

GASCOYNE MURCHISON STRATEGY

ACCESS TO COMMERCIAL FINANCE PROJECT

ECONOMIC OVERVIEW OF PASTORAL BUSINESSES

Executive Summary

1. Confidential data contained in 78 GMS Grant submissions was analysed representing 34% of the pastoral operations in the GMS region. This data confirms MAFIA indications.
2. 41% of the businesses surveyed were cashflow negative.
3. The 58 sheep businesses reported an average loss of \$1640, and 61% equity.
4. The 14 cattle businesses reported an average surplus of \$23,430 and 85% equity.
5. Non-pastoral income is large in relation to nett cashflow, ie average \$36,000 and \$60,000 for sheep and cattle businesses respectively. The industry is critically dependent upon such income.
6. The financial situation is after 5-6 years of good or average seasons. The onset of drought will have devastating social, economic and environmental effects.
7. Pastoral businesses can obtain bank finance but the majority of pastoral enterprises will not be able to meet the banks' normal rural criteria for cashflow and equity.
8. The critical financial situation must be addressed by facilitating adjustment and lease aggregation, but these processes are not currently working.

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Economic Overview of Pastoral Businesses

1. Introduction

The objective of the report is to present an economic overview of the pastoral industry in the GMS region, to draw whatever conclusions are relevant, and to determine whether or how pastoralists can gain access to finance on commercially reasonable terms.

The financial analysis of the industry is based mainly on data collected from 76 pastoral businesses in the Gascoyne and Murchison region of Western Australia. It also collates and assesses information from other sources such as consultants and finance providers.

It should be noted that the report commenced as a basic overview but became more comprehensive with the inclusion of information from the major banks.

This report must be treated as confidential as it is based on:

- pastoral financial data that was submitted to GMS on a strictly confidential basis
- comments made by consultants and others on condition of confidentiality
- information supplied by lending institutions that could be commercially sensitive.

2. GMS Data Sources

2.1 Methodology

Data submitted by 78 pastoral businesses as part of funding applications was assessed and compiled into spreadsheets. The data extracted is for the most recent year for which actual data was available. Data for prior or subsequent years is not available, so the data is susceptible to influence from seasonal variations and one-off anomalies.

Station identity is shown only as an ID code but even so raw data spreadsheets should have severely restricted availability to ensure no possible breach of confidentiality.

Data extracted is compared with data from other sources to determine the comparative position of pastoralists vis-à-vis similar industries in both Western Australia, and in Queensland.

The database is extracted and analysed to provide the tables and comments below. Notes on the root spreadsheets are attached as Appendix 1, and Appendix 2 examines the database for bias and representativeness.

2.2 Financial Overview

Please refer to the table, page 2, headed "Average Parameters".

The perilously precarious state of the pastoral industry in the region is immediately apparent:

- The average surplus cashflow of the 76 businesses is just \$3330.
- The average surplus cashflow as a percentage of revenue (ie % Margin) is just over 1%, and the return on gross assets is just 0.3%; these parameters indicate that the industry is financially extremely weak and vulnerable.
- 41% of the 76 businesses analysed were cashflow negative.

Seventy out of 78 (90%) businesses obtain "off-station and other" income (excluding tourism), and this comprises mostly contracting. The average such income for all businesses is \$40,000, with cattle dominated businesses achieving an average of \$60,000 compared to sheep dominated businesses' income of \$36,000. It is apparent that without this supplementary income the pastoral industry would be in a critical state.

Forty two stations (58%) earn income from the sale of feral goats and this income averages \$22,000. Ten businesses (13%) earn an average of \$5,000 income from tourism.

An attempt was made to quantify the major influences on profitability, but multiple regression analyses did not show definite correlations because of the high degree of variability in the data. The situation amongst the 58 businesses whose major pastoral activity is grazing sheep is even worse:

- The average cashflow is a loss of \$1640.
- The upper quartile of the 58 sheep businesses shows a surplus of over \$53,000, for a Margin of 14% and a return on gross assets of 4%.
- The lower quartile returns a loss of just under \$69,000, and a negative Margin of 35%.
- 43% of the 58 businesses were cashflow negative.

The situation amongst the 14 cattle producers is significantly better:

- Average cashflow is over \$23,000, but this is still only a Margin of 6%, or a 2% return on gross assets.
- The upper quartile has a surplus of over \$75,000 for a Margin of 20% and a return on gross assets of 6%.
- The lower quartile shows a loss of \$40,000 with negative margin and return.
- 4 of the 14 cattle businesses (ie. 29%) were cashflow negative.

It may be observed that the 58 sheep businesses and the 14 cattle businesses do not add up to the 78 sets of data analysed. The difference is represented by 2 inadequate data sets or where horticulture or goats are the dominant activity.

2.3 Debt

Refer to the spreadsheet, page 4, headed "Debt and Income".

Properties whose principal activity is running cattle operate at 86.5% equity compared to the sheep properties reviewed which averaged 61.0% equity; sheep properties have slightly higher debt (\$247,000, cf \$204,000 for cattle properties) and lower average gross assets (\$1,113,000, cf \$1,477,000).

Debt servicing (ie interest payments) costs sheep businesses on average 109% of nett income, compared to the interest payments by cattle businesses of 33% of nett income.

Only 5 of the businesses report their current interest rates, so it is not possible to generalise. It is noted, however, that the overdraft rate reported varies between 11.0% and 12.25%. Two stations report commercial loans at 8.0% interest, but this attractive rate was achieved because these loans were secured by off-station assets.

2.4 Sheep Businesses

This set comprises businesses whose principal pastoral activity is running sheep. It encompasses 58 businesses and includes 4 that generate more income from non-pastoral activities than they do from sheep; it could be argued that they should have been excluded.

When the data is analysed for correlations with financial performance the following emerges:

- Profitability is primarily dependent upon productivity; ie the upper quartile of sheep businesses achieve 48% more total income per hectare than do the lower quartile businesses. The major income component is from sheep and wool and is 36% higher per dse.
- The upper quartile businesses are also on average 30% larger in size and carry 43% more stock, ie they carry 11% more stock per hectare. It is not possible to comment on the reason for this higher stocking level, ie whether it is greater efficiency of land use, simply higher stocking rates, or land systems with higher carrying capacity.

