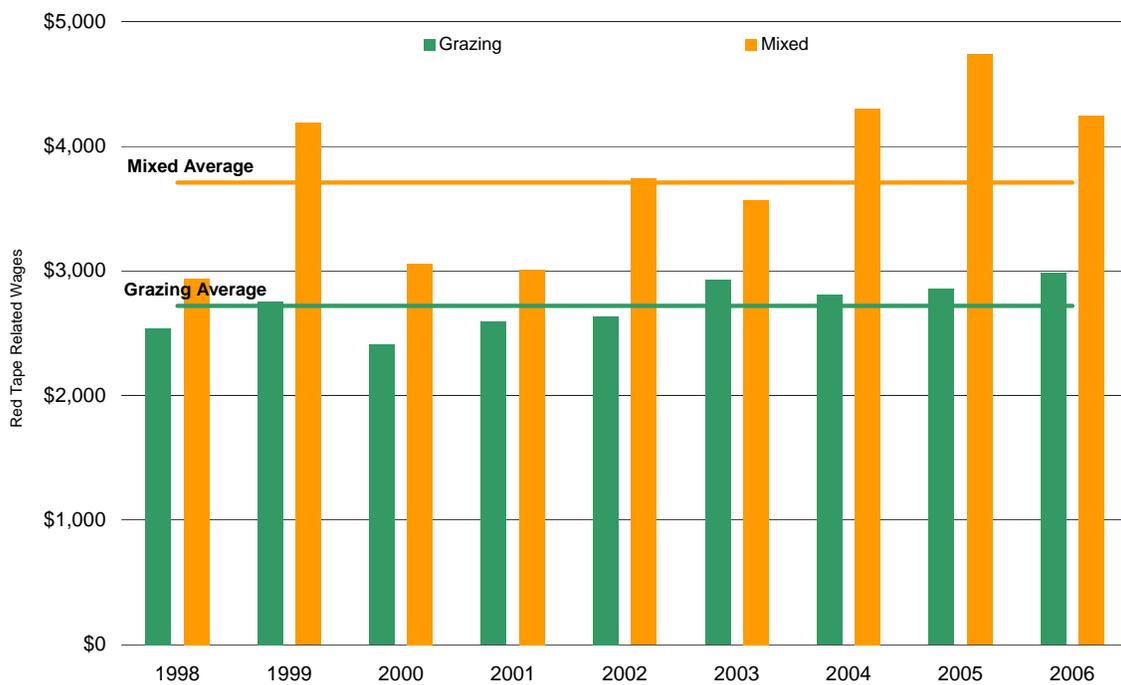
Graph 5: The average number of days spent per year completing red tape related tasks on a per hectare basis for grazing and mixed farms over the nine years from 1998 to 2006.



The Cost of Bureaucratic Red Tape in Agriculture

The number of days worked has been used to calculate the dollar cost to these farms of completing these tasks and the results for grazing and mixed farms are shown in Graph 6. The mixed farms have incurred a greater wages expense relating to red tape than grazing farms over the nine years which is not unexpected given the higher number of days spent by these farms on these tasks.

Graph 6: The calculated total nominal amount spent on wages attributable to bureaucratic red tape for grazing and mixed farms from 1998 to 2006. For real (inflation adjusted) figures see Graph 13, Appendix 3, Page 21.



Total Cost

The total cost of bureaucratic red tape is the combination of both the overhead expense and wages expense and the results for the mixed and grazing farms are shown in Graph 7.

The higher overhead and wages expense of the mixed farms results in a higher overall total cost for red tape than grazing farms. The total cost for mixed farms has increased substantially over the last four years. Although the total for grazing farms has also increased the rate of gain has been slower than for mixed farms.

Graph 7: The total nominal bureaucratic red tape cost for grazing and mixed farms from 1998 to 2006. For real (inflation adjusted) figures see Graph 14, Appendix 3, Page 21.



The Cost of Bureaucratic Red Tape in Agriculture

The average percentage of income, expenses and net farm profit made up by the total cost of red tape over the last nine years are shown in Table 3. There is no substantial difference between the average percentages for grazing or mixed farms in any of these three areas over the nine years.

Table 3: The average percentage of income, expenses and net profit which is made up by the combined total nominal overhead and wages cost related to bureaucratic red tape for grazing and mixed farms over the nine years from 1998 to 2006.