- The upper quartile businesses carry ca 20% less debt per dse and interest costs per dse reflect this difference; the absolute values for debt and debt servicing are not significantly different between the 2 groups.
- Almost 90% of sheep pastoral businesses generate "off-station and other" income, and this averages almost \$36,000 pa (or 14% of total income). When it is noted that the average nett operating loss was \$1640, then it is clear that non-pastoral income is critical to the survival of many businesses.
- Over half (62%) of all sheep businesses derived income from goats, but the upper quartile sheep businesses achieve triple the income from goats compared to the lower quartile businesses.

2.5 Cattle Businesses

This comprises those businesses whose principal pastoral activity is cattle. Included are 2 in which the non-pastoral income far exceeds the relatively low cattle income.

It must be noted that the cattle database contains only 14 businesses, with only 4 businesses in each of the upper and lower quartile brackets, and these small samples are skewed by several anomalous results, ie it is not possible to make definitive judgements.

The upper quartile sample contains a high "flyer", ie a business that far outperformed all other stations with a nett cashflow of \$167,000, (apparently achieved as a result of an extraordinarily low operating cost of \$8.70 per dse). The lower quartile stations contain one business that combines considerable debt (\$859,000) with large off-station income (\$281,000), and another that only earned \$13,000 from cattle but \$124,000 from off-station or other income.

Analysis of the reasons for the differences in financial performance between upper and lower quartile businesses is less clear than for sheep businesses:

- The most significant difference between upper and lower quartile businesses lies in operating costs, where upper quartile businesses are able to operate with \$6.30 per dse (31%) less cost. The difference in income per dse between upper and lower quartile is not significant.
- The other apparent difference is in the level of long term debt, ie upper quartile cattle businesses have nil long term commercial debt compared to \$331,000 for the lower quartile businesses.
- The 2 poorest performing businesses carry commercial loans of \$1,288,000 between them and this skews the results heavily. It is also interesting to note that these 2 businesses are also "company" owned (refer Appendix 1 for explanation of this) and not privately held; perhaps there are other commercial factors at work here ?
- The other apparent correlation is between operating surplus and station size, but in the reverse sense to the usual expectation, ie the 4 lower quartile stations are 28% larger than the upper quartile stations ! This difference in size is also reflected in the asset valuations. The company ownership of 2 of the lower quartile stations may again be relevant.
- Productivity does not seem to be a factor: the income per hectare is actually 12% higher for the lower quartile group. The number of stock carried per dse is not significantly different, and nor is the income per dse of cattle.

Other significant observations are:

- "Off-station and other" income is shown in 13 of the 14 businesses and contributes on average \$60,000 pa, cf the annual average operating surplus of \$23,000.
- Only 3 businesses report income from goats.

2.6 MAFIA

The most recent MAFIA data is also shown on the "Average Parameters" spreadsheet, but does not contain balance sheet or debt information. MAFIA parameters are very similar to the "Average All Stations" data collated, except only that it is inferred (from interest payments) that the MAFIA group of stations carry less debt. Preliminary MAFIA data for 98/99 indicates that the group will report an average nett loss, ie negative cashflow.

2.7 LCD Comparison

Comparison between sheep businesses in 6 of the LCDs within the GMS is shown on the table on page 7, headed "Average LCD Results". This table only contains results where there are 4 or more businesses within a LCD. As a result, Sandstone, Upper Gascoyne, Cue, Gascoyne-Ashburton Headwaters and Meekatharra are not included because they contain less than 4 sets of data. Similarly, there is no attempt to do a regional analysis for cattle as there is insufficient data.

It must be noted that the database behind the table is too small to allow definite conclusions. In particular, when there are only between 4 and 10 businesses in an LCD, one or more aberrant results will skew the average and distort correlations. Despite this reservation, the following observations are made:

- Mt Magnet reports the highest average cashflow, and this appears to correlate primarily with low debt. As a result the equity level is up to 86% and the debt per dse is very much less than for other LCDs. It could also be said that Mt Magnet reports a reasonable average cashflow because there are no really poor performing businesses in the sample, whereas Lyndon and Murchison show poorly because they include businesses with very high negative cashflows.
- Gascoyne-Wooramel is rather similar to Mt Magnet in equity and other parameters except that the high average level of loan principal repayment brings the average cashflow down severely. The loan repayment average is in turn heavily influenced by 2 of the businesses within the sample that together repaid \$182,000 during the period surveyed.
- Murchison, Yalgoo and Shark Bay are rather similar, even though Murchison's average station size is high (205,000 hectares) and the average gross assets are double that of the other LCDs.
- Lyndon's average cashflow is poor but is strongly influenced by one business in particular that reported a very high operating loss because of extremely high debt and negative equity.

2.8 Summary

If the data obtained is truly representative, then the pastoral industry is in deep financial crisis:

- 41% of all businesses were cashflow negative, and this is made up of 43% of the sheep businesses and 29% of the cattle businesses.
- The average cashflow from sheep businesses was a loss of \$1640, but cattle businesses returned a surplus of \$23,430.
- Sheep businesses reported an average of \$36,000 non-pastoral income, and cattle businesses an average of \$60,000, ie without these supplementary incomes the losses would have been very severe and demonstrates the dependence upon such income. The presence or absence of non-pastoral income often determines whether a business is viable or not.
- About half the businesses reported a gross margin of less than 5%.
- Equity amongst cattle producers was good at 85%, but the average sheep business equity was only 61% and may be decreasing.
- Debt servicing is crippling many sheep businesses.

3. Consultants

The 2 independent consultants who are most active in the GMS region are Alan Peggs and Russell Coupe. Both have been interviewed and the information collected is presented below, but it is noted that this information is more qualitative than quantitative.

3.1 Alan Peggs

Alan was more focused on Wesfarmers but he did note that "The banks will not finance pastoral enterprises" because:

- Of lack of security, ie they will not take a first mortgage over a lease.
- There is some concern about the latent powers of the PLB, ie its ability to remove lessees for gross non-compliance.
- There is also the perception that the industry as a whole is weak, especially the sheep/wool parts of the industry.

Stock Firms:

- Interest rates vary widely from a base rate of 8% plus a margin of 0-4%.
- The criteria used to determine the margin were equity and financial performance (ie the record of financial results over say the last 5 years).
- Elders will not provide term finance to Aboriginal owned pastoral businesses because of the difficulty experienced or anticipated in exercising their rights if default occurred.
- Elders were believed to be overcommitted to pastoral finance.
- Wesfarmers are trying to increase market share (which is currently estimated at ca 20%).
- Both companies are very reluctant to precipitate shakeouts in case of default, partly because of reluctance to be seen as being harsh, and partly because of concern that a shakeout would ripple through the industry and cause instability. Similarly, both companies rarely declined ongoing support for existing borrowers even when the exposure was already high.