	Grazing	Mixed
% Total Income	3%	3%
% Total Expenses	4%	4%
% Net Farm Profit	13%	15%

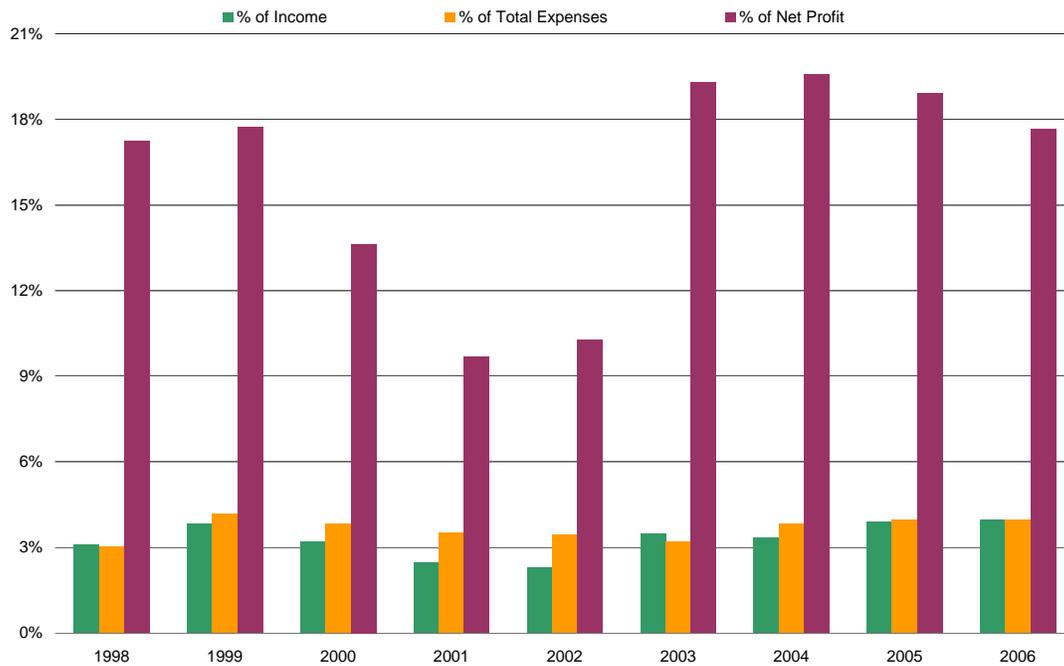
The annual percentage of income, expenses and net profit on grazing and mixed farms are shown in Graph 8 and Graph 9 respectively. The percentage of income and total expenses is relatively consistent both between the two groups and within each group between years. The percentage of net profit is not consistent between groups or years and this is influenced to a greater degree by the fluctuation in net profit of these farms (Graph 11, Appendix 2, Page 20) rather than the total cost of red tape.

The Cost of Bureaucratic Red Tape in Agriculture

Graph 8: The percentage of total income, total expenses and net profit made up by total nominal cost related to bureaucratic red tape on grazing farms over the nine years from 1998 to 2006.



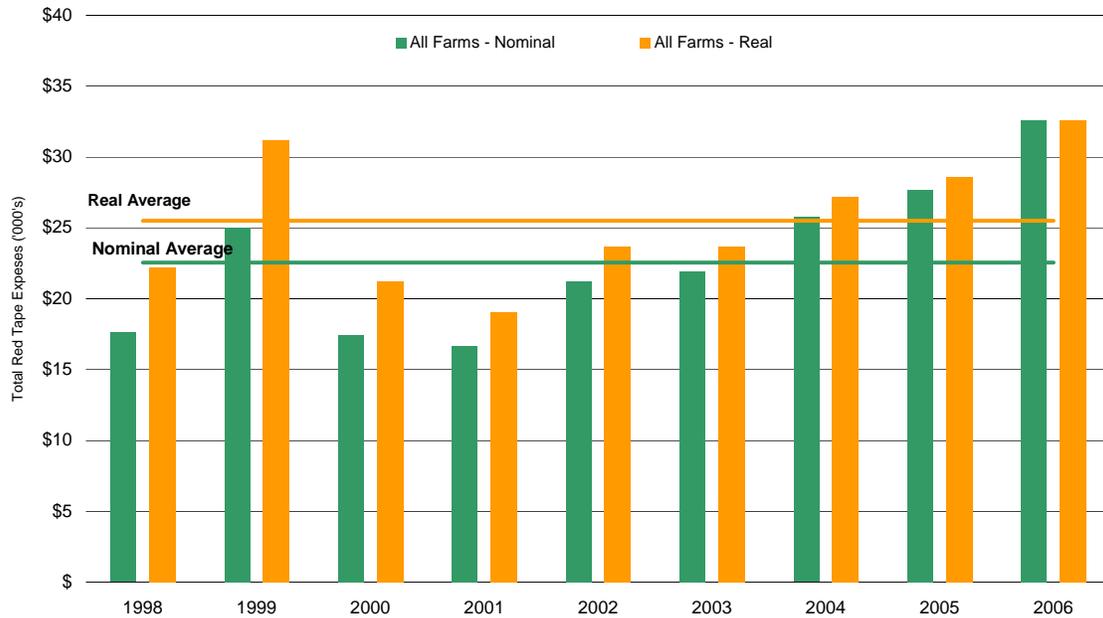
Graph 9: The percentage of total income, total expenses and net profit made up by total nominal cost related to bureaucratic red tape on mixed farms over the nine years from 1998 to 2006.