General Comments:

- Wool needs to rise to at least \$3.00/kg (nett) to enable sheep businesses to be viable.
- Standard Wool had been offering short term facilities as a means of gaining wool market share.
- There are too many small leases and there is great need for amalgamation of leases into larger and potentially more viable units.
- Lease adjustment/amalgamation is impeded by excessive prices being paid for leases by CALM and by new buyers (who do not have a pastoral background).
- The problem of the perceived lack of asset value of a pastoral lease would be overcome if leases were granted in perpetuity.
- Pastoralists rarely made direct application for finance; it was most often prepared in conjunction with a stock firm or through a consultant.

Case Study:

- An existing lessee obtained finance from the CDB to purchase an adjoining station, but then defaulted on repayments.
- The CDB threatened to foreclose but relented only after taking additional security in the form of a bill of sale over all stock.
- There was no surplus cashflow from wool, and there were short term accounts with both Wesfarmers and Standard Wools, ie the business had no operating funds. They are desperately trying to sell assets and then refinance the whole business with Wesfarmers.

3.2 Russell Coupe

General comments:

- More viable stations are usually nearer the coast or running cattle, and have low debt.
- More viable stations can obtain finance from any of the major trading banks.
- Pastoral businesses are usually charged 0.5 - 1.0% higher interest compared to large farming businesses; this increased interest rate reflects the perceived higher risk in pastoralism and the relative lack of assets. Interest rates are usually 10 - 11%, and the stock firms are usually 1 - 2% higher for overdrafts.
- Probably 3/4 of pastoral businesses are not viable; "It is fortunate that many businesses could not obtain finance".

Banks:

- In a recent case, the local branch of a major bank approved a loan, but this was over-ruled by the Perth head office, which had no knowledge or understanding of pastoralism. A loan was eventually arranged through the Adelaide branch of another bank, which was accustomed to dealing with the pastoral industry in South Australia.
- The example above was general, ie that most banks had no understanding or knowledge of the pastoral industry; this is seen as the dominant impediment to pastoral businesses obtaining finance or commercially reasonable terms. Further, too many final decision makers were head office based and were too remote from the industry.
- The banks' main criterion was the ability of the client to service the debt; benchmarks were not used, but banks could well be interested to receive information that would enable benchmarks to be developed.
- Of the major banks: BankWest is seen as having the best understanding of the pastoral industry but the "expert" (un-named) is understood to have left to join Elders; the CBA had recruited a person from the CDB who should be well informed; Westpac and the ANZ were not in the market.
- Elders: increasingly keen to offer finance; have been very supportive of the pastoral industry in the past and have accepted associated risk; the large merchandise agency network gives them good market information, closer relationship with clients, and substantial representation.
- Wesfarmers: aiming more for larger pastoral businesses, becoming more aggressive, and not as well represented on the ground as Elders.
- Russell considered that the banks would be very receptive to an approach to nominate a dedicated "pastoral liaison officer". It is desirable that the banks are "educated" about the pastoral industry (ie that there are viable pastoral businesses able to service debt) and to receive generalised financial information that could be used as benchmarks in assessing finance applications.

Other issues:

- There is a huge need for structural adjustment or reconstruction of land holdings to permit aggregation of titles to form larger pastoral properties. The larger properties would have the advantages of economies of scale, would generate more operating surplus, be better able to service debt, and would have a stronger asset base to secure loans.
- The non-viability of 3/4 of the industry (his estimation) represents a huge avalanche of social, economic and environmental damage that will be triggered by one or more dry years after the long spell of good seasons that have been experienced in most areas. Already, green activists are showing signs of taking an interest in the rangelands, and they will become a major force if (when ?) drought does take place.

4. Commercial Lenders

4.1 Elders and Wesfarmers

Elders and Wesfarmers dominate as sources of finance to the pastoral industry, and the "big four" banks have negligible market share. It has not been possible to quantify market shares but the following assessment has been acknowledged as being reasonably indicative:

- Banks (together) 10-20%
- Wesfarmers 15-25%
- Elders 50-70%.

In the course of enquiries the tables attached as Appendix 3 and headed "Wesfarmers Dalgety v Elders, Term Loan and Seasonal Overdraft Facility", were obtained but I was given them on condition of anonymity and without any guarantee as to accuracy. I strongly recommend that these tables are treated as strictly confidential; partly because the contents may be commercially sensitive, but also because the contents have not been confirmed and hence they may misrepresent one or other party. Some parameters have been confirmed but it has not been possible to verify all of the details. If the tables are accurate then they represent a most interesting summary of each company's position.

Elders Limited

Contact: Jim Laing, District Finance Manager.

Refer the following composite table for comments.

Wesfarmers Dalgety Ltd

Contact: Bill Brown, Finance Manager - Northern, covering the northern wheatbelt, and Murchison, Gascoyne and Pilbara pastoral regions, from the Geraldton Office.

Refer the following composite table for comments.

Summary:

- Elders and, to a lesser extent Wesfarmers, dominate the market and provide debt finance in cashflow and equity conditions that the banks will not consider.
- Equity is the primary consideration, whereas the banks may use strong cashflow as the primary criterion.
- Pastoralists are becoming more commercial in their planning but tend to ignore budgets and business plans soon after preparation.
- Diversification or supplementary income is seen as being essential, ie pastoral income alone is not sufficient to survive.

Comments	ELDERS	WESFARMERS
General - pastoral industry	<p>Broad acre farming is more profitable and hence preferred.</p> <p>Cattle debt is decreasing but sheep debt is increasing. Wool is seen as high risk. Equity has gone down by probably more than 10% in wool businesses in recent years, ie because of increasing debt.</p> <p>Elders are moving towards more term debt with longer maturity.</p> <p>Drought is seen as a major threat.</p> <p>Small pastoral leases in (for example) Mt Magnet and Cue areas are not favoured, ie sub-economic.</p> <p>15000 dse is currently considered as threshold to profitability.</p>	<p>No policy objection to sheep businesses but only 1 term loan currently, to an all wool business.</p> <p>Some reservations about the attractiveness of meat sheep - market for intact rams OK but doubtful about sale potential for ewes.</p> <p>No non-performing loans but close liaison needed with some borrowers.</p> <p>Wool International loans are security for some loans - the value of WI loans is a potential threat.</p> <p>Wesfarmers have only been active in term loans to pastoral industry in last 2 years.</p>
Criteria for loan assessment	<p>Equity is the starting point then scale up or down on cashflow, managerial record, and knowledge of applicant. The latter is important.</p> <p>Equity categories are: 60-70%, 70-80%, and >80%; interest rate spread is ca 3% across these categories.</p>	<p>Equity is primary criterion, then debt servicing ability and personal knowledge of the applicant.</p> <p>Equity categories are: 65-75%, 75-84%, and >85%; interest rate spread is ca 2% across these categories.</p>
Lending ratio	<p>50% of the value of lease + livestock; off-station assets treated the same.</p>	<p>35% of the value of lease + livestock for term loans; 50% of livestock value for seasonal finance.</p> <p>Up to 80% of the value of off-station assets if these are "solid".</p>
Other comments	<p>Interest rates can be negotiable.</p> <p>Banks will only lend to the top end of the market - this was understood to mean those borrowers who had substantial assets base and strong cashflow. Elders have taken over a lot of bank loans.</p> <p>Pastoralists have become markedly better informed in recent years. Motivating factors have been 240V power (= computers) and GMS funding applications! But many pastoralists ignore or forget budgets and never refer back to them.</p> <p>Goats have been a lifeline to many stations.</p> <p>Aggregation of sub-economic properties is seen as highly desirable; but high lease values are being maintained by CALM, Aboriginal groups and Perth buyers.</p>	<p>Interest rates can be negotiable.</p> <p>Major banks not active. CDB was active but CBA now pulling back.</p> <p>Pastoralists are much better informed in recent years, especially wives. Partly due to use of computers but also need to prepare information for GMS funding applications ! Budgets and business plans only valuable when produced by or with the owner.</p> <p>Few pastoralists seem to understand their balance sheet; possible need to educate them in relevance of B/S.</p> <p>Wool producers must reduce micron, preferably to 20-21.</p>

4.2 BankWest

Contact: Richard Koch, Marketing Analyst - Agribusiness, and Tim Grigson, Agribusiness Manager, both based at West Perth.

BankWest was included in the initial overview survey because of their analytical work on rural businesses, as represented by their annual Benchmarks document, and to obtain at least one bank's perceptions about the pastoral industry. It was subsequently decided to interview all major banks, which is why there is a change in format and content of interviews.

It was immediately apparent that they had little knowledge of, or involvement in, the pastoral industry. The following comments summarise the discussion:

- BankWest sees the pastoral industry as carrying high lending risk, mainly because land is leasehold and not freehold, ie the asset base is much lower. They are also well aware that they have no network to keep them in contact with the market and pastoral clients, and as a result, they feel that they have poor security over livestock, unlike the stock firms which have direct involvement in selling livestock. Sheep businesses are not attractive, but BankWest have been associated with larger cattle enterprises exporting live stock. Finally, they perceive that pastoral businesses have poor records, and hence are unable to give confidence to the bank regarding debt servicing.
- Pastoral leases are hard to value: there are few sales, there is great diversity in location, land types and operation, and they have no benchmarks. BankWest value a lease on its carrying capacity at around \$35/head of sheep. The security ratio is 35%, ie that is the maximum that they will lend against a pastoral asset. They require a mortgage over the lease as security.
- Assessment criteria: cashflow surplus (ie debt servicing ability) is the major criterion, with equity a very secondary consideration.
- Interest rates spread is 1.5 - 2.8% over base rate for term loans, and 0.4 - 2.9% over base rate for overdrafts.
- Despite their low involvement in the pastoral industry they are keen to look at opportunities that meet their assessment criteria. This would be facilitated by: operating and cashflow data from a sufficiently wide sample of the industry (so that they could derive benchmarks); and some means of keeping informed about property sale values.

4.3 National Australia Bank

Contact: Andrew Clark, Agribusiness Manager Rural and Provincial WA, Perth. Andrew proved to be well informed and very focused and coherent; his background includes being a farmer's son and serving 4 years with the CDB during which he was active in the pastoral regions.

General perceptions:

- NAB see themselves as the largest rural bank in Australia and they wish to maintain that position.
- They have only 16 or 17 accounts with pastoral businesses in WA; in more than half of these the debt is serviced by non-pastoral income; and the rest are deposit only accounts; there are only 3 businesses in which the core debt is for pastoral purposes.
- Pastoral income alone is insufficient to service debt and most stations are non-viable without off-station income. Tourism and/or horticulture are seen as the best prospects. This need for off-station income was reinforced several times.
- Management practices have improved over the last 10 years, eg reduced personnel requirements, improving herd quality, and improved efficiency. However, commodity prices have deteriorated faster than operational improvements have been made. There is an increasing trend towards larger businesses: "Get big or get out".
- Many older owners cling to lifestyle. Younger generations will not accept the low standard of living endured by their parents.

- The banks are at disadvantage vis-à-vis the stock firms because the latter are far better informed and able to use stock as security. The banks are too remote from the pastoral market.

Policies and assessment criteria:

- Cashflow is the primary criterion: for a pure sheep or cattle enterprise, operating expenses should be not more than 50% of gross income. (*Comment: this would rule out nearly all pastoral businesses*). They also use as a simple rule of thumb the ratio of gross debt/gross income and like to see this not much more than 1:1, ie the gross debt not much more than the gross income.
- Equity is the secondary criterion: they prefer equity to be >75%. Off-station assets are viewed favourably. A pastoral lease is valued by consideration of recent sales information (if available) + carrying capacity of the property + actual stock carried. This valuation process is recognised as being weak. Pastoral leases are seen as being susceptible to Native Title and there is underlying concern about long term security of tenure. Coastal locations are recognised as having much higher value for their tourism potential.
- Equity must be considered with cashflow, ie high cashflow can overcome low equity but the reverse is less true. Management ability, even though highly subjective, is also taken into consideration and this encompasses a wide range of factors.
- It is interesting to note that NAB refer clients to consultants to prepare budgets and cashflow projections as it was said to be illegal for the bank to assist in this area.
- They do not discriminate between pastoral and broad acre farming. Individual enterprises are assessed in their own right.