The Cost of Bureaucratic Red Tape in Agriculture

The average cost of red tape to all farms in the over the period analysed has been calculated and the results shown in both nominal and real terms in Graph 10. This total expense has been calculated by averaging the entire grazing and mixed farm results presented previously in Graph 7. Red tape related expenses on all farms have been increasing over the last five years or so.

Graph 10: The total nominal and real bureaucratic red tape cost for all farms from 1998 to 2006



The analysis conducted and results presented in this report offer some indication to the cost of bureaucratic red tape to agriculture. There are limitations to the process and data and these have been discussed where appropriate throughout. The results indicate that the cost to agriculture of bureaucratic red tape is significant, particularly on mixed farms.

Appendix 1

Table 4: Return on Assets - ABARE versus Holmes Sackett & Associates (HSA)

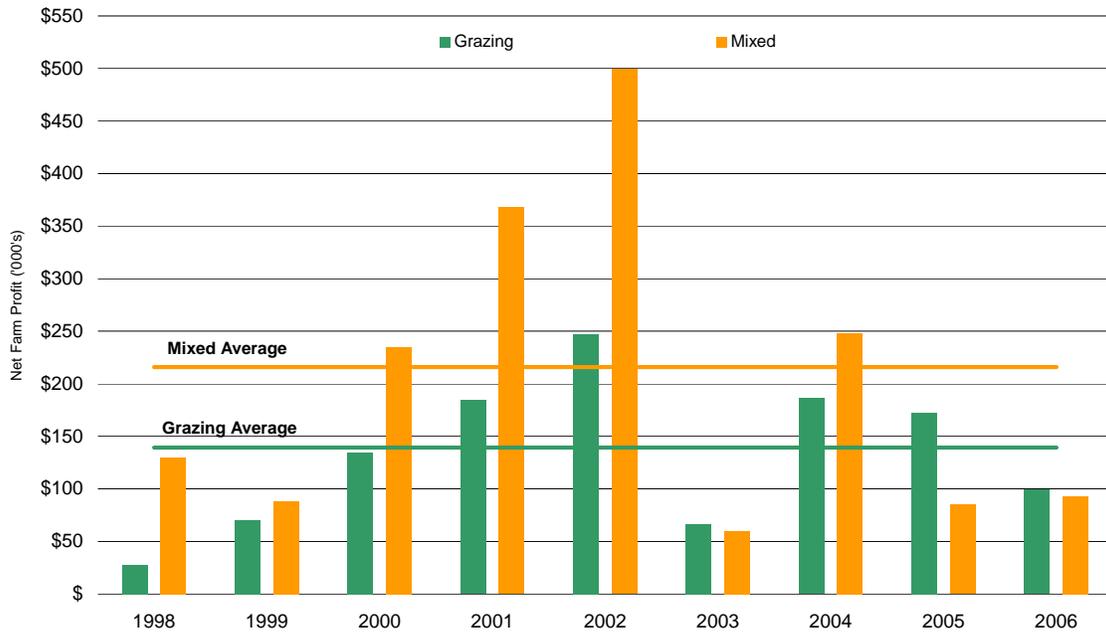
	Mixed Farms*			Grazing Farms**		
	ABARE	HSA	Difference	ABARE	HSA	Difference
2000/01	1.30%	6.70%	5.40%	1.70%	5.80%	4.10%
2001/02	4.40%	8.60%	4.20%	1.40%	6.80%	5.40%
2002/03	0.03%	1.70%	1.40%	-1.80%	1.90%	3.70%
2003/04	2.30%	2.40%	0.10%	0.70%	3.30%	2.60%
2004/05	0.60%	0.70%	0.10%	0.60%	3.10%	2.50%
5 Year Average	1.78%	4.02%	2.24%	0.52%	4.18%	3.66%

* Mixed Farms are those which derive greater than 15% of their income from cropping enterprises.