Lending Terms:

- The interest margin is determined by collating management ability, cashflow, security and industry type, and submitting this to a computer program for assessment. This then provides a risk weighting factor which in turn indicates the point in the interest margin scale from which to start. The margin spread is usually 0 - 2.5% above the base interest rate, but can range higher if necessary.
- Base interest rates range according to the security and industry or activity: eg residential security can generate loans based on 7.3%, small businesses loans from 8.25%, general business loans (and this includes the rural sector) from 9.25%, and "Farmer's Choice Farm Management Account" for high performing farmers from 7.70%. This information is available from www.national.com.au, (the other banks are not so forthcoming on their web sites); the figures reported here were for 7 February 2000.
- Loans can be around 50% of the security base but this is dependent upon the type of security on offer, ie the better the security the higher the ratio.

Future involvement in pastoralism:

- Benchmarking could be useful, but assessment criteria would still need to be met.
- Any participation in a QRAA type survey would be dependent upon approval from Melbourne head office, but the participation in the Queensland survey suggests that this would not be a problem.

4.4 Challenge/Westpac

Contact: Warren Anderson, Credit Risk Manager for Agribusiness and City Banking. Warren was well informed and most helpful.

General perceptions:

- Challenge see themselves as servicing all parts of the rural market, including pastoralism. They treat the pastoral industry in the same way as any other primary industry.

- They have received only 4 or 5 loan applications from pastoral businesses in the last 18 months; only 2 of these were approved and only 1 proceeded. The successful loan application was secured by non-pastoral assets.
- Because of the very small exposure to the pastoral industry, most of the comments were made in the context of broad acre farming.
- The broad acre farming industry is rapidly becoming very sophisticated in terms of its commercial approach, and perhaps 15% of their clients now use hedging and forward sales on international futures exchanges. The pastoral industry is seen as being disadvantaged by being a price taker rather than being a price setter, being too remote from its markets, and lagging far behind in commercial approach.
- Farming is undergoing rationalisation with many smaller and sub-economic farms now up for sale. Farm values need to drop more to effect significant rationalisation, but reducing farm asset values undermine the equity of other farm businesses that are already shaky. (*This sounds familiar !*). This is leading the bank to stimulate clients to address any operational or financial shortcomings and to use consultants or other assistance as appropriate.
- The cattle industry is much more stable than sheep/wool.
- They prefer to "Leave farming to the farmers", ie not get involved in the operational aspects, and they are not allowed to be involved in business plan and budget preparation.

Policies and assessment criteria:

- Cashflow is primary and they use such factors as:
 - the ratio of operating expenses/gross income, where this should preferably be <65%
 - gross income should exceed gross expenditure by at least 5%
 - regular cashflow (eg dairy milk income) was more attractive than seasonal cashflow.
- Equity is secondary: must be >70% and preferably 80-90%. The nature of the asset is relevant, eg houses, shares and superannuation are preferred (but these solid assets are sometimes hard to realise). Many rural producers do not understand equity or a balance sheet. Freehold properties are easier to value, but leasehold property valuations are based on range reports and independent valuations (if necessary). The lack of recent sales information is a problem. Security can be a mortgage over the lease, bill of sale over stock, or a mortgage debenture over the business entity or trust.
- Other factors:
 - Peak debt: this should not be more than 1.5x gross income
 - Past performance: good records of past performance are useful; ie good comparison between budget and actual performance and for upwards trends in financial results
 - "Tables": ie records of production planning and development, eg product improvement or diversification, particularly if they show improving trends in performance
 - Management ability: this can include such things as expertise, planning, determination, honesty, reliability etc
 - Succession planning: this carries significant weight. They look for vulnerability of the business to one person, the insurances on that person, and the provisions for the financial independence of the parents on retirement
 - Quality of application: the professionalism, completeness and thoroughness of the application is taken as indication of the effectiveness of the applicant. They do not use an application pro forma, ie applicants must supply information in their own format so long as it covers the above factors.

Lending terms:

- Security ratio: the bank will lend up to 35% of pastoral assets, cf 80% on residential property.
- Term is typically 10 years; the bank prefers shorter terms but the market looks for longer terms. Good cashflow permits longer term loans and vice versa.

- Interest only facilities are increasingly being used.
- Base interest rate: determined primarily by the type of security; ie in ascending order, residential property, commercial property/assets, then "other" (this includes pastoral assets).
- Margin interest rate: on top of the base interest rate is the margin which is usually 0.75% to 2.5%, but can be as high as 4%. The interest margin is determined by the evaluation of risk which is a composite of security, cashflow, equity, management, industry type, and spread of income sources, ie income streams from more than one product type or industry.

Future involvement in pastoralism:

Challenge would be better able to service the pastoral industry if the following information was more readily available: industry trends, efficiency indicators, product and market information, developing diversifications.

4.5 PIBA

Contact: Ian Watson, Regional Manager, and Doug Sheppard, Senior Manger - Rural. Ian is the chief executive officer in WA and brought in Doug for his rural expertise and prior involvement with Westpac. PIBA specifically asked for feedback from GMS on outcomes from this report.

General perceptions and comments:

- The pastoral industry is seen as being marginally viable, disadvantaged by producing a single product, lacks security of tenure (Native Title, 2015), and stock can be hard to find (in the numbers claimed), may have to be transported long distance to market, and may not sell easily. Many pastoral businesses rely on a very frugal lifestyle to break even, and non-pastoral income to generate any surplus cashflow. Finally, pastoral businesses tend to be very unsophisticated in their collation and presentation of information when applying for loan finance.
- PIBA have only 2 pastoral loans on their books and these are secured against freehold farm land. They have looked at 6 proposals in the last year or so from pastoral businesses but forwarded all these to Wesfarmers because the proposals did not meet PIBA's criteria.
- They see themselves as having the largest share of the rural market in WA, mainly because they have been offering a loan package on attractive terms: 15 years term, interest only, variable interest. This product has been copied by other institutions.
- Their target market is the top 30% of businesses, and their loan minimum is \$250,000.
- Cattle businesses are preferred to sheep, and diversified income is viewed favourably.
- The introduction of GST and quarterly returns will force pastoralists into better record keeping, and these quarterly reports will help lenders by providing a very useful data base.
- PIBA observed that clients are often not sufficiently involved in discussions between the client's accountant and the bank, ie too much is left to the accountant. This not only means that the client is not sufficiently aware of what is happening and why, but accountants tend to be too tax oriented, ie in wishing to minimise tax they may overlook other relevant factors.

Policies and assessment criteria:

- The following factors are assessed together with no particular weighting to any one, but strength in one factor can overcome weakness in another:
 - Equity: they seek at least 70% equity based on peak seasonal debt
 - Gross debt/income ratio of less than 2:1, and interest cover of at least 1.5x
 - Financial records over the last 3 years substantiating claimed performance
 - Programs showing stock or crop development plans and their correlation with budgets and actual performance
 - Personal qualities of the manager/owner.