** Grazing Farms are those which derive less than 15% of their income from cropping enterprises.

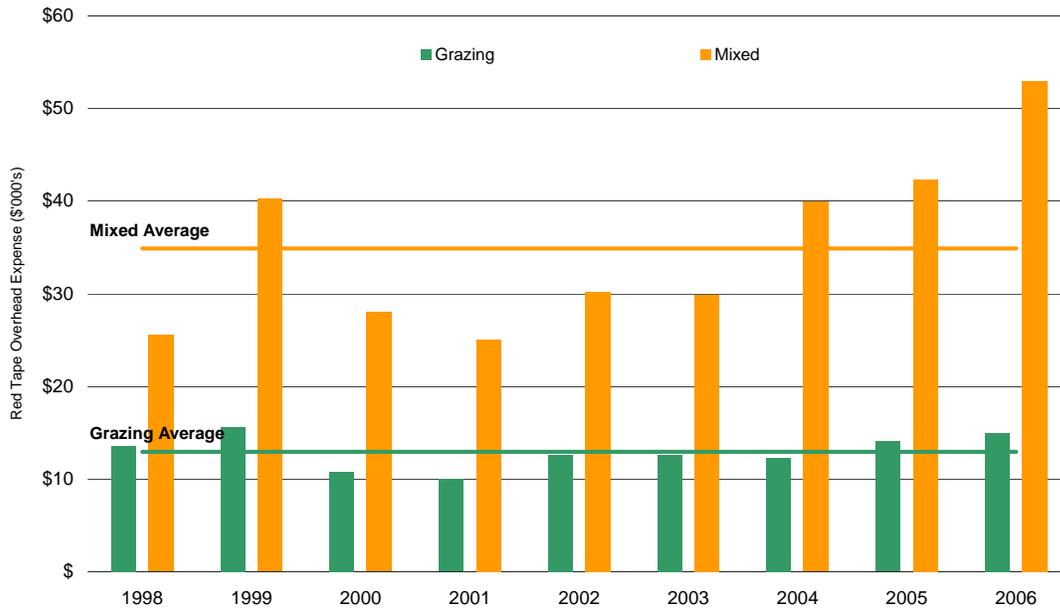
Appendix 2

Graph 11: Average net farm profit (nominal) for grazing and mixed farms 1998 to 2006.