- They are very uncomfortable in trying to value a pastoral lease, and they note that there is no standard basis for valuation. Valuers tend to be conservative to cover themselves. The bank has difficulty assigning any value to a lease, so uses stock as the basis, ie sheep at \$55 and cattle at \$300.

Lending terms:

- Interest rate: this is determined less by reference to a risk assessment matrix (as in most banks) than by the need to be competitive, ie they are flexible and negotiable. They claim that most of their rural loans are within a narrow band of interest margin, and that 70-80% of clients were on the same rate with about 10% above or below that rate. Their current 5 years variable rate is a base of 6.35%, with a margin of around 2% on top - *this is very competitive*.
- Security ratio: this is based on rainfall and for the areas represented by the pastoral industry the ratio is 40% of assessed assets, cf 80% for residential assets.

Future involvement in pastoralism:

- This is not ruled out but there seemed to be reservation that there will be many opportunities in the pastoral industry that will meet PIBA's criteria.
- A point of reference within AgWA would be useful if it could provide a "reality check" for the bank when assessing an application, but they find that records of past actual performance are the best indicator. PIBA also maintain a large data base.

4.6 ANZ and CBA

Both banks were approached and the initial approach supported by facsimile defining the request and attaching a letter of reference from GMS. Neither bank responded and this was not followed up as it considered that the banks interviewed above provided sufficient breadth and depth.

4.7 Summary

- The banks are willing to lend to the pastoral industry, provided that applicants can meet their assessment criteria for cashflow or security. The availability of long-term records showing consistent positive performance, and management ability and personal contact are also important.
- The interest rates available from the banks can be very competitive (PIBA in particular) but they load the interest margin to reflect the perceived high risk of the pastoral industry. Rates and other terms are negotiable and are usually competitive.
- The banks are most uncomfortable in trying to value pastoral businesses, and the number of sales are too few to provide reliable benchmarks. They are unable to accept leases as security, and stock is not an ideal asset. Land or residential property is the preferred asset.
- Off-station or diversified income is essential to supplement grazing based cashflow.
- Pastoral enterprises are often too dependent upon a single product, too vulnerable to seasonal and market factors, and are too remote from the ultimate buyers of their products. Cattle are definitely preferred to sheep.
- "Get big or get out", ie the pastoral industry must evolve towards larger businesses with greater economies of scale.
- The pastoral industry is seen as being unsophisticated and perhaps commercially naïve. Detailed financial, planning and operating information is often not readily available, and the industry may not be ready for the GST and associated quarterly returns.
- Information from a central source on pastoral operating benchmarks, industry trends, and property valuations, may assist banks to evaluate and consider pastoral loan applications.

5. Comparison with other WA Primary Industry

Included in the "Average Parameters" spreadsheet is data taken from BankWest's 98/99 Benchmarks, for the Kojonup district. Kojonup is selected as it is the district reported to have, on average, 68% of income generated from sheep, and this is the highest percentage for any district reported. Plantagenet district shows average 52% income from sheep, Narrogin 42% and most other districts very much less, ie grain income far exceeded that from sheep.

The major differences between the Kojonup data and the average of all sheep stations are:

- The gross asset base is much higher at \$2.3 million, cf the stations of \$1.1 million, but the amount of debt carried by each group is similar and, as a result, the Kojonup farms average 85% equity (cf 61% for the sheep stations).
- The cashflow excess is a far healthier \$76,000, cf all sheep stations of -\$1,640.
- The income per dse is \$34, cf \$22, and the income per hectare is obviously much higher.
- Operating costs per dse are surprisingly similar.

Summary:

Sheep/wool farm businesses in the Kojonup area operate at much higher equity levels and with very considerably better cashflow than sheep/wool businesses reviewed in the GMS region.

6. Comparison - Queensland Rural Debt

The Queensland Rural Adjustment Authority ("QRAA") commissioned a series of reports on Rural Debt in Queensland ("RDQ") for the years 1994 - 1998, and for 1999 (due to be released in March 2000). These reports cover all aspects of rural agribusiness in all districts of Queensland.

The first 13 pages of the Executive Summary of RDQ'98, plus the relevant pages on the cattle and sheep industries, are attached as Appendix 4. The QRAA reports were conducted by accounting consultants and compiled by asking all lending institutions to complete and return a questionnaire.

I phone interviewed both the QRAA Policy Officer (Michael Cain, 07 3370 0120) and the consultant used (Mike McDonald of Hart Larwill, 07 3317 7877).

It is interesting to note that:

- The survey was initially started to measure the financial costs and effects of a drought through much of Queensland in 1994 and 1995, and which resulted in significant increase in rural debt; the region is now in recovery. After 3 years, the survey is now able to show trends and is said to be used as a basis for policy formulation. QRAA would very much like to see such a survey conducted in all states every second year.
- Only enterprises having debt are surveyed, ie debt free businesses are not included.
- Only term debt for infrastructure and equity was included; capital equipment finance arrangements were not included.
- The banks all seem to use a similar set of criteria for assessing loan applications: they assign an initial ranking of 1 - 10 which is based on their perception of the *industry* in which the applicant is working; this initial weighting is then varied up or down to reflect equity and debt servicing ability to reach the final "score".
- It is recognised that some borrowers will receive funds from more than one lender, ie the total number of loans exceeds the actual number of borrowers.
- In the first year most of the lending institutions were seriously disorganised, very ill equipped to prepare the information, and they relied heavily on paper records only. By 1999 nearly all had transferred data to computer, ie data extraction is now easier but still tedious.
- Some of the institutions have shown reluctance to participate as they consider it takes too much time and trouble to complete the questionnaire.
- The lending institutions were ranked, in order of market share, as follows: CBA, NAB, Westpac, then ANZ and "the others". Stock firms included: Elders, Wesfarmers, Sanwa, and Suncorp Metway, but the latter group were said to offer mainly financial services for livestock and equipment.
- The cost of conducting such a survey is ca \$50,000, including report preparation and media liaison.

The report correlates viability with equity, where viability is a composite factor determined by business viability + debt servicing performance + managerial ability. It appears that this indicator of viability is well established with lending institutions. The analysis suggests that any business having an equity level lower than 55% is considered to be non-viable, that equity between 55% and 65% indicates "in danger of becoming non-viable", and that equity between 65% and 75% indicates "potentially viable long term".

If these debt/equity criteria are applied to the GMS data then:

- None of the cattle businesses are at serious risk but 2 may not be viable long term
- Of the sheep businesses, 28% are at serious risk and a further 10% are at risk, ie 62% could be considered to be viable or potentially viable.

The RDQ'98 report is comprehensive: 19,764 farm businesses are analysed having a total of \$5.28 billion in debt. Information contained in the report was obtained by questionnaire from lending institutions.

The businesses surveyed span the full gamut of rural activity but include 5157 beef businesses and 651 sheep/wool businesses, cf the total of 78 businesses reviewed in the GMS region. The number of sheep businesses carrying debt dropped from 2237 businesses in 1995, and page 23 of the Executive Summary (Appendix 4) gives some comments on the reasons for this huge decrease.

Analysis of debt in the cattle and sheep/wool businesses shows:

- The average beef business debt was \$290,113 (cf GMS \$204,000); 84% of cattle businesses are considered to be at least potentially long term viable, and carry on average \$301,000 debt
- the average sheep/wool business was \$287,736 (cf GMS \$247,000); 87% of the (remaining) sheep/wool businesses are considered to be at least potentially long term viable (GMS 62%), and carry on average \$278,000 debt; but the 13% of sheep/wool businesses of lower debt rating carry on average \$354,000 debt.

7. Conclusions

The following conclusions are drawn:

- 7.1. Even though the database is too small to allow definitive conclusions (it surveys only 34% of the pastoral businesses in the GMS region), it provides a detailed and valuable insight. There is also under and over representation between districts within the GMS region, and under representation of cattle businesses, but these biases can not distort the big picture that emerges.
- 7.2. Equity: 34% of businesses surveyed were at or below 75% equity, where this equity figure is deemed (by most banks) to be a key indicator of viability. The average equity in sheep enterprises is only 61% and is said to be dropping; the cattle businesses surveyed were in a far better equity position, ie 85%. The debt servicing ability of the majority of pastoral businesses is extremely poor and can not service new or additional debt.
- 7.3. An alarmingly high proportion (41%) of the pastoral properties reviewed were cashflow negative, despite recent years of good and average seasons.
- 7.4. The average cashflow from sheep businesses was a loss of \$1640, but cattle businesses averaged a surplus of \$23,430. These results were after incomes from non-pastoral sources of \$36,000 and \$60,000 respectively, ie without these supplementary incomes, the situation would be markedly worse.
- 7.5. The already large number of non-viable businesses will increase considerably if dry years are encountered. The potential social, economic and environmental effects of this could be disastrous.
- 7.6. Sheep/wool farm businesses in the Kojonup area operate at much higher equity and cashflow levels than the average pastoral sheep /wool business. Kojonup is the only farming area in which wool income is dominant.
- 7.7. In Queensland, 87% of sheep/wool businesses are considered to be long term viable, cf 62% of similar enterprises assessed in the GMS region. But it is noted that there has been a major reduction in the number of sheep businesses in Queensland carrying debt in recent years, refer item 7.11 below.
- 7.8. The pastoral industry is not significantly disadvantaged in obtaining pastoral related debt, ie most lending institutions will lend to the pastoral industry provided that the loan applicant can meet normal rural lending criteria. Unfortunately, most pastoral businesses can not meet the cashflow criterion, especially if there is no significant off-station income (or assets). The interest paid by a pastoral business will reflect the perceived risk associated with the business.
- 7.9. Elders and Wesfarmers completely dominate lending to the pastoral industry, and this lack of competition could be detrimental to the industry. Against this, the stock firms are prepared to lend in circumstances that the banks will not consider.
- 7.10. The major banks have very few pastoral clients, and their knowledge or understanding of the industry varies from scant to well informed. Providing them with relevant information on industry trends, benchmarks, and property values, may assist them to consider more pastoral loan applications provided that these meet assessment criteria.
- 7.11. The number of sheep/wool debtors in Queensland has reduced dramatically in recent years and a study in that State attributes this to the success of adjustment process. If so, then it would be desirable to find out why adjustment has been so successful so that the lessons can be applied in WA.

8. Recommendations

- 8.1. Advise pastoralists of the records, information, and criteria that they need to meet, to obtain finance. In particular that they must be able to demonstrate their ability to service the debt and provide security. Advise pastoralists that they must learn to be more commercial and professional in their approach, be prepared to shop around, and to negotiate the terms and conditions. An educational booklet would be a starting point, supplemented by lectures at training sessions or discussions at LCD meetings etc.
- 8.2. Establish a point of contact, possibly an economist within AgWA, who can provide information to lending institutions about industry trends, products and markets, efficiency parameters, developments and diversifications, and property values. The same officer could also be an initial point of reference for pastoralists seeking preliminary information on how to go about obtaining loan finance.
- 8.3. Encourage at least some of the banks to nominate a "pastoral liaison officer" who can be "educated" and provided with information about the pastoral industry to allow benchmarking and informed decisions about finance applications.
- 8.4. Examine the QRAA adjustment processes and costs to determine why adjustment seems to have been more successful in that State. If necessary adapt the GMS adjustment proposal and initiate support for wider application of adjustment to the sub-economic pastoral businesses in the rangelands of WA. It is suggested that residual budget allocated to this project is used for that investigation.
- 8.5. The gravity of the economic situation in at least 40% of pastoral businesses is such that:
 - The Minister for Agriculture should be advised of the magnitude of the problem
 - AgWA (and GMS ?) should reappraise their strategies to determine whether current programs are relevant to the needs of pastoralists to improve financial performance.
- 8.6. Inform the relevant Ministers of the potential for drought to cause widespread economic, social and environmental losses in the region. Seek support for adjustment, and for more flexible land administration and legislative processes.
- 8.7. The Board may wish to reconsider its assessment criteria before the next round of grant applications. It is suggested that a grant must achieve either (and preferably both) of the following:
 - Long term benefits in terms of the sustainable use of the rangelands, and/or
 - Direct and measurable cashflow improvements that can ensure the long term viability of the business. This criterion should be applied to currently non-viable businesses, otherwise the grant may become a "bandaid" and serve only to delay the inevitable demise of the business.