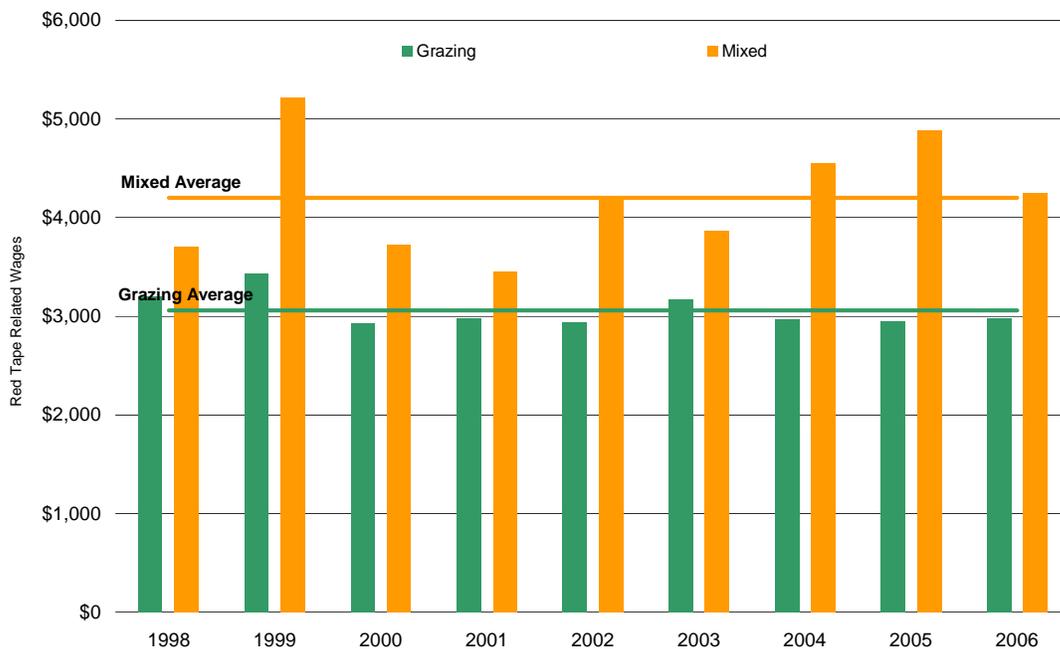


Appendix 3

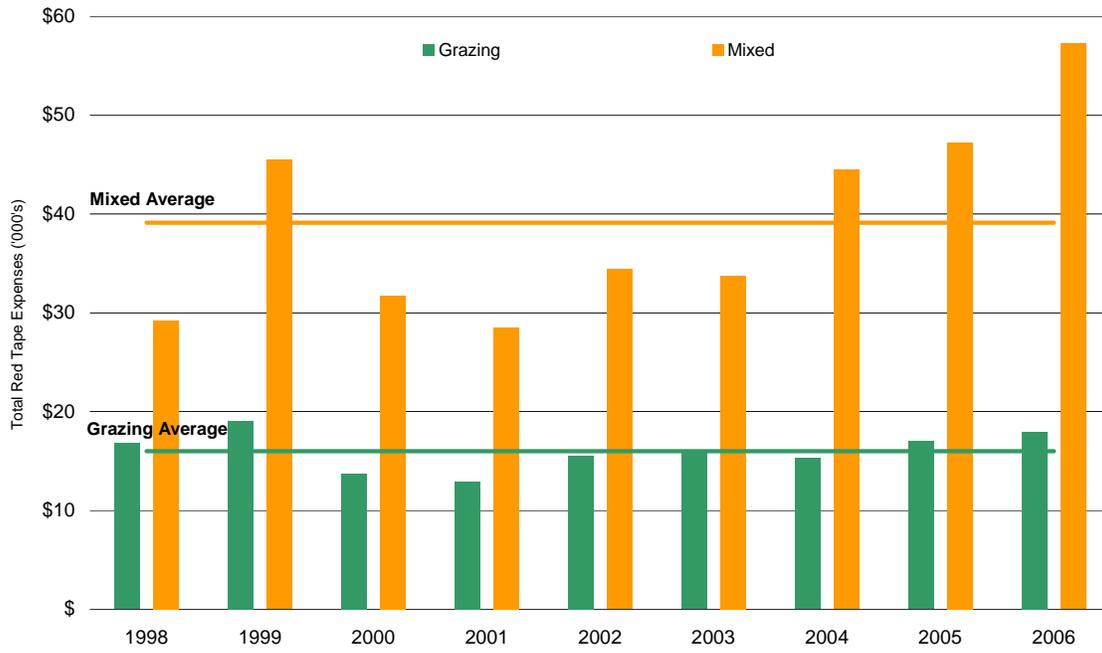
Graph 12: The real bureaucratic red tape related overhead expense for mixed and grazing farms over the nine years from 1998 to 2006.



Graph 13: The calculated total real amount spent on wages attributable to bureaucratic red tape for grazing and mixed farms from 1998 to 2006.



Graph 14: The total real bureaucratic red tape cost for grazing and mixed farms from 1998 to 2006.



Appendix 4

Table 5: The inflation rate over the last nine years as measured by the Consumer Price Index (CPI).

Year	Consumer Price Index (CPI)*	Inflation Rate**
1998	120.3	0.0%
1999	121.8	1.2%
2000	124.7	2.4%
2001	132.2	6.0%
2002	136	2.9%
2003	140.2	3.1%
2004	143.5	2.4%
2005	147	2.4%
2006	151.7	3.2%
Average Over 9 Years		2.6%

*1989-90 is the base year of 100

** Measured as a percentage yearly change in the CPI

Appendix 5

Overhead Expenses

The following are the overhead expense categories and individual items. The expenses relate to whole farm management and cannot be attributed to any specific enterprise.

Administration

- Accounting and Legal Fees
- Consulting Whole Farm (not enterprise specific)
- Printing and Stationery
- Postage, Travel, Accommodation, Subs and Memberships
- Seminars & conferences
- Bank fees, charges and taxes
- Telephone, Computer programs

Chemicals

Contract Services

Depreciation

Electricity & Gas

Fertiliser

Fuel & Lubricants

Insurance

Irrigation

Landcare

Lime/Gypsum

Materials

- Industrial gases and explosives
- Protective clothing
- Hardware
- Dog food

Motor Vehicle Expenses

- All farm vehicles (cars, utes, 4WD, trucks, bikes)
- Registrations and licences
- Insurance
- Repairs and Maintenance

Rates and Rents

- Shire and Council
- Unused roads
- RLP Board

R & M General (Not used for pasture, crops)

- Sheds, yards and fences
- Water

Seed

Wages & On Costs

- For employees

Wages - Owner (these are excluded from Wages & On-Costs)