It is accepted that a change in assessment criteria before the next funding round may be impractical.
- 8.8. Database: Update the database during assessment of grant applications in March/April 2000, so that the database is complete.
- 8.9. The Board may also wish to consider whether to recommend to the Minister, that a survey of pastoral or rural debt is conducted every 2 years along the lines of that conducted in Queensland by the QRAA.
- 8.10. GST: Ensure that pastoralists are aware of the urgency with which they must establish book-keeping systems needed to cope with the GST and quarterly returns.

Appendix 1: Notes to spreadsheets

The spreadsheets were compiled on the following basis.

1. **Confidentiality: Warning !** The data was collected from submissions made as part of GMS Funding Applications. As such the data is confidential and commercially sensitive, and hence only an anonymous ID code is used for each station. Roderick O'Connor holds the only "key" to this number code; my copy of the key will be destroyed on completion of this report.

It is recommended that only data averaged across groups of stations is allowed outside a tight circle of senior GMS/AgWA personnel.

Many persons in the pastoral industry will be able to identify a station from its size and shire or LCD location. For this reason it is essential that the root spreadsheets are not disseminated to other parties except in summarised or averaged form, or at the least unless the "operational parameters" are deleted. It is even suggested that a register be kept of any person to whom copy of the full spreadsheets is given.

2. The most recent actual data was used wherever possible, rather than forecasts or budgets. Most data is for the 1997 or 1998 calendar or fiscal years. The quality of data varies considerably - see also note 7 below.
3. Codes were used to facilitate subsequent access through a database and are as shown in the table following:

CODES			
Shires	LCDs	Activity	Ownership
CA = Carnarvon	CUE = Cue	S = Sheep	C = Company
CU = Cue	GAH = Gascoyne and Ashburton Headwaters	B = Beef cattle	P = Private
ME = Meekatharra	GAW = Gascoyne and Wooramel	M = Meat sheep or goats	
MO = Morawa	LYN = Lyndon	T = Tourism	
MM = Mt Magnet	MEK = Meekatharra	H = Horticulture	
MS = Mt Marshall	MTM = Mt Magnet		
MU = Murchison	MUR = Murchison		
MW = Mullewa	NEG = NE Goldfields		
NH = Northampton	SAN = Sandstone		
PE = Perenjori	SBY = Shark Bay		
SS = Sandstone	UPG = Upper Gascoyne		
SB = Shark Bay	WIL = Wiluna		
UG = Upper Gascoyne	YAL = Yalgoo		
WP = West Pilbara			
WI = Wiluna			
YL = Yalgoo			

4. Current stock numbers are those reported by the owners.
5. Shire and LCD allocations are based on the listing provided by Karen White and used in the Relativities Analysis; the LCD codes are as used in that work also. It should be noted that, according to MAFIA records maintained by Roderick O'Connor, some stations fall into different LCDs or Shires to those shown in the Relativities Analysis.

6. Ownership: where a business is family owned and operated it is designated as P = Private; C = Company implies that the business has "external" ownership. These descriptions are somewhat arbitrary and must be interpreted in that light.
7. Financial data is collated as presented without interpretation or "adjustment". It is noted, however, that balance sheet information in particular is often very subjective, and businesses with high debt almost invariably show higher asset valuations in the balance sheet (ie thereby making their equity percentage look better!). Further, operating costs sometimes seem to omit relevant items; costs are probably never deliberately overstated !

Some anomalies occur where, for example, stockpiled wool from prior years is sold, but such anomalies are allowed to stand without correction as they may average out with other stations withholding wool from sale.

Comparison between stations can also be influenced by whether such factors as owners' drawings are included or not, (and these were generally much less than \$25,000).

8. Gross assets exclude "unrelated" assets, except in the case of Station 3 where it was not possible to separate such assets.
9. Station "related" assets include contracting, or farm businesses operated in conjunction with the station, but not retirement houses, superannuation, shares or external investments. Where non-station related assets can be identified they are reported; their relevance is that in at least one case (Station 21) they are believed to have enabled loans on much more attractive interest terms.
10. Overdraft includes any form of current account, and these were most often with stock firms.
11. Commercial loans exclude family loans, which are shown as part of "Other debt".
12. Other debt includes vendor or HP finance, family loans, leases, and funds from non-commercial sources.
13. Interest is on overdraft and commercial loans only, ie excluding interest on "Other debt" where this can be identified.
14. Total station income: excludes abnormal items such as capital sales, GMS Funding, loans received etc, where such items can be identified.

Appendix 2: Data Bias or Representativeness

The 78 pastoral businesses represent 83 stations. These are in 12 of the 13 LCDs in the GMS region with only the North East Goldfields not represented, and the degree of representation in other LCDs is skewed - refer table below.

LCD name	Number of Stations in LCD	Number of Stations reviewed	% Representation
North East Goldfields	6	0	0
Sandstone	17	2	12
Gas/Ash Headwaters	24	4	17
Cue	11	2	18
Wiluna	19	4	21
Shark Bay	17	4	24
Meekatharra	20	5	25
Upper Gascoyne	20	5	25
Lyndon	19	7	37
Murchison	28	13	46
Yalgoo	33	16	48
Gascoyne/Wooramel	18	10	56
Mt Magnet	17	11	65
AVERAGE			34

It is apparent that stations in the more central and southern parts of the GMS region are over-represented, whereas stations in the northern and eastern parts are under-represented:

- This can in part be explained by the high degree of pastoral lease ownership by mining companies in NE Goldfields and Wiluna, and perhaps Sandstone and Cue. The under representation in the Upper Gascoyne and Shark Bay is harder to explain.
- The northern and eastern parts of the region are generally dominated by cattle businesses, and hence the data base is also substantially under-represented in cattle.
- GMS may need to consider why some districts are not taking advantage of the opportunities represented by the GMS.

The degree of under-representation means that the results can not be taken as fully representative of the whole region, so care must be taken how data is extrapolated or interpreted in terms of regional indication.

A broader data base could be achieved by polling the finance suppliers in a comparable way to that conducted for the Queensland Rural Adjustment Authority, but this would cover mainly debt and may not include many relevant operational aspects. The cost of such a survey is ca \$50,000 and it should be repeated at least every 2 years for trend analysis.

Roderick O'Connor advises that grant applicants represent a good cross section of the industry, both in terms of the quality of the managers and their properties. He notes that more cattle properties are likely to be included in the next round in March 2000, and that this may help rectify the current paucity of such businesses. Finally, Roderick comments on the difficulty in obtaining information and that personal contact and follow through are essential, ie obtaining supplementary information may not be practical.

It is suggested that the database is brought up to date during or after the next round of grant assessments, so that the data base is as complete as possible.